CHAPTER – I

INTRODUCTION

1.1 Background of Study

A bank is a financial institution, which can play significant role in the upliftment of the economic situation of the developing country like Nepal. Bank plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They peruse economic growth rapidly, developing the banking habit among the people by collecting small scattered resources in one bulk, using them in further productive purpose and rendering the valuable services to the country. Commercial bank deals with the offer of collected deposits and provides the loan for commercial purpose. Commercial Bank Act (2031BS) states, "Accepting deposits granting loan and performing commercial banking functions are the main motto of commercial bank". In the other words, commercial bank's facilities also become right hand for the growth of trade and industry of national economy of developing country like Nepal.

In case of the history of bank, an institutional banking system came in to existence in Nepal only in the 19th century. Nepal Bank Limited was the first financial institutional of Nepal established on the 30th of Kartik 1994 B.S. Being 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 the country. Only one Nepal bank Limited was not sufficient to look all the sector of country. So in 2013 BS another bank names "Nepal Rastra Bank" was established as the central bank of Nepal to regulate and control banking management system of country. Then in 2022 B.S. "Rastriya Banijya Bank" was established under Rastrya Banijya Bank Act 2021. This act is now revised as commercial bank act 2031B.S. For the development of industry, commerce and trade, Nepal Industrial Development Corporation was established under Industrial Development Corporation act 2016. For the development of agricultural sector, Agricultural Development Bank was established on Magh 7th 2024 B.S., under Agricultural Bank Act 2024.

The joint venture bank was introduced in Nepal (2041 B.S.) with the establishment of Nabil Bank Ltd. Nepalese government kept on liberalizing the economic policies and improving the infrastructure. As a result, Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited were established in 6th Magh 2042 B.S. and 16th Marga 2043B.S. respectively. Nepal Grindlays bank Limited is now being operated with new ownership and name, Standard Chartered Bank Nepal Limited. After restoration of democracy in Nepal in 2046B.S government adopted liberalized and market oriented economic policies that created conductive environment for the development of banking sector. As a result various joint venture commercial banks are established one after another. Up to FY2006/2007 there are twenty commercial banks are operating their banking activities.

Commercial banks are major financial institution, which occupy quite an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resources deficit sectors by investing the saving collected as deposit. Beside the, commercial banks render numerous services to their customers in view of facilitating their economic and social life. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus commercial bank became the heart of financial system.

The role of commercial banks in economy is obviously prime requisite in the formulation of bank's policy. A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective commercial banks formulate sound investment policies, which eventually contribute to the economy of a country. The sound investment policies help commercial banks to maximize quality and quantity of investment and thereby, achieve the own objectives of profit maximization and social welfare. The banking sector has to play development role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development. Formulation of sound investment policies and coordinated and planned effort forward the forces of economic development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regard, commercial banks investment policy is also a push drive to achieve priority of industries in the context of Nepal's economic development.

Investment policy is one fact of the overall spectrum of policies that guide banks investment operation. A healthy development of any bank depends upon its investment policy.

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

1.1.1 Commercial Banking in Nepal

The history of commercial banks in Nepal starts from the establishment of Nepal Bank ltd .in 1994B.S Nepal Bank Limited was first bank to establish in Nepal and prior to this. There was no such organized banking system in the country. The bank was started with a paid up capital of Rs 845000. It started its operation by accepting deposits from the public. Later on, Nepal Rastria Bank was established in 2013, which helped to make banking system more systematic and dynamic during that time.

As the time passed, there need for more commercial banks arose. At that time NBL was just doing sample banking by collecting deposits from local public. To cater to those needs, Rastriya Banijya Bank was established in 2022 B.S in order to play a major role not only in domestic banking services but also in the foreign trade. It was established under its own act, Rastriya Banijya Bank act 2022. With the established of Rastriya Banijya bank, a notable

Progress could be seen in banking industry in Nepal. It brought a revolution in the banking industry. People could easily make business transactions with other countries .Both the banks have majority of shares owned by the government of Nepal. Rastriya Banijya Bank is fully owned by government.

Today Nepal can take legitimate pride in remarkable growth and progress in the banking industry Nepal opened its door to foreign commercial banks to operate in Nepal .Consequently. Nabil Bank was established in 2041 under the commercial bank act of 2031 .Slowly and slowly new banks started to in Nepal for doing business. At present, the number of commercial banks in the country has reached to 25 including NBL & RBB.

Today the banking industry can be compared with the international standards in terms of their functioning and operations. The legitimate entry of foreign commercial banks with full fledged banking functions led to rapid growth of the banking system, accompanied by greater sophistication due to diversity of instruments and institutions handling different modes of raising funds and deployment of funds.

Some of the important changes in the recent past, which have profoundly reshaped the financial landscape, include.

- Liberalization of exchange controls.
- Gradual privatization of state owned enterprise.
- Opening up of commercial and investment banking to the private sector.
- Establishment of large number of companies, multinational companies.
- Insurance companies.
- Development of capital market and stock exchange.
- Auctioning of government securities.
- Market based rate of return.
- Other liberal banking regulations.

These development present strong challenges and opportunists to commercial banks, especially as these are taking place faster than what the commercial banks have been used in terms of responding to changes.

Current the economy of Nepal is witnessing historic changes in its structure, both positively and negatively, and almost all sectors for the economy are facing new issue and confronting new challenge of transformation by the introduction of market economy in the country.

1.2 Profile of sample Bank

A. Nabil Bank Limited

Nepal Arab Bank Limited Nabil Bank, the 1st foreign joint venture Bank set up in the nation with an objective to introduce modern banking services, commenced its operations on 12th of July 1984 or 2041 Ashad 29 B.S. with Rs. 28 million capital. Dubai Bank Limited, Dubai was the foreign joint venture partner who extended Nabil a technical service agreement in the initial period. The Bank, through its quality customer service and innovative products, has today attained a distinguished recognition in the banking industry of Nepal. The first Joint Venture Bank in Nepal with a 23 Year old journey of History.

Highly qualified and experienced team of NABIL bank manages day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Tele-banking system. Nepal Arab Bank Limited is providing full-fledged commercial banking services to its clients.

From its inception period in 1984 as the first joint venture bank, to commence operations in the Kingdom of Nepal, the bank have been a leader in terms of bringing the very best international standard banking practices, products and services to the kingdom. Today, mission of the bank is to be the Bank of 1st Choice to all of its stakeholders and customers. Nabil Bank would like investors to choose the Bank's share as a blue-chip stock whenever they are in search of an investment opportunity. For the customers, it want to be the first choice in meeting all of the financial requirements, for shareholders, it want to be the investment of choice, for regulators, it want to be an example of a model bank, It wants to be an example for the regulators in terms of professionalism and transparency. Nabil wants to be an actively participating 'good corporate citizen' in all the Communities that the Bank works. It want to be the first choice as an employer with whom to build a career and finally the entire Nabil Team embraces a set of Values that acronym is referred to as ‘C.R.I.S.P.’ representing the fact that we consistently strive to be Customer Focused, Result Oriented, Innovative, Synergistic and Professional. By living these values, individually as professionals and collectively as a Team, Nabil Bank is committed to Surge Ahead to be the Bank of 1st Choice in Nepal.

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NABIL bank is a full services bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and Master-Card denominated in rupees and dollars, Visa Electron Debit Cards, Personal Lending Products for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing. Main aim is to be able to meet customer's entire gamut of financial requirements that is why it prides us in being 'Your Bank at Your Service'

Nabil Bank Limited was the first joint venture bank established in 1984 with 50% invest by Dubai Bank Limited of UAE and of remaining 50% by Nepalese financial institutions comprise 30% and 20% by general public. The shares owned by DBL were transferred to Emirates Bank International ltd (EBIL), Dubai. Later EBIL sold its entire holding go National Bank ltd, Bangladesh (NBLB). Hence 50% of equity shares of Nabil Bank ltd are held by NBLB and out of remaining, financial institutions have taken 20% and 30% were issued to general public of Nepal.

Capital Structure of Nepal Arab Bank Limited (NABIL)

Authorized Capital 1,600,000,000

a) 16,000,000 Ordinary Shares of Rs. 100 each 1,600,000,000

b) ………...Non-redeemable Preference Shares of Rs……. each

c) …………Redeemable Preference Shares of Rs………... each

Issued Capital 965747000

a) 9657470 Ordinary Shares of Rs. 100 each 965747000

b) ………...Non-redeemable Preference Shares of Rs…...... each

c) …………Redeemable Preference Shares of Rs……….....each

Paid Up Capital 965747000

a) 9657470 Ordinary Shares of Rs. 100 each 965747000

b) ………...Non-redeemable Preference Shares of Rs….. each

c) …………Redeemable Preference Shares of Rs……. .. each

Figures in NPR

% SHARE CAPITAL

Promoter	70 %	676022900
General Public	30%	289724100
Total	**100 %**	965747000

Source: Report of NABIL

Capital	**Present (**Amount**)**
Authorized Equity capital	1000 million
Issued Equity capital	729.8 million
Paid up Equity capital	729.8 million

B. Himalayan Bank Limited (HBL)

Himalayan bank limited is a Joint Venture Bank with Habib Bank of Pakistan, was established in 1992 under the company act 1964 as a fourth joint venture bank of Nepal. This is the first Joint Venture Bank managed by Nepali Chief Executive. The operation of the bank started from 1993 February. HBL does not include government ownership. It has been established to maintain the economic welfare of the general people to facilitate loan for agriculture, industry and commerce to provide the banking services to the country and people.

It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking. Its ownership is composed of founder promoter shareholders 85%, Habib bank of Pakistan 20%, Karmachari Sanchaya Kosh 14% and general public 15%. It is the first bank having domestic ownership more than 65%. HBL has been operating in high profit for the establishment's period till now. It accepts deposit through current deposit, saving deposit, fixed deposit and call deposit.

At present HBL has five branches in Kathmandu valley namely Thamel, New road, Maharajgunj, Pulchowk (Patan) and Suryavinayak (moved from Nagarkot). Besides, it has nine branches outside Kathmandu valley namely Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhairawa, Biratnagar, Siddharthanagar, Pokhara and Dharan. The bank is also operating a counter in the premise of the Royal Palace. The Bank has a very aggressive plan of establishing more branches in different parts of the kingdom in near future. HBL was access to the worldwide correspondent network of Habib bank for fund transfer, letter of credit or any other banking business any where in the world. Himalayan Bank has adopting innovative and latest banking technology. The bank provides various facilities such as: Tele- Banking , 24 hours banking , Credit card facilities, Automatic Teller Machine(ATM), Visa card, L.C. service, Safe deposit locker, Himalayan SMS(Short Message Service), Foreign currency transaction etc.

The ownership of HBL is composed as:

Subscription	**% Holding**
Promoter Share Holders	65 %
Habib Bank Ltd., Pakistan	20%
Financial Institution (Employees Provident Fund)	14%
Nepalese Public share holder	15%
Total	**100%**

The present capital structure of HBL is shown below:

Share Structure Amount (Rs.)		
Authorized Capital		2,000,000,000
Issued Capital		1013512500
Paid- Up Capital	(10135125equity shares of NRS 100.00 each, fully paid)	

Source: Report of HBL

1.3. Statement of Problems

Various numbers of commercial banks are increasing in Nepal day by day. There is high flow of money in the market but less viable and investable projects. In the current situation there is mismatch of deposit and investable funds of banks. Therefore, the introduction of a new bank is just sharing a cake rather than pumping new capital or new technology, as Nepalese market is almost felt safeguarded. Few commercial banks are continuously making profit and satisfying their shareholders and returning them adequate profit. This has attracted the potential customers to power their money into banks, as there are very few sectors to make profitable investment and the investors are always reluctant to risk. They do not take initiation to invest in other sectors. Therefore, commercial banks have a lot of deposits but a very little investment opportunity. They are even discouraging people by offering very low interest rate and high minimum threshold balance. This will definitely make adverse impact on the economic development of a country. This has decelerated the pace of economy development. Lack of sound investment policy is another reason for commercial banks not to proper utilizing its deposit.

There are 26 commercial banks operating in Nepal. They collected adequate amount from the mass, however they could not find or locate new investment sectors required to mobilize their funds on the changing context of Nepal. Many banks are increasing liquidity, has caused a downward trend in investment sectors.

It has ensued bad impacts on interest rate to the depositors, lower dividend to the shareholders, lower contribution to national revenues market value of shares etc. For the assessment of such adverse impact, this study has liquidity position of commercial banks.
Thus, the present study will make an attempt to analyze comparative study on financial performance of Nabil bank Ltd and Himalayan bank Ltd. Special problem related to investment function of the commercial banks in Nepal have been presented briefly as follows:

- What factors are affecting to investment of commercial bank?
- What is the liquidity, efficiency of assets management, profitability and risk position of concerned commercial banks?
- What is the empirical relationship between the variables that affect financial performance of banks?
- What are the views and ideas of the financial executives and customers regarding the knowledge on the various aspect of the investment policy adopted by commercial banks?
- What is the comparative financial position of commercial banks?

1.4 Objectives of the Study

The basic objective of this study is the comparative evaluation of the financial performance adopted by NABIL and HBL. The specific objectives of this study are as follows:

- To find out the empirical relationship between total investments, deposits, loans and advances net profit and asset and compare them
- To compare various ratio between NABIL and HBL.
- To make a comparative study on fund mobilization and investment patterns of the selected banks.
- To see the trend and its projection of total deposit and loan and advance for five years of NABIL and HBL.
- To offer suitable suggestions based on findings of this study of NABIL and HBL.

1.5 Significant of the Study

The scope of this study mainly in filling gap in the study of financial performance of concerned banks. Especially, this study deals with comparative study of financial position of Nabil bank Ltd and Himalayan bank Ltd. The study is basically confined to review the investment polices of the banks during the five years period. This study is expected to provide a useful feedback to the policy maker of banks and also to the government and central bank (NRB) to formulate the appropriate strategies for improvement in the performance of banks. Moreover, this study can also be used as reference point by the ADB, World Bank etc.

1.6 Limitation of the Study

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

1. Although some primary data are included, but the study is mainly based on secondary data collected from the banks. Research based on secondary data may be far from accuracy due to inherent character.
2. A whole study is based on the data of five years period i.e. from fiscal year 2004 to 2008 and hence the conclusion drawn confines only to the above period.
3. Only two banks are taken for the study i.e. NABIL and HBL.
4. This study concentrates on Deposit, Loan and Advances, Investment on Securities, Total Assets, Equity Capital, Net Profit and Market Price per Share related to investment.

1.7. Organization of the Study

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

Chapter-I: Introduction

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

Chapter-II: Review of literature

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

Chapter-III: Research Methodology

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

Chapter-IV: Presentation and Analysis of data

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

Chapter-V: Summary, Conclusion and Recommendation

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

CHAPTER - II

REVIEW OF LITERATURE

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research. This review specially focuses on comparative study on financial performance of Nabil bank Ltd. and Himalayan bank Ltd. This review of literature had been classified into two subgroups as follow.

- Conceptual Review
- Review of Related Studies

2.1 Conceptual Review

2.1.1 Bank

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

2.1.2 Concept of Commercial Bank

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individual business firms and services from the producers to customers and the financial activities of the government. They provide a large portion of the medium of exchange and they are media through monetary policy is affected. These facts show that the commercial banking system of the nations is important for the functioning of the economy.

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

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

2.1.3 Financial Statements

"The Financial Statements are the means of presentation of a firm's financial condition and basically consist of two types of statements - The Balance Sheet & Income Statement. These are prepared to report the overall business activities as well as financial status of the firm for a specified period to its stakeholders. These contain summary of information regarding financial affairs that is organized systematically. The top management is responsible for preparing these statements.

The basic objective of financial statements is to assist in decision making. The analysis and interpretation of financial statements depend on the nature and type of information available there in" (Panday; 2004: 31).

Hence financial statement refers to any formal and original statement that discloses the financial information related to any business concern during a period. The income statements and balance sheet usually prepared at the end of each financial year show the firm's position.

A) Balance Sheet

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

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

B) Income Statement

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

2.1.4 Financial Performance Analysis

"Financial Analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data" (Pandey; 1999:96).

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

"Financial Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. (Pandey/2004/560). Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance" (R.W. Metcalf; 1976:157).

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

The four basic statements contained in the annual report are the balance sheet, the income statement the statement of the retained earnings and the statement of cash flows. Investors use the information contained in these statements to form expectations about the future levels of earnings and dividends and about the risks of these expected values. Financial statement analysis generally begins with the calculation of a set of a financial ratios designed to reveal the relative strength and weakness of a company as compared to other companies in the same industry, and to show whether the firm's position bas been improving or deteriorating over time. (Weston/1996:306). Financial analysis is that sort of calculation which is done with the help of annual report. And the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis.

It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved, the related importance of the issue and on the nature and reliability of the information available" (Helfert, 1992:2).

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

"The Analysis and interpretation of financial statement depicts the actual position of a firm regarding the objectives of that firm within a specified period of time."Financial appraisal is a process of synthesis and summarization of financial and operative data with a view to get an insight into the operative activities of a business enterprise. It is a technique of X-raying the financial position as well as progress of a concern" as observed by Robert H. Wessel.

"Financial statement analysis involves a comparison of firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weaknesses" (Weston J. Fred; 1996:78).

"Financial Performance Analysis is used primarily to gain insight into operating and financial problems confronting the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statements into their components on the basis of purpose in the one hand and establish relationships between these components and between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization” (Hampton; 1998:99).

2.1.5 Objectives of Financial Performance Analysis

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

- The present and future earning capacity or profitability of the concern
- The operational efficiency of the concern as a whole, and of its various parts or departments.
- The short-term and long-term solvency of the concern.
- The comparative study regarding to one firm with another firm.
- The possibility of developments in the future making future forecasts and preparing budgets.
- The financial stability of business concern,
- The rea1meaning and significance of financial data,
- The long term liquidity of its fund.

2.1.6 Need of Financial Performance Analysis/ Financial Statement Analysis

The need for the Analysis of financial statement arises in order to address the following questions (Pradhan Radhe Shayam / “Management Of Working Capital”2000: 47-48).

- How was the firm doing in the past? Was there any problem? If so, in what Area?
- How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what areas?

- What about the future? Is there any likely problem on the way in the future? What will its position be in the future?
- What corrective actions can be taken now to solve the problems and improve the performance? How will the recommendation of any course of actions or changes in the policy or practice help solve problems and improve the company's position?
- What are the expected results of recommendations? Are there any improvements?

2.1.7 Significance of Financial Analysis

Significance of Analysis lies on the objectives of financial analysis of any firm. The facts discovered by the analysis are perceived differently by different groups associated with the concern. The facts and the relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses and credit worthiness are interpreted on the basis of objectives in the hand.

“Such Analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources”(Agrawal Govinda Ram/1993:582).

“The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be numerated as” (Srivastava / 1993:58-59)

- Top Management
- Creditors
- Shareholders
- Economists
- Labor Unions

A) Top Management

The responsibility of the top management is to evaluate:

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

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

B) Creditors

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

C) Shareholders

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

D) Economists

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

E) Labor Unions

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

2.1.8 Process of Financial Performances Analysis

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

The questions, that as elucidated above create the need to follow certain steps such as first identification and analysis of problem in order to come up with appropriate recommendations, and then to project the expected results and examine them if there are improvements before implementing such recommendations. The following chart presents the process to be followed in the analysis of financial statements.

2.1.9 Types of Financial Performance Analysis

"The nature of financial Analysis differs according to the purpose of the analyst. " a distinction may be drawn between various types of financial analysis either on the basis of material used for the same or according to the modus operandi of the analysis"(Man Mohan;1997-356).

A) According to material used

1. External Analysis

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

2. Internal Analysis

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

B) According to Modus Operandi Analysis

1. Horizontal Analysis

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

2. Vertical Analysis

It is frequently used for referring to ratios developed for one date or for one accounting period. It is also called static analysis.

Besides, the types of financial analysis on the basis of material used and modus operandi, S.P Jain and K.L. Narang have categorized on the basis of objective of the study.

C) According to Objective

1. Long Term Analysis

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

2. Short Term-Analysis

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

2.1.10 Techniques of Financial (Statement) Analysis

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

a. Ratio Analysis

b. Du Pont System of Financial Statement Analysis

c. Common Size Analysis

d. Funds Fl0w Analysis

e. Cash Flow Analysis

a. Ratio Analysis:

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

Types of Ratios

Different Ratios can be calculated from the available data in the financial statement. Broadly Ratios are classified in four groups. They are:

i) Liquidity ratios

ii) Capital structure/leverage ratios

iii) Activity (assets management) ratios

iv) Profitability ratios

i) Liquidity Ratio

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

ii) Capital structure/leverage ratios

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

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

iii) Activity Ratio

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

iv) Profitability Ratio

Profitability is very important aspect of management of any enterprise. It shows the overall performance of an enterprise. The Profitability Ratios are calculated to measure the operative effectiveness of an enterprise. Besides management of the company, creditors and owners are interested in the Profitability Ratios of the firm. Profitability Ratios can be calculated on the basis of either sales or investment. The important Profitability Ratios, calculated in relation to sales are Net Profit Margin, Gross Profit Margin, and Operating Expenses Ratio etc.

Similarly, the important Profitability Ratios, calculated in relation to investment are Return on Shareholders' Equity, Return on Capital Employed, and Return on Fixed Assets etc. Together these Ratios indicate the firm's efficiency of operation (Panday/1998: 133).

b. Du Pont System of Financial Statement Analysis

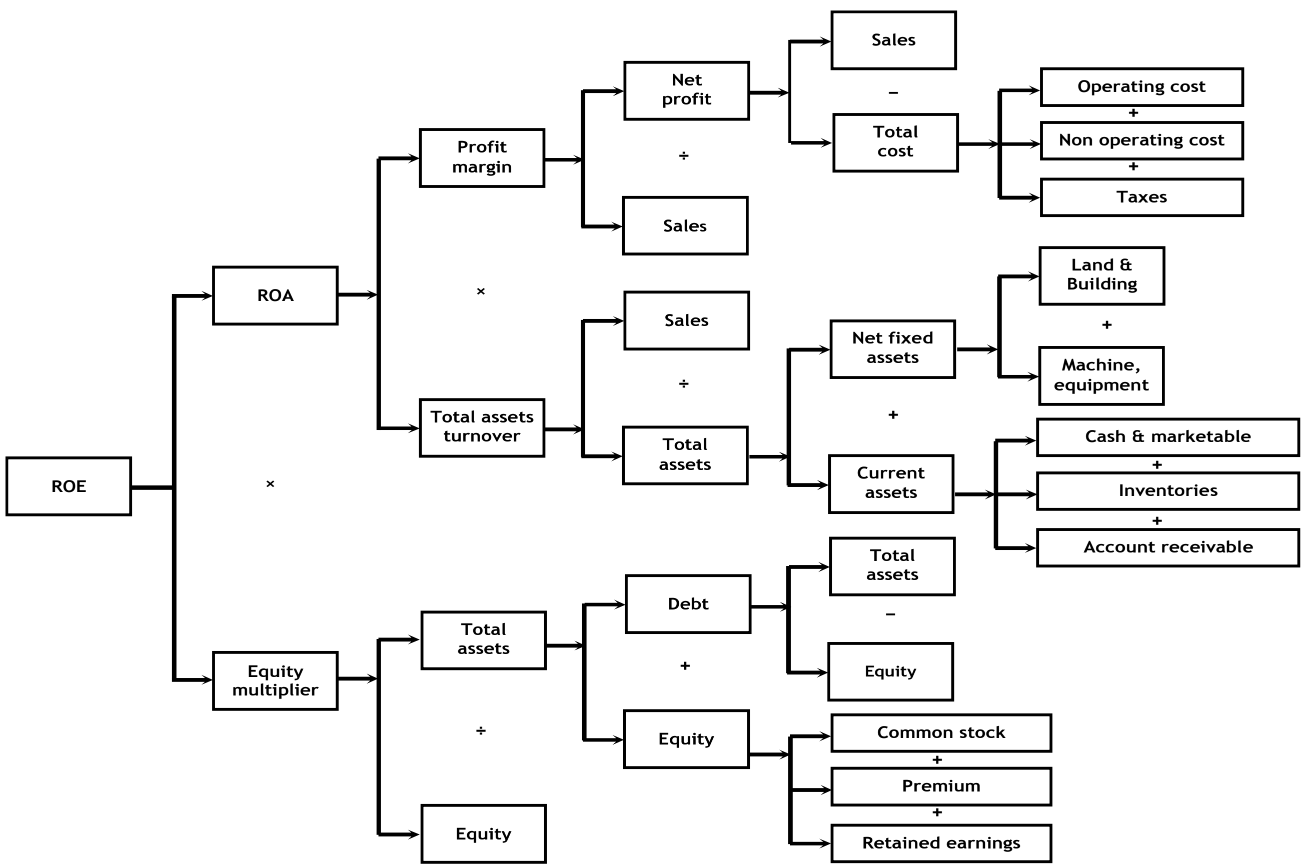
"The Du Pont system is designed to show how the profit margin on sales, the assets turnover ratio and the use of debt interact to determine the rate of return on equity" (Weston/1996-307)

The Du Pont system of financial statement analysis is developed by the financial experts of the Du Pont Company by putting together the effects of profitability, investment and the equity ratios. The approach is based on the relationship among the three basic areas of the firm such as (i) cost controlling area (ii) Assets management area and (iii) Financial leverage area. The directed to address the concern of the shareholders; hence its main focus is on the return on equity (ROE)The ROE is analyzed in terms of the factors that directly affect the ROE. The factors such as costs, assets utilization and leverage ratio are the grounds on which several test are made to see how the ROE is affected by such factors. The following modified Du Pont Chart presents the relationship among these factors and ROE.

Figure 2.1

Du Pont System of Financial Analysis

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



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

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

The Du Pont equation is as follows:

ROE = ROA x equity multiplier

= Profit margin x total assets turnover x equity multiplier

= Net profit/sales x sales/total assets x total assets/ equity

c. Common Size Analysis

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

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

d. Funds Flow Analysis

Funds flow Analysis is the statement of changes in financial position of any organization that determines only the sources and used of fund between two dates of balance sheet. It is prepared to uncover the information that financial statements fail to describe clearly. It describes the sources from which funds were derived and used to which these funds were put. The statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to the changes in owner’s equity. It also uncovers the way of using financial resources during the period by the firm.

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

e. Cash Flow Analysis

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

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

2.2 Limitations of Financial Performance Analysis

Financial Performance Analysis is of great significance for investor, creditor, management, economist, and other parties having interest in business. It helps management to evaluate its efficiency in past performance and takes decision relating to the future. (Jain, 1989-33) However, it is not free from drawbacks. Its limitations are listed below.

(a) Historical nature of financial statements:

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

(b) No subject for judgment:

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

(c) Reliability of figures:

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

(d) Single year analysis is not much valuable:

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

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

(f) Change in accounting methods:

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

(g) Pitfall in inter-firm comparison:

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

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

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

(i) Selection of appropriate tool

There are different tools of analysis available to the analyst. The tools to be used in a particular situation depend on skill, training, intelligence and expertise of the analyst. If wrong tool is used, it may lead to wrong conclusion. This may be harmful to the interest of business. (orne and Walchowicz, 1997:120

2.3 Review of Thesis

D.R. Upreti (2001) in research "Comparative study of financial performance of Himalayan bank and Nepal Grindlays bank Ltd" states that profitability in term of return on shareholders equity ratio of NGBL is found lower in F.Y, 1994/95 (3671%). Similarly, the ratio of HBL is found within the range from 38.68 % (in 1995/96) to 23.13% (in 1998/99). The yearly average of NGBL (i.e. 31.52) is higher than yearly average (i.e.30.152) of HBL. It can be concluded that both the banks have been able to earn profit on shareholder's equity but not satisfactory level. NGBL is more success to generate more return on its shareholder's funds than that of HBL, although there is no significant different between the averages of these ratio of the two banks. Return on total assets ratio of NGBL is found within the range between 2.95 % (in 1995/96), (2.30%) and (in1994/95) where the same ratio of HBL is found within the range from 2.48 % (in 1995/96) to 1.48% (in 1998/99). The yearly ratio of HBL is generally decreasing over the study period. Moreover, the yearly average of NHBL (2.64) is found higher than the yearly average of HBL along with its yearly average ratio is also higher than composite average of the banks. It can be concluded that return on total assets ratio in cash of NGBL is found better performance by utilizing overall resources but the generated profit is found lower for the overall resources in both the joint venture banks.

The main statement of the problem of his research is the Himalayan bank Ltd. and Nepal bank operating in Nepal. In comparison to their JVB's these bank have achieved a desirable success in terms of market share and profit due to their service excellence, consumer satisfaction, highly skilled management and staff and worldwide network of branch. Although, Himalayan Bank Limited and Nepal Grindlays Bank have able to perform better than other local banks and financial companies within a short span of time, they have been facing competition with each other. These banks do not have strong financial position in respect to net profit to capital employed ratio, capital adequacy and earning per share. The contribution of these banks in rural areas is very unsatisfactory. To know the solution of these problems, the competitive financial analysis of these two banks will be much more helpful.

The main objectives of his research are:

1. To study the present financial position of the two joint –venture banks.
2. To do the comparative study about the financial performance of these banks with regarded to their profitability, liquidity, efficiency and capital structure position.
3. To provide recommended and to give decisive and pragmatic suggestion on the basis of findings to improve the financial performance of the Nepal Grindlays bank Ltd. and Himalayan bank Ltd.

For the purpose of analysis and interpretation various financial and statistical tools have been used as per need. Different tools have been applied to analyze the data.

The main limitations of his research are:

1. The study is associated only to the financial performance of HBL and NGBL.
2. This study deals with specific tools such as ratio analysis, mean, CV, etc.
3. The figures as available in the published account of HBL and NGBL have been assumed to be correct.

G. B. Bista: (2002), found that the study has been undertaken *"To Examine and Evaluate the Financial Performance of NABIL Bank limited"*. The researcher has used the financial tools to make this study more effective and informative. This study has corrected ten years data from 1991/1992 to 2000/2001 of the NABIL bank limited. The analysis shows that the deposits of the bank have increased during the years 1999/00 and 2000/01. The rate of increase was comparatively low for the year 1996/97. Total loans and advances have been increasing at an average rate of 24% each year, highest of 51% in year and lowest of 7% in year 1996/97. Total investment of the bank has been increasing over the years, which is mainly due to the bank's strategy of safe lending and because of increase in customer's deposits and limited opportunities for prudent lending.

The main statements of the problem of his research is financial management aspect is considered to be the vital and integral part of overall management of any enterprises, ensuring financial strength through adequate cash flows, liquidity and better utilization of assets. Commercial joint venture banks set up in Nepal seem to need grater funds in terms of financing to the expansion of their assets because of growing number of new establishment of joint venture banks in the country. These banks deal with other people's deposits, most of which are payable on demand. There is no doubt that the survival of the existing commercial banks and other financial institution depend upon how they manage their assets and liabilities to maximize their profits with the minimum exposure of assets to risks, and are guided by there important conflicting criteria of solvency, liquidity and profitability. Therefore, the financial management is the main indicator of the success or failure of any business firm. Financial condition of the business firm should be sound be sound from the point of view of shareholders, debenture holders' financial institutions and nation as a whole.

The main objectives of his research are:

1. To analyze liquidity, leverage, activity profitability and ownership ratios of the bank.
2. To study the income and expenditure statements of the bank.
3. To analyze the bankruptcy score of the bank for the period of fiscal years from 1996/97 to 2000/01
4. To provide suggestions and recommendation based on the findings of the analysis.

The main limitations of his research are:

1. The study has been carried out based on the published financial documents such as balance sheets, profit and loss accounts; related published documents have their own limitations.
2. The study has been focused on the financial performing of NABIL bank limited with helps of financial tools. Similarly, bankruptcy score has been analyzed for the period of recent five year solely based on the Altman statistical model of bankruptcy score.

3. The conclusion drawn up from this study may or may not be applicable to other commercial banks in Nepal.

S. Parajuli: (2003), in his research "Credit Management of Joint Venture Banks" states that “Concept of financial reform emerged since 1980s with economic liberalization. Nepal Government and NRB published the economic and monitory policy to support such reform. As the result of these policies various jointed venture bank established in the private sector. Under the structural adjustment program of the IME the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monitory control. The agricultural development bank of Nepal and Nepal industrial development corporation were allowed to issue debentures to increase their financial resources. NRB strengthened its regulation and supervision of banking and financial institution and the commercial banks were granted virtually freedom to fix their interest rates on deposit in July 1989 except for the priority sector credit. The credit information Bureau was established in 1989. NRB started to control the financial institutions with strengthening to supervision and monitoring system. It has also pointed out the need of having deposit taking institutions act which it’s on umbrella act of all deposit taking institution. Some of the main elements of financial sector reform strategy published by NG in December 2000 such as restructuring the government owned banks strengthening the commercial banks regulation accounting and auditing system improving the regulation and supervision on non banking deposit institutions.

The main statement of the problem of the study is government owned banks are in critical condition they are unable to recover the credit. Financial sector reform programs are not being able to achieve the expected target. Performance on the credit is poor in the government banks. Amount of non - performing assets is increasing. Generally, it is accepted If bank maintain low ratio, bank may not able to make the payment of against cheque that disadvantage sector in the economy such as the farmer and the small business have been neglected by the banking industry. In other words such sectors in the economy are not receiving the financial supports as commercial banks hesitate to be involved in these sectors where they do not see adequate profit.

The main objectives of his research are:

1. To assess whether all the commercial banks allow follow the similar procedures while granting loans.
2. To find out the relevancy of the financial sectors reform program.
3. To measure the comparative output of credit management in joint venture bank and government.
4. To examine the level of the non-performing loan investments that exists within the banking industry
5. To provide suggestions for the future betterment of credit management system in the commercial banks.

The tools applied are financial tools like liquidity ratios, assets management ratios, activity ratios, loan and advances portfolio, profitability ratio and statistical tools like arithmetic mean, standard deviation and trend analysis.

The main limitations of his research are:

1. Main source of the data collection is from the banks publications which may not be always reliable because they may publish the reports according to their profit policy and market situation .And the personal interviews and interactions may not be factual.
2. There are some difficulties to get the sufficient information as banks hesitate to provide data easily. In the course of data collection, Nepal bank limited could provide the data of three financial years only.

R. Luitel: (2003), found in his research "Financial performance of Nepal Bank Limited" that to examine the short-term solvency of the NBL the help of liquidity ratios was taken. While comparing the ratios of two periods at an average the first period had higher current liabilities ratio than the second period. The average current ratio of the first period was 105.11% over 100.49% of the second period. Through the proportion of current assets greater than that of current liabilities at an average during both the periods the bank can not be said to have a sound current ratio or during both the periods the banks did not have healthy short-term solvency. Even then the first period of the study had better short term solvency than the second period. The highest and lowest current ratio for the first period were 110.35% and

101.031%in the F.Y. 047/048 and 048/049 respectively whereas the same for the second period were 104.47.1%.and 94.16% in F. Y. 053/054 and 0567/057 B.S. respectively. The F.Y. 055/056 also showed the ratio less than 100 % i.e.97.92% which signifies that during the years the bank had current liabilities more than current assets. During both the periods' liquidity position of the bank was worsening.

The main statement of the problem of his research is the open and liberal economic policy towards the banking sectors of Nepal Government initiated many joint venture banks, government banks, financial companies, rural banks and co-operative societies in Nepal. They are being operated in urban and sub-urban region of the country. They seem successful to achieve a remarkable market share in Nepalese financial institution, which has led a sharp competition among each other. It has threatened the entire banking system including government bank i.e. Nepal Bank limited. NBL operating has managed to perform well in terms of their work efficiency and profitability. However; it is facing problems in generating an adequate return on their investment and is being unable to be the leading one. It must attempt to find the potential areas to profitable investment in order to get themselves and the nation away from this economic turmoil. In addition to above problems NBL has to face the following challenges.

The main objectives of his research are:

1. To analyze the growth, objectives, functions and role of NBL.
2. To study the major regulations, such as NRB directives Government policy and other policies which govern the bank?
3. To evaluate whether the bank is efficient to face the challenges and assist the government in the points outlined in the statement of the problem of this study.
4. To highlight the functions and policies of NBL.
5. To measure the comparative financial strengths weakness and to analyze the banks performance under priority sectors of government.
6. To analyze income and expenditure areas.
7. To recommend necessary improvement for their effective and relationship between various component of assets and liabilities side of the bank's balance sheet, analyzing

the different financial ratios and studying the operational aspects and the products offered by them.

Different kind of accounting and statistical tools are available to meet the purpose of any study or to check and analyze the facts and collected for the purpose of the study.

The main limitations of his research are:

1. Analysis mostly based on secondary data. Hence, secondary data itself is limiting factors. The findings based on the information provided by the banks.
2. The study concentrated on financial position of the bank for short period and analyzed mostly with the help of various financial tools.
3. The study will over only 10 years divided into two equal parts.

S. Joshi: (2003) in the research "A Comparative Study on Financial Performance of Standard Chartered Bank Nepal Limited and Everest Bank Ltd" states that the mean current ratio of EBL is slightly higher than that of the SCBNL and the variability of ratio of EBL is more consistence than SCBNL in comparison. The mean ratio of cash and bank balance to total deposit of SCBNL is lower in comparison to EBL. SCBNL has better liquidity position than EBL because of the high volume of liquidity indicated the inability of the bank to mobilize its current assets. Moreover SCBNL's ratios are homogeneous than EBL. The mean ratio of cash and bank balance to current assets of SCBNL is lower in comparison to EBL. Similarly, SCBNL's ratios of the study period are more consistent than EBL. The mean ratio of loan and advances to total deposit of EBL is higher than SCBNL. It can be said that EBL used to provide grater loan and advance in comparison to its total deposit than SCBNL. Likewise, SCBNL's ratio seems to be variable them EBL. The mean ratio of investment on government securities to total working fund of SCBNL is higher than EBL. Consequently, it has consistency in maintaining the ratio than EBL. The mean ratio of return on loan and advances of SCBNL has found to be significantly grater than EBL with more consistency than that of EBL. The mean ratio of credit risk of SCBNL is lower than that of EBL's ratios are more consistent than that of SCBNL. Growth ratio of deposit is more consistent than that of SCBNL is lower i.e. 19.28% in comparison to EBL i.e. 76.46%.

The main statement of the problem of his research is the investment decision is the major tool of financial institution. There are many finance companies and commercial banks operating in Nepal. According to NEPSE record, there were 17 commercial banks 46 finance companies 5 Gramin Bikas banks, 30 non -government financial organizations until July 2001. The fast growth of such organizations has made pro-rata increment of in collecting deposits and their investment. They collected adequate amount from the mass, however they could not find or locate new investment sectors required to mobilizes their fund on the changing context of Nepal. Many banks or companies succumbed to liquidation although they had sustainable investment capacity. The increasing rate of liquidity has caused a downward trend in investment sectors. It has ensured bad impact on interest rate to the depositors, lower market value of shares etc. for the assessment of such adverse impact, this study has shown to contrast and analyses the investment policy of joint venture banks. Joint venture banks viz. standard chartered bank Nepal Ltd and Everest bank limited.

The main objectives of his research are:

1. To compare investment policies of concern banks and discuss the fund mobilization o the sample bank.
2. To find out the empirical relationship among total investment, deposit, loan and advance, net profit and outside asset and compare them.
3. To analyze the deposit utilization and its projection for next five years of SCBNL and EBL.
4. To evaluate comparatively the profitability and risk position liquidity asset, management efficiency of SCBNL and EBL.
5. To provide a package of possible guidelines to improve investment policy, its problem and way to solve some problems and provide suggestions and recommendation on the basis of the study.

They are derived with the help of some financial and statistical tools were adapted to evaluate the investment policies of JVB’s.

The main limitations of his research are:

1. This study is based on primary as well as secondary data accuracy depends upon the data collected and provided by the organization.

2. This study has taken only two JVB's as sample i.e. SCBNL and EBL. The finding drawn may not be applicable to other various JVB's in Nepal.
3. The study focuses on investment aspects of banking performance only.

P. Regmi: (2004) in his dissertation "Credit Management of Commercial Banks with Reference to Nepal Bangladesh Bank and Bank of Kathmandu" states that commercial banks are those banks, which works from commercial view point. They perform all kinds of banking functions such as, accepting deposits, advancing credits, credit creation and management of credit and advances. Portfolio management helps to minimize or manage the credit risks and spreading over the risks to various portfolios. Banks earn interest on credit and advances which is one of the major source of income for banks. On average 5 years of research period, cash and bank balance to total deposits of ratio of NB bank and BOK is 12.75% and 14.12% respectively. Likewise NB bank and cash and bank balance 1.584 times of current deposits and BOK has cash and bank balance 1.14 times of current assets. NB bank: most of the credit and advances almost 70% is provided an assets guarantee. The assets guarantee credit is increasing period by period. After assets guarantee bank has provided credit based on bills guarantee credit is 3421.3millions (76.1% of total credit) and in the last period it is 3347.99millions (58.2%of total credit).

The main statement of the problem of his research is the Nepal is a small country with small market. Economic condition of the country is degrading. Nepal being an agriculture country needs more investment in this sector. Nevertheless, commercial banks are rather concerned in industrial and foreign projects. As a result, the credit extended to this sector is unsatisfactory. Besides, they are not even fulfilling the NRB's, regulation of 12% investment of their total loans to priority sectors like agriculture, cottage and small industries and services. Similarly, the banks are not following the diversification principle i.e. they are not considering the investment portfolio position. A good portfolio theory indicates diversification of invest able funds to reduce risks. Hence, the principle "do not put all the eggs in basket" really does not apply in context of Nepalese commercial banks. As a result, many banks today could not recover their loan because, in the past, a major portion of their investment were made in garment, carpets and hotel sectors that now come to the brick of extinction.

The main objectives of his research are:

1. To analyze the functions, objectives, procedure and activities of the NB bank and BOK.
2. To analyze the credits and advances provided by the two banks.
3. To analyzer the recovery status of the credit disbursed.

The financial and statistical tools are used like; coefficient of correlation, standard deviation, arithmetic mean etc.

The main limitations of his research are:

1. This research study largely depends on published documents such as balance sheet, profit and loss account statements, which are circulated at the close of the financial year.
2. In this study only selected financial and statistical tools and techniques are used.
3. The study has taken only Bangladesh Bank and Bank of Kathmandu Limited as sample. The finding drawn or may or may not be applicable to other various JVBS in Nepal.

Y. Basnet: (2005) in research "Comparative study of financial performance of SBI Bank limited and Nepal Bangaladesh Bank Limited" states that Financial Analysis involves the method of calculating and interpreting financial ratio in order to assess the firm's performance and status. The following are the main findings from the financial ratio. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities i.e., it indicates the availability of for current liabilities. A ratio that is grater than one means that the firms has more current asset than current claims against them. The calculation found that the average current ratio of SBI (1.05 times) is greater than that of NBB (0.98times). The table shows that the ratio is in fluctuating trend of SBI and decreasing trend of NBB. The highest ratio for SBI is 31.41% and lowest is 18.45% and lowest ratio is 8.47%. Calculation of loan and advances to total deposit exhibits that the ratio is fluctuating for SBI. It was lowest in fiscal year 2000/2001 whereas the ratio was in increasing trend up to fiscal year 2001/2002 for NBB but it is decreased in 2002/2003.

The main statement of the problem of his research is the main problem area of the study is to find out the financial performance of these to banks comparatively. Whose financial performance is better? Are they able to meet the obligation? Do they manage and utilize its assets satisfactory. Are they maintaining sufficient liquidity position? Do they have sound operational result in relation to their profitability? Do the financial ratios vary widely from year after year in the banks? Therefore, focus of the present study is on the financial performance of the joint venture banks in Nepal comparing the performance of Nepal state bank of India Bank Ltd. and Nepal Bangladesh Bank Ltd. The comparative studies between various joint venture banks.

The main objectives of his research are:

1. To highlight the review of previous studies.
2. To study the financial position of both the banks.
3. To study the financial performance of these two banks.
4. To offer a package of suggestion to improve the financial performance.

Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools which is bankruptcy score.

The main limitations of his research are:

1. This study based on the secondary data available.
2. The study is done only based on the published annual report.
3. Only limited financial tools are used for analysis, so this study may not sufficient.

S. p. Gautam: (2006) in his research "Comparative study of Capital structure of joint venture bank standard charter bank ltd. and Nepal Bangladesh Bank ltd" states that many joint venture banks are operating in Nepal as commercial and merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB’s are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB’s viz. SCBNL and NBBL to examine and evaluation the financial data. Besides latest financial statement of six year from

1999 to 2004 have been conferred for the purpose of the study. All JVB's has used high percentage purpose of the study. All JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim. The on an average, NBBL bank constitutes 16.27 times of D/E ratio, which should be reduce as quickly as possible. The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks. The average ROE of JVB's i.e. SCBL and NBBL area 37.36% and 21.75% respectively.

The main statement of the problem of his research is the capital structure refers to the proportion of different types of securities issued by the firm like common shares, long-term debt, preference share capital, and debenture and retain earnings. Effective capital structure is a key to successful banking. Capital structure to the firms affects profitability position and cost of capital. Therefore, every firm has to maintain its capital structure effectively. We know that major portion of the capital comprises of owners fund and creditors fund. The owners expects dividend and appreciation in the share price whereas creditors except interest and return of the fund at the mentioned time. So, the capital structure of the firm is important factor in determining the success of the firms. The firm is successful if it can optimize its capital structure strikes a balance between the risk and return thus maximizes the price of the stock.

The main objectives of his research are:

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

The main limitations of his research are:

1. Only secondary data will be analyzed to interpret result emerging from decision, so the result depends on the reliability of secondary data.
2. There are many factors that are including in capital structure of bank; however only those factors related with comparative capital structure will be considered in this study.

P. Sedai, (2007) in his dissertation “An analysis on lending policy and strength of Nepal Investment Bank Ltd” highlighted that aggregate performance of NIBL is satisfactory and pushing upward. Lending strength of NIBL in term of exposure of loan and advances is good and appreciable. The contribution made by bank in industrial as well as agriculture sector of the economy is highly appreciable and its bust up towards national prosperity. The ratio of loan and advances to total asset, loan and advance to shareholder‘s equity indicate a good performance of NIBL in its lending activities.

Looking at the asset management ratio the performance of NIBL seems good in the area of lending, productivity and impact on national economy. The activity ratio also reflects to the soaring performance of NIBL. The decreasing loss loan provision ratio indicates that bank is good enough to judgment in their value customer. The better activity ratio of this bank been a major contributor in managing the lending portfolio according to the demand of the profit oriented business. The high volume of lending activity of NIBL has put this bank in the top position in absolute term. Thus looking at the various summaries and findings, we can conclude that the bank has accelerated its performance in the year 2002/3 and has continued till 2004/5 and the bank has the potentiality to become a leading bank in Nepal.

The main objective and target of this study is

1. To observe the loan disbursement of Nepal Investment Bank Ltd. its shows the actual lending position, strength and weakness.
2. To examine the impact of deposit in liquidity.
3. To analyze the lending efficiency of the bank.

4. To study of loan and advances provided to customer, amount loan investing in industrial sector, trend of loan disbursement, process are according to NRB rules & regulation and position of bank and its profitability.

The recommendations are forwarded according to finding and conclusion. It is recommended that extend their credit and branch in rural area, continue to maintain or further increase the performance, decrease the NPL and make proper loss loan provision, required proper market analysis, diversify the investment sector etc. finally however performance of NIBL seems to be good till the date. There are still many opportunities for further growth of the bank. NIBL is suggested to further improve current position of lending portfolio. The bank should concentrate on financial strength, pe5rsonal integrity and credibility of the borrower of loan disbursement. It should maintain high level of monitoring and control system over the disbursed loan and advances. To create opportunity of business new and attractive lending scheme would be launched to the customer.

R. Limbu, (2008). In his dissertation, "Credit Management of NABIL Bank Limited" highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition.

The main objectives of the research study are as follow.

- To evaluate various financial ration of the Nabil Bank.
- To analyze the portfolio of lending of selected sector of banks
- To determine the impact of deposit in liquidity and its effect on lending practices.
- To offer suitable suggestions based on findings of this study.

The main findings and conclusions are according to calculated ratio. In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years. The bank is able to obtain higher lending opportunity during the study period.

Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend it represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances. Trend analysis tools are done for future forecasting. Trend analysis for total, loan & an advance, Total asset and Net profit is done to see future prospect.

Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Trend analyses for loan & an advance is done to see future loan & advances. Trend analyses for Total asset is calculate to see future total asset.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

The topic of the study has been selected as “A comparative study on financial performance of NABIL and HBL.” In order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. Generally, Research methodology refers to the numerous processes adopted by the researchers during the research period. It is the technique to solve the research problem in systematic manner. This includes many techniques and is crucial for every research work. The main objective of this research work is to evaluate the financial performance and position sample HBL and NABIL.

“Research methodology refers to the various sequential steps to be adopted by a research in studying a problem with certain objectives in view” (Kothari, 1989: 30).

This study will seek the conclusion to the point that what kind of position HBL and NABIL have got and suggested the precious and meaningful points so that all concerned can fruitful from this research work.

3.2 Research Design

A research design is a plan for the collection and analysis of data. If presents a series of guide posts of enable the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, formulation of hypothesis, conceptual clarity, methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation and report writing. Generally, a common research design possesses the five basic elements viz. (i) selection of problem (ii) methodology (iii) data gathering (iv) Data analysis and (v) report writing. The Present study follows the descriptive as well as exploratory design to meet the stated objectives of the study. The crux of the research is to analyze NABIL and HBL in relation to financial performance and position as well as overall management.

3.3 Sources of Data

The study is mainly based on secondary data. The secondary sources of data collections are those that have been used from published on used by someone previously. The secondary sources of data are Balance Sheet, Profit & Loss account and literature publication of the concerned banks. The NEPSE report of the concerned bank has furnished some important data to this research work. Some supplementary data and information have been collected from the authoritative sources like Nepal Rastra Bank, Central Library of T.U., Nepal Stock Exchange Limited, Security Exchange Board, Economic Survey, National Planning Commission, different journals, magazines and other published and unpublished reports documented by the authorities.

In order to fulfill the objectives of this research work, all the secondary data are compiled, processed and tabulated in time series. And to judge the reliability of data provided by the banks and other sources, they were compiled with the annual reports of auditors. Formal and informal talks to the concerned head of the department of the bank were also helpful to obtain the additional information of the related problem.

3.4 Nature of Data

In case of primary data, some personal views and ideas of individual's respondent are collected. But in case of entire study secondary data used are basically of the following nature. Most of the data taken for the analysis is collected in the form of published by the concerned banks through their annual reports.

Since all the banks which are taken into account for the study are listed in NEPSE, the figures are all most reliable and suitable too.

3.5 Population and Sample

There are altogether 26 commercial banks functioning all over the kingdom and most of their stocks are traded actively in the stock market. Among all the banks only two banks are taken as a sample for comparative study. These banks are compared as per fund mobilizing activities. They are:

1. Nabil Bank Ltd.
2. Himalayan Bank Ltd.

The reason behind selecting these two banks is these two banks are both are very completive in performance. These two banks are compared as per fund mobilization procedure, that they are adopting to mobilize their collected funds as well as own funds.

3.6 Data Analysis Tools

Analysis and presentation of the data is the core of each and every research work. This study requires some financial and statistical tools to accomplish the objective of the study. The financial and statistical tools are most reliable. In this study various financial, statistical and accounting tools have been used. These tools make the analysis more effective, convenience, reliable and authentic.

The various results obtained with the help of financial, accounting and statistical tools are tabulated under different headings. Then they are compared with each other to interpret the results. Two kinds of tools have been used to achieve the certain goals.

1. Financial Tools
2. Statistical Tools

3.6.1. Financial Tools

Financial tools basically help to identify the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial tools are categorized into two parts.

I. Ratio Analysis

Ratio analysis is the powerful tool of financial analysis. A ratio is defined as “the indicated quotient of two mathematical expressions, the relationship between two or more things” (Merriam, 1975: 958). “In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The relationship between two accounting figure expressed mathematically, is known as a financial ratio or simply a ratio. An accounting figure conveys meaning when it is related to some relevant information” (Pandey, 1975: 104).

A ratio is a mathematical relationship between two variables. It is significant for financial analysis. It also helps us to predict the future performance of a company based on study of ratios of earlier years" (Benerjee, 1989:95).

Thus, ratio analysis is the part of whole process of analysis of financial statements of any business or industrial concerned especially to take output and credit decision. Ratio indicates a quantitative relationship, which can be, in turn, used to make a qualitative judgment. Even though there are various types of ratios to analyze and interpret the financial statement, only six types of ratios have been taken in this study, which are related to fund mobilization of the banks. They are presented below:

A. Liquidity Ratio

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations. This is quick measure of the liquidity and financial strength of the firm.

"Liquidity ratios examine the adequacy of funds, the solvency of the firms ability to pay its obligation when due" (Hampton, 1971: 139). Various types of liquidity ratios are applied in these studies, which are explained below:

i) Cash and Bank Balance to Total Deposit

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately.

This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

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

Where, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance held abroad. Total deposits consist of deposits on current account, saving account, fixed account, money at call and short notice and other deposits.

ii) Cash and Bank Balance to Current Assets Ratio

This ratio measures the percentage of liquid assets i.e. cash and bank balance among the current assets of a firm. Higher ratio shows the higher capacity of firms to meet the cash demand. This ratio is calculated dividing cash and bank balance by total current assets and can be calculated as,

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

Hence, cash and bank balance includes cash in hand, foreign cash and foreign banks.

iii) Investment on Government Securities to Current Assets Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. It can be mentioned as:

$$\text{Invt. on Govt. Sects. to Current Assets} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

Where, Investment on government securities involves treasury bills and development bonds etc.

B. Assets Management Ratios (Activity Ratio)

The asset management ratios, measures how effectively the firm is managing its assets. These ratios are designed to answer this question: does the total amount of each type of asset as reported on the balance sheet seem reasonable or not. If a firm has excessive investments in assets then its capital costs will be unduly high and its stock price will suffer (Brigham, 1996: 74).In this study this ratio is used to indicate how efficiently the selected banks have arranged and invested their limited resources. The following financial ratios related to fund mobilization are calculated under asset management ratio and interpretation is made by these calculations.

i) Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks are utilizing their total collections or deposits on loan and advances for the purpose of earning profit. Greater ratio shows the better utilization of total deposits. This ratio can be obtained dividing loan and advances by total deposits, which can be shown as,

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

ii) Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning of profit. This ratio indicates how properly firm's deposits have been invested on government securities and shares and debentures of other companies. This ratio is computed by using following formula:

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

Where, total investment includes investment on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other investments.

iii) Loan and Advances to Total Working Fund Ratio

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be obtained dividing loan and advances amount by total working fund.

That is formulized as,

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

Where, total working fund includes total amount of assets given in balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e. letter of credit, letter of guarantee etc.

iv) Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage. It can be obtained by:

$$\text{Invt. on Govt. Sect. to Total Working Fund Ratio} = \frac{\text{Invt. on Government Securities}}{\text{Total Working Fund}}$$

Where, investment on government securities includes investment on debentures, bonds and shares of other companies.

v) Investment on Shares and Debentures to Total Working Fund Ratio

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

$$\text{Invt. on Shares and Debt to TWF Ratio} = \frac{\text{Invt. on Shares and Debn}}{\text{Total Working Fund}}$$

Where, total investment includes investment on government securities, investment on debenture and bonds, shares of other companies.

C. Profitability Ratios

Profit is only appeared when there is positive difference between total revenues and total cost over a certain period of time. Profitability ratios show the combined effects of liquidity, assets management, and debt on operating results. Profitability ratios are very helpful to measure the overall efficiency of operations of a firm. It is a true indication of the financial performance of each and every business organization. Here profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Profitability of the firms can be presented through the following different ways:

i) Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed dividing net profit (loss) by the total amount of loan and advances and can be mentioned as,

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

ii) Return on Total Working Fund Ratio

Return on total working fund ratio measures the profit earning capacity of the banks by utilizing available resources i.e. total assets. If the bank's well managed and efficiently utilized its working fund, it will get higher return. Maximizing taxes, this in the legal options available will also improve the return. It is computed as:

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

iii) Total Interest Earned to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest.

We have,

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

iii) Total Interest paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa. This ratio is calculated as:

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

D. Risk Ratios

Generally, risk means uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and uncertainty, profitability and effectiveness of the firm is increased. This ratio checks the degree of risk involved in the various financial operations. For this study, following risk ratios are used to analyze and interprets the financial data and investment policy.

i) Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit, as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash and bank balance but this reduces profitability. When the bank makes loan, its profitability increases and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated by dividing cash and bank balance to total deposit.

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

ii) Credit Risk Ratio

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

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

3.7 Statistical Tools

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

A. Average/Mean

An average is a single value related from a group of values to represent them in someway, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure representing the entire data by one value is the AM. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Mathematically:

Arithmetic Mean (AM) is given by,

$$\bar{X} \text{ X} \frac{X}{n}$$

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

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

n = Number of observations

B. Coefficient of variation

The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviations known as coefficient of variation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the CV. It is used for comparing variability of two distributions; the CV is defined as,

$$\text{CV} = \frac{\pm}{\bar{X}} \varepsilon\ 100$$

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

C. Coefficient of correlation (r)

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

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

D. Trend Analysis

The easiest way to evaluate the performance of a firm is to compare its current ratios with past ratios. When financial ratios over a period of time are compared it is known as the trend analysis. It gives an indication of the direction of change and reflects whether the firm's financial performance has improved, deteriorated or remain constant over time. The projections are based on the following assumptions:

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

$$Y = a + bx$$

Here,

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

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

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

4.1 Financial Analysis

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

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

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision. Four main categories of ratios have been taken in this study that is mainly related to investment policy of banks.

4.1.1.1 Liquidity Ratio

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

A) Current Ratio

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

Table No. 4.1

Current assets to current liability (in times)

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	2.10	2.08	2.08	1.83	1.34	1.89	0.321	0.17
HBL	0.95	1.12	1.09	1.14	1.19	1.10	0.0904	0.082

Source: Appendix 1 and 2

Above table shows the current ratio of selected commercial banks during the study period. The current ratio of NABIL bank is in decreasing trend and HBL is fluctuating trend. In general, it can be said that all the banks have sound ability to meet their short- term obligations. In the case of NABIL C.R. has high ratio in each year except in 2007/08. In an average, liquidity position of NABIL is greater than HBL i.e. 1.89>1.10 due to high mean ratio. So, NABIL is sound in meeting short-term obligation than HBL. Likewise, S. D. and C.V. of NABIL is more than HBL i.e. 0.321 > 0.0904 and 0.17 > 0.0.0982. It can be said that C.R. of NABIL is less consistent than HBL .Lastly from the above analysis it is known that all these two banks have better liquidity position because the standard ratio is 2:1. They have met the standard ratio.

B) Cash and Bank Balance to Total Deposit Ratio

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

Table No. 4.2

Cash & Bank Balance to Total Deposit Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	6.88	3.83	3.26	5.99	8.37	5.67	2.124	0.375
HBL	10.0	8.1	6.5	5.9	4.6	6.8	1.8	0.265

Source: Appendix 1 and 2

The above Table No. 4.3 revels that the Cash and Bank Balance to Total Deposit Ratio of NABIL and HBL are in fluctuating trend. The highest ratio of NABIL is 8.37% in FY 2007/08 and lowest is 3.26% in FY 2005/06. Similarly, the highest ratio of HBL is 10.0% in FY 2003/04 and lowers in 4.6 in 2007/08.

The mean ratio of NABIL and HBL are 5.67% and 6.8% respectively. HBL has higher ratio than the NABIL, which shows its greater ability to pay depositors money as they want. Similarly, the coefficient of variation of NABIL is 0.375 times and HBL is 0.265 times. S.D. of HBL is lower than the NABIL

The above analysis has to conclude that the cash and bank balance position of HBL with respect to NABIL is better in order to serve its customer's deposits. It implies the better liquidity position of HBL from the viewpoint of depositor demand. In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its funds income generating areas. Thus HBL should invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability.

C) Cash and Bank Balance to Current Assets Ratio

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

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

Table No. 4.3

Cash & Bank Balance to Current Asset Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	8.57	6.33	4.55	8.25	13.27	8.20	3.267	0.398
HBL	11.0	9.7	7.4	7.1	5.0	8.0	2.37	0.296

Source: Appendix 1 and 2

The above table reveals that cash and bank balance to current assets ratio of NABIL and HBL are in fluctuating trend. The mean ratio of NABIL and HBL is 8.20% and 8.0% respectively. The higher mean ratio shows NABIL liquidity position is better than that of HBL. Moreover the .S.D and C.V. of NABIL is higher than HBL. The higher C.V. of NABIL indicates that it has more inconsistency in the ratios in comparison to HBL

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

\

D) Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected funds on different securities issued by government in different times to utilize their excess funds and for other purpose. Although those securities can be sold easily in the financial market or they can be converted into cash, they are not very liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives. These securities are also called risk less investment but less return is generated than others risky assets.

Table No. 4.4

Investment on Government Securities to Current Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	51.78	34.91	16.60	28.36	23.09	30.95	13.45	0.43
HBL	19.6	27.8	23.1	26.0	25.4	24.4	3.2	0.13

Source: Appendix 1 and 2

The table 4.5 shows investment on government securities to current assets ratio of NABIL and HBL. Both Banks has fluctuating type ratios. The table shows the highest ratio of NABIL is 51.78% in FY 2003/04 and lowest is 16.60% in FY 2005/06.In the same way, the highest ratio of HBL is 27.8% in FY 2004/07 and lowest is 19.6% in FY 2003/04.

The mean ratio of NABIL is 30.95 percent, which is higher than the mean ratio of HBL 24.4 percent. It means NABIL has invested more money in risk free assets than that of HBL. In another words HBL has emphases on more loan and advances and other short-term investment than investment in govt. securities. For minimization of investment risk, HBL should divert its investment in govt. securities. Similarly, S.D. is 13.45 and 3.2 and C.V is 0.434 and 0.13 of NABIL and HBL respectively. The higher C.V. of NABIL shows the more inconsistency in the ratios with compare to HBL.

4.1.1.2 Assets Management Ratio

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

A) Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan & advances for the purpose of profit generation. A higher ratio of loan & advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan & advances to total deposit ratio of related banks.

Table No. 4.5

Loan and Advance to Total Deposit Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	60.55	75.05	68.64	68.13	68.18	68.11	5.137	0.075
HBL	58.7	54.9	54.4	59.5	63.4	58.2	3.66	0.063

Source: Appendix 1 and 2

The above table shows that the loan & advances to total deposit ratio of NABIL and HBL is fluctuating trends. NABIL has higher ratio than that of HBL in each year and mean too. It indicates the better mobilization of deposit by NABIL. The mean of NABIL and HBL are 68.11% and 58.2% respectively. So NABIL has higher ratio than that of HBL. It reveals that the deposit of NABIL is quickly converted in to loan and advances to earn income. The bank will be able to better mobilization of collected deposit if there is above 70% to 90% of loan and advances to total deposit according to NRB. So in all of the year the both banks haven't met the NRB requirement or they have not utilized theirs deposit to provide loan fully. The S.D. and C.V of NABIL is 5.137 and 0.075 similarly HBL has 3.66 and 0.063.

B) Total Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of NABIL and HBL are calculated and presentation below.

Table No. 4.6

Total Investment to Total Deposit Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	41.33	29.25	31.94	38.32	31.14	34.40	5.163	0.15
HBL	42.2	47.1	41.1	39.4	41.9	42.3	2.9	0.068

Source: Appendix 1 and 2

The above table shows that total investment to total deposit ratio of NABIL and HBL. Both banks have fluctuating trend total investment to total deposit ratio. Higher ratio of NABIL is 41.33% percent in FY 2003/04 and lowest ratio is 29.25 percent in FY 2004/05 in the same way the highest ratio of HBL 47.1% percent in FY 2004/05 and lowest ratio is 39.4% in FY 2006/07. Investment volume of NABIL is lower than that of HBL because more funds of NABIL were used in profitable loans to achieve optimum mix of interest earning assets.

The mean of the ratio of NABIL and HBL are 34.40% and 42.3% respectively so HBL has higher ratio. It signifies NABIL has successfully allocated its deposit in investment portfolio to get higher investment return. it also implies that HBL has lower investment opportunities. The S.D and C.V. of NABIL is 5.163 and 0.15 and HBL has 2.9 and 0.068 respectively.

C) Loan & Advances to Total Assets Ratio

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

Table No. 4.7

Loan & Advances to Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	48.90	61.60	57.87	57.04	57.54	56.59	4.66	0.082
HBL	50.2	46.6	51.5	51.9	55.8	51.2	3.3	0.065

Source: Appendix 1 and 2

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

The mean of NABIL and HBL are 56.59% and 51.2% respectively. So NABIL has higher ratio than that of HBLL. It reveals that in total assets, NABIL has high proportion of loan and advances. NABIL has utilized its total assets more efficiently in the form of loan & advances. The higher C.V. of NABIL states that it has less uniformity in these ratios throughout the study period than that of HBL. S.D. and C.V. of NABIL and HBL have 4.66, 3.3 and 0.082 and 0.065 respectively.

D) Investment on Government Securities to Total Assets ratio

It is not possible to apply all collection, deposit and other resources in to loan & advances for the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is one, which is very less risky. Invest on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of government securities in profit maximization and risk minimization point of view. The higher ratio represents the better position of fund mobilization into investment on government securities and vice-versa.

Table No. 4.8

Investment on Government Securities to Total Assets ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	35.03	17.91	10.31	17.64	12.51	18.68	9.71	0.52
HBL	13.9	20	17.5	18.8	20.7	18.2	26.8	0.148

Source: Appendix 1 and 2

Above table shows that the investment on government treasury bills to Total assets of NABIL and HBL are in fluctuating trend. The highest ratio of NABIL is 35.03% in 2003/04 and HBL is 20.7% in 2007/08. And the lowest ratio of NABIL and HBL are 10.31% in 2005/06 and 13.9% in 2003/04 respectively.

From the table we notice that mean ratio of NABIL and HBL are 18.68% and 18.62% respectively. NABIL has higher ratio. It means NABIL has invested more money in risk free assets than that of HBL. In another words HBL has emphases on more loan and advances and other short-term investment than investment in govt. securities. For minimization of investment risk, HBL should divert its investment in govt. securities.

There is more consistent in the ratio of HBL during the study period, which is indicated by lower C.V. of HBL.

4.1.1.3 Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc.

Profitability ratios are the best indicators of overall efficiently. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of NABIL and HBL.

A) Return on Loan & advances

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

Table No. 4.9

Return on Loan & advances

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	5.56	4.91	4.92	4.34	3.49	4.64	0.77	0.17
HBL	2.0	2.1	2.9	2.8	3.2	2.6	4.5	0.17

Source: Appendix 1 and 2

Above table shows that return on loan and advances ratio of NABIL is in decreasing trend and HBL is increasing trend except in 2006/07. The highest ratio of NABIL is 5.56% in the year 2003/ 2004 and lowest ratio 3.49% in year 2007/2008. The mean ratio is 4.64%.Whereas highest ratio of HBL is 3.2% in year 2007/08 and lowest ratio is 2.0% in 2003/04. The mean ratio is 2.6%. NABIL bank shows the good earning capacity in loan and advances whereas HBL show poor earning capacity in form of loan and advances.

From the table we notice that NABIL has higher Ratios in all year and mean too. It can be concluded that NABIL bank has utilized the loan and advance for the profit generation purpose in proper way.

B) Return on Total Assets

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

Table No. 4.10

Return on Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	2.72	3.02	2.84	2.47	2.01	2.61	0.39	0.15
HBL	1.0	1.1	1.1	1.5	1.8	1.3	0.33	0.258

Source: Appendix 1 and 2

Above table shows the Return on Total Assets of NABIL and HBL. A NABIL bank has decreasing trend of return on its total assets except in 2004/05 of NABIL and HBL has increasing trend. However, NABIL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 2.61% of total assets in an average which is higher than that of HBL(i.e. 2.61%>1.3).NABIL has also higher ratio in each years.

Where as S.D. and C.V .of NABIL and HBL are 0.39, 0.15 and 0.33 and 0.3258 respectively. Higher C.V of HBL shows that it has relatively high incontinences in the ratios.

C) Return on Equity

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

Table No. 4.11

Return on Equity Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	30.76	31.34	33.91	32.79	30.60	31.88	1.43	0.045
HBL	19.9	20	25.9	22.9	25.3	22.8	2.84	0.125

Source: Appendix 1 and 2

The above listed table shows Return on Equity Ratio of NABIL and HBL. Above calculated statistic indicate that NABIL and HBL both have increasing return on equity ratio in 1^{st} three years and decreasing trend in last two years. NABIL has higher ratios in each year and it has also higher mean ratio (i.e.31.88%>22.8%)

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

HBL has relatively more inconsistency through out the study period because its S.D. and C.V is higher.

D) Total Interest Earned to Total Assets Ratio

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

Table No. 4.12

Total Interest Earned to Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	5.98	6.22	5.87	5.83	5.33	5.85	0.33	0.056
HBL	4.8	5.0	5.3	5.2	5.4	5.2	0.24	0.046

Source: Appendix 1 and 2

They both have increased total interest earned during studied period. Despite the higher Total assets and interest earned in NABIL, it seems less conscious about managing its assets in order to earn more interest ratio. NABIL shows the decreasing trend of the interest earned ratio except in year 2004/05 and its average ratio is 5.85% whereas HBL shows fluctuating trend and it has maintained average ratio 5.2. The mean ratio of NABIL is more than that of HBL. In comparison, NABIL seems little more effective in earning interest to some extent than that of HBL.

Moreover, NABIL also has higher inconstancies in the ratios during the study period.

E) Total Interest Earned To Total outside Assets Ratio

The main assets of commercial banks are it's out side assets, which includes loan & advances, investment on government securities, investment on shares and debentures and other all types of investment. Thus, this ratio reflects the extent to which the banks are successful to earn interest as major income on all the outside assets. A high ratio indicates high earning on such total assets and vice-versa. The following Table No. 4.15 exhibits the ratio of total interest earned to total outside assets of NABIL and HBL during the study period.

Table No. 4.13

Total Interest Earned To Total outside Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	7.14	7.20	6.86	6.48	6.32	6.80	0.39	0.057
HBL	5.6	5.8	6.1	6.0	5.9	5.9	0.19	0.032

Source: Appendix 1 and 2

Above table shows the total interest earned to total outside assets ratio. The total interest earned to total outside assets ratio of bank NABIL is in decreasing trend except in year 2004/05. Whereas ratios of HBL is in fluctuating trend. The highest ratio of NABIL is 7.20 percent in 2004/05 and lowest ratio is 6.32 in 2007/08 and similarly the highest ratio of HBL is 6.1 percent in 2005/06 and lowest ratio 5.6 percent is in 2003/04. The mean ratio of NABIL and HBL are 6.80% and 5.9% respectively. Here NABIL seems to have more efficiency in generating total interest through well utilizations of outside assets than that of HBL and also NABIL has relatively inconsistent in returns as it has higher C.V than that of HBL.

F) Total interest Earned to Total Operating Income Ratio

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the firms. The major sources of income for the bank are interest income so the banks should mobilize their funds in more interest generating sectors considering the risk and return. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from FY 2003/04 to 2007/08 are presented to analyze in the following table. The major sources of income for the bank are interest income. So the banks should mobilize their funds in more interest generating sectors considering the risk and return.

Table No. 4.14

Interest Earned to Operating Income Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	98.72	93.83	96.36	107.27	118.45	102.93	10.04	0.098
HBL	122	121	117	127	123	122	3.9	0.032

Source: Appendix 1 and 2

Above table shows Interest Earned to Operating Income Ratio of NABIL and HBL. Both banks has fluctuating ratio during study period. HBL has greater share of total interest earn in its total operating income in each year and mean too. The mean ratio of NABIL and HBL are 102.93 % and 122 respectively. HBL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity).NABIL has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity).High contribution in operating income made by lending and investing activities (core banking activity) is not good for long run but in short run it is not so bad. Thus, from short-term view, HBL is in good condition but from long-term view, NABIL is in good condition. In overall, NABIL has managed sound interest earned to operating income ratio. The S.D. and C.V of NABIL is 10.04, 0.0.98 similarly HBL has 3.9 and 0.032. It indicates NABIL has relatively inconsistent in interest earned to total operating income as it has higher C.V than that of HBL.

G) Total Interest Paid to Total Assets Ratio

Total interest paid to total assets ratio help to show and measure the percentage of interest paid by the firm in comparison with total assets. If interest paid to total assets ratio is higher, there will be higher interest expenditure on total assets. The following table shows that total interest paid to total assets of NABIL and HBL.

Table No. 4.15

Interest Paid to Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	1.69	1.42	1.60	2.04	2.04	1.76	0.277	0.16
HBL	1.9	2.0	2.1	2.2	2.3	2.1	0.17	0.081

Source: Appendix 1 and 2

Due to the higher ratio in each year of HBL, it seems less conscious about borrowing cheaper fund. Both banks show fluctuating trend. NABIL has average ratio of 1.76% whereas HBL has maintained average ratio 2.1%. The mean ratio of HBL is more than that of NABIL and HBL has also higher ratio in each year. In comparison, HBL seems ineffective in getting cheaper fund The C. V. of NABIL is greater than the HBL it indicate high risk and insignificant of NABIL rather than HBL

4.1.1.4 Risk Ratio

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization can not achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk of risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the NABIL and HBL.

A) Credit Risk Ratio/Non-Performing Loan to Total Loan Ratio

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

Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of no-performing assets in total Loan & Advances. Higher ratio indicates more risky assets in the volume of Loan & Advances of the bank and vice-versa.

Table No. 4.16

Non-Performing Loan to Total Loan Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	3.35	1.32	1.38	1.12	0.74	1.58	1.09	0.69
HBL	8.88	7.44	6.60	3.61	2.36	5.78	2.71	0.47

Source: Appendix 1 and 2

Above table shows that NPL to total loan and advances of NABIL is in decreasing trend except in 2005/06 and HBL is in decreasing trend. Decreasing trend is the good sign of the efficient credit management. NABIL seems effective in latest two years and HBL seems effective from beginning. From mean point of view, non-performing loan to total loan and advances ratio of NABIL and HBL are1.58 % and 5.78% respectively during the study period. Ratios of NABIL indicate the more efficient operating of credit management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%. However, in comparison, ratio of HBL has higher than the NRB directives. So its hardly recommended to reduce its NPL. NABIL has efficient operating of credit management than that of HBL from the mean point of view.

(B) Liquidity Risk Ratio:

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

Table No: 4.17

Liquidity Risk Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	6.88	3.83	3.26	5.99	8.37	5.67	2.12	0.37
HBL	10.0	8.1	6.5	5.9	4.6	6.8	1.8	0.27

Source: Appendix 1 and 2

The above Table No. 4.17 revels that the Cash and Bank Balance to Total Deposit Ratio of NABIL and HBL are in fluctuating trend. The highest ratio of NABIL is 8.37% in FY 2007/08 and lowest is 3.26% in FY 2005/06. Similarly the highest ratio of HBL is 10.0% in FY 2003/04 and lowers in 4.6 n 2007/08.

The mean ratio of NABIL and HBL are 5.67% and 6.8% respectively. HBL has higher ratio than the NABIL which shows its greater ability to pay depositors money as they want.

(C) Asset Risk Ratio:

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

Table No. 4.18

Credit Risk Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	83.76	86.43	85.54	89.86	84.31	85.98	2.41	0.028
HBL	86	87	87	86	92	88	2.7	0.031

Source: Appendix 1 and 2

The above table shows the Asset risk ratio of NABIL and HBL. The analysis shows that NABIL and HBL have the credit risk ratio in fluctuating trend. NABIL has highest and lowest ratio of 89.86% and same 83.76% in the year 2006/07 and 2003/04 respectively. Similarly HBL has the highest and lowest ratio of 925% and 86% in the year 2007/08 and 2003/04 and 2006/07 respectively. The mean ratio of HBL is higher than that of NABIL (i.e.88% > 80.95%). The S.D. and C.V. both are higher of HBL i.e. 2.7 > 2.41 and 0.031 > 0.028 than the NABIL.

4.1.1.6 Other Ratios

A) Earning Per Share

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

Table No. 4.19

Earning Per Share

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	93	105	129	137	108	114.4	18.11	0.18
HBL	49.05	47.91	59.24	60.66	62.74	55.92	6.917	0.12

Source: Appendix 1 and 2

Above table shows that earning price per share of NABIL and HBL. NABIL has increasing trend of EPS except in 2007/08 and HBL has fluctuating trend of EPS. While observing their ratios in overall; NABIL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS in each year and in average too. It is quite satisfying to state that NABIL has been able to maximizing shareholder wealth from the view pointy of EPS. The C.V of HBL is higher than NABIL, it indicates that there is inconsistent in earning per share of HBL than that of NABIL.

B) Dividend per Share

Shareholders want to receive dividend from their investment. They may have interest to know about the firm's activities, earning, and dividend so; each firm must announce the total dividend and dividend per Share, which shows the position of the firm.

A firm wants to distribute dividend to its shareholder if a firm suppose the insufficient investment opportunities and sector. Sometimes, it does not distribute dividend and sometime issues bonus shares. On the other hand, shareholders want to receive dividend from their investment. They may have interest to know about the firm’s activities, earning, divisible profit or proposed dividend or declared dividend. So, each firm must announce the total dividend and dividend per share which show the position of the firm.

Table No. 4.20

Dividend per Share

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	65	70	85	100	60	76	16.36	0.22
HBL	0	11.58	30	15	25	16.32	11.76	0.72

Source: Appendix 1 and 2

The above statistics shows the dividend per share of NABIL is higher than that of HBL in each year and NABIL has also higher mean (i.e76>13.32), it has less variability in dividends during the study period.

it can be concluded NABIL has adopted the policy of paying high amount in the form of cash dividends where as HBL is trying to capitalized its earnings by keeping it in the form of retained earnings. It is noted that HBL provided dividend for tax adjustment of bonus share**.**

C) Market Price per Share

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

Table No. 4.21

Market price per share (in Rs)

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	740.00	1000	1505	2240	5050	2107	1741.8	0.83
HBL	840	920	1100	1740	1980	1316	512.52	0.389

Source: Appendix 1 and 2

This table shows market price of the share of NABIL and HBL. Both banks have increasing trend of Market price. It indicates better performance of company and high expectation by shareholder. Average mean price of NABIL is greater than that of HBL (i.e. 2107 > 1316). It indicates that shareholder of NABIL are getting higher price. The C.V. of HBL is little bit high it indicates that HBL has little bit inconsistent in its market price.

D) Price Earning Ratio

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

Table No. 4.22

Price Earning Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
NABIL	10.80	14.27	17.34	36.84	48.70	25.59	16.40	0.64
HBL	17.12	19.20	18.57	28.69	31.56	23.03	6.6	0.29

Source: Appendix 1 and 2

Above table shows that price-earning ratio earning of NABIL and HBL are in increasing trend. From the mean point of view, mean ratio of the NABIL and HBL are 25.59 and 23.03 times respectively. It indicates that for getting Rs 1 as earning, one should invest Rs 25.59 in NABIL and Rs 23.03 in HBL. Looking the mean ratio we conclude that in short run, investor of HBL are getting better profitability because they are selling their shares in high price although EPS of HBL is lower in comparison than that of NABIL. But from the long term view and sustainable fair price, investor of NABIL will get better profitability and they will be in safe side in comparison with HBL as low ratio is preferable for fair and sustainable market price.

The S.D and C.V of NABIL is high than the HBL it indicate its risk to invest in NABIL rather than in the HBL.

4.2 Statistical Analysis

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

4.2.1 Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl

Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan & advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan & advances and net profit NABIL and HBL using Karl Persons coefficient of correlation, value of coefficient of determination (R^2) probable error (P.Er.) and (6 P.Er.) are also calculated

A) Correlation Coefficient between Deposit & Loan & Advances

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

Table No. 4.23

Correlation between Deposit and Loan & Advances

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NABIL	0.989	0.978	0.00662	0.0397
HBL	0.975	0.951	0.00452	0.0271

Source: BY SPSS Data Editor

From the above table, it is found that coefficient of correlation between deposits and loan & advances of NABIL and HBL is 0.989 and 0.975. It is shows that both have the positive relationship between these two variables. It refers that deposit and loan & advances of NABIL and HBL move together very closely. Moreover, the coefficient of determination of NABIL is 0.978. It means 97.80 percent of variation in loan & advances has been explained by deposit. Similarly, value of coefficient of determination of HBL is 0.987. It refers that 98.7 percent variance in loan & advances are affected by total deposit. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P.Er. In other words, there is significant relationship between deposits and loan & advances.

B) Coefficient of Correlation between Total Deposits and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y).

Table No. 4.24

Correlation between Deposit and Total Investment

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NABIL	0.926	0.857	0.0429	0.257
HBL	0.890	0.792	0.063	0.38

Source: BY SPSS Data Editor

From the above table, the researcher found that the coefficient of correlation between total deposit and total investment of NABIL is 0.926. It shows the high degree positive correlation. In addition, coefficient of determination of NABIL is 0.857 It means only 85.7 percent of total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of NABIL.

Similarly, there is high degree correlation positive coefficient between total deposit and total investment of HBL, which is indicator by correlation coefficient of 0.890. The value of coefficient of determination is found 0.792 this refers that 79.2 percent of the variation in total investment is explained by total deposit. The correlation coefficient is significant because the correlation coefficient is more than 6 P.Er. It refers that there is significant relationship between total deposit and total investment of HBL

From the above analysis, the conclusion can be drawn in the case of NABIL and HBL that both have high degree positive correlation. It indicates that both are successful to mobilize its deposit to provide investment.

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

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

Table No. 4.25

Correlation between Loan and advance and Net profit

Name of Banks	Evaluation Criterions			
	R	R^2	P.Er.	6 P.Er.
NABIL	0.955	0.912	0.0265	0.1589
HBL	0.986	0.972	0.0085	0.051

Source: Through SPSS Data Editor

Above table shows correlation coefficient between, Loan and advance and net profit is 0.955 of NABIL. It refers that there is positive correlation between these two variables. Here, 91.2 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.912 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. Likewise HBL also low degree positive correlation i.e. 0.986 between Loan and advance and net profit. The coefficient of determination R^2 is 0.972, which indicates that 97.2 percent variability in net profit is explained by Loan and advance. Moreover, less correlation coefficient than 6P.Er. Shows that the relationship between Loan and advance and net profit is insignificant for HBL. In conclusion, NABIL has more significant relationship between Loan and advance and net profit than that of HBL.

D) Coefficient of Correlation between Total Investment and Net Profit

Coefficient of correlation between total investment and net profit measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P.Er. During the fiscal year 2003/04 to 2007/08.

Table No. 4.26

Correlation between Total Investment and Net Profit

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
NABIL	0.847	0.717	0.085	0.511
HBL	0.823	0.677	0.084	0.097

Source: Through SPSS Data Editor

Above table shows correlation coefficient between total investment and net profit of NABIL is 0.847 which implies there is positive correlation between total investment and net profit. In addition, coefficient of determination of NABIL is 0.717. It means only 71.7 percent of Profit is contribute by total investment. Obviously, this correlation is significant at all due to coefficient of correlation is higher than 6P.Error. On the other hand HBL has moderate positive correlation between total investment and net profit i.e. 0.823. The coefficient of determination of HBL is 0.677. It means 67.7 percent of Profit is contribute by total investment but this relationship is insignificant as its correlation coefficient is lower than 6 P.Er. i.e. 0.097.NABIL has more significant relationship between total investment and net profit than that of HBL

Thus it can be concluded that the degree of relationship between total investment and net profit of HBL is poor than the NABIL. This correlation coefficient indicates that the HBL has poor performed in order to generate net profit through investment.

4.2.2 Trend Analysis

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

A) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of Nabil bank and Himalayan Bank Limited for further eight year

Y= a + bx

Where,

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

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $\qquad$ $b = \frac{SXY}{SX^2}$

NABIL	MBL
a =20662	a = 27041.28
b = 4434.7	b = 2489.93

Where as

Yc = 20662 + 4434.7 X of NABIL

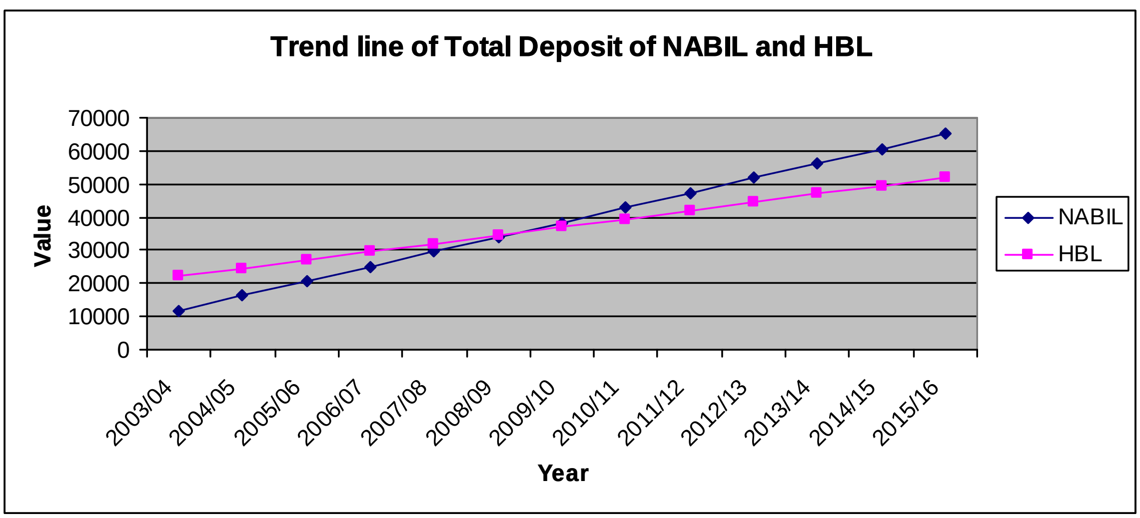
Yc = 27041.28+2489.93 X HBL

Table No. 4.27

Trend analysis of Total Deposit of NABIL and HBL		
Year(x)	NABIL	HBL
2003/04	11792.6	22061.42
2004/05	16227.3	24551.35
2005/06	20662	27041.28
2006/07	25096.7	29531.21
2007/08	29531.4	32021.14
2008/09	33966.1	34511.07
2009/10	38400.8	37001
2010/11	42835.5	39490.93
2011/12	47270.2	41980.86
2012/13	51704.9	44470.79
2013/14	56139.6	46960.72
2014/15	60574.3	49450.65
2015/16	65009	51940.58

Source: Annul Report of Concern Bank Appendix -1

Figure No 4.2



Above table and figure shows that total deposit of NABIL and HBL. Both Banks is in increasing trend. The rate of increment of total deposit for NABIL seems to be higher than that of HBL. The increasing trend of total deposit of NABIL is more aggressive and high rather than HBL. It indicates NABIL has more prospect of collecting Total deposit. The trend analysis has projected deposit amount in fiscal year FY 2008/09 to FY 2015/16. From the above trend analysis it is clear that NABIL has higher position in collecting deposit than HBL.

B) Trend Analysis of Loan & advances

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

Y= a + bx

Where,

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

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

NABIL HBL

a = 13721.91 a = 16021.33

b = 3130.973 b = 1886.25

Yc = 13721.91 + 3130.973 X of NABIL

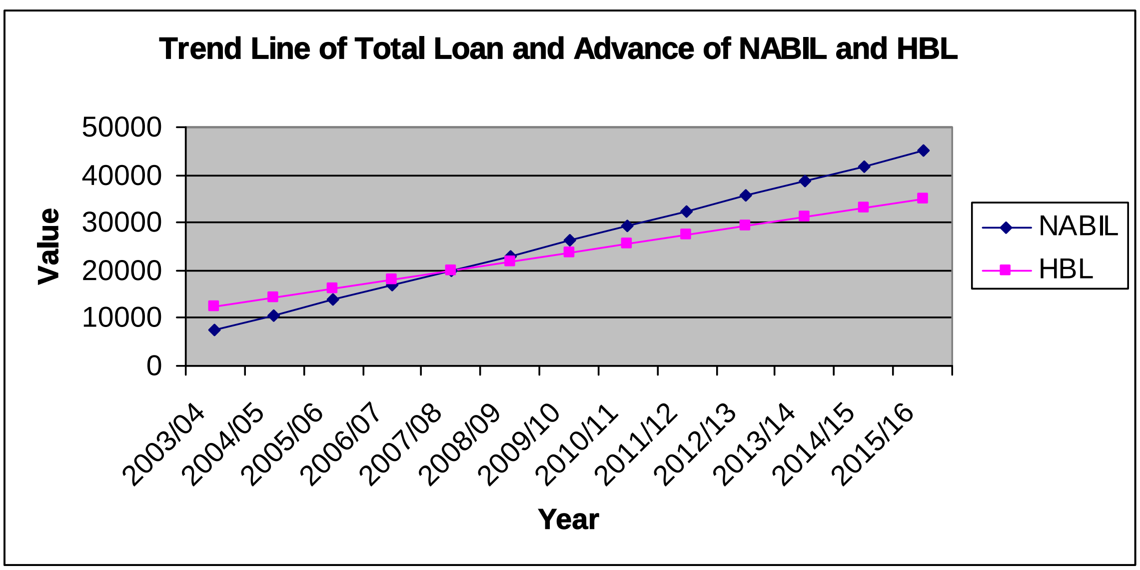
Yc=16021.22+1886.25 X HBL

Table No. 4.28

Trend line of Total Loan and Advance of NABIL and HBL		
Year(x)	NABIL	HBL
2003/04	7459.96	12248.72
2004/05	10590.9	14134.97
2005/06	13721.9	16021.22
2006/07	16852.9	17907.47
2007/08	19983.9	19793.72
2008/09	23114.8	21679.97
2009/10	26245.8	23566.22
2010/11	29376.8	25452.47
2011/12	32507.7	27338.72
2012/13	35638.7	29224.97
2013/14	38769.7	31111.22
2014/15	41900.7	32997.47
2015/16	45031.6	34883.72

Source: Annul Report of Concern Bank Appendix - 2

Figure No 4.3



Above table depicts that loan & advances of NABIL and HBL. Both Banks has in increasing trend. The increasing trend of NABIL is higher than HBL. The actual value of loan & advances for HBL is quite fluctuating in relation to NABIL. The trend projected for father eight year FY 2007/08 to FY 2015/16 From the above analysis, it is clear that both NABIL and HBL is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows the NABIL has highly mobilizing loan & advances than the HBL.

C) Trend Analysis of Total Investment

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

Y= a + bx

Where,

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

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

NABIL	HBL
a = 7033.358	a = 11407.33
b = 1288.572	b = 822.68

Yc = 7033.358 + 1288.572 X of NABIL

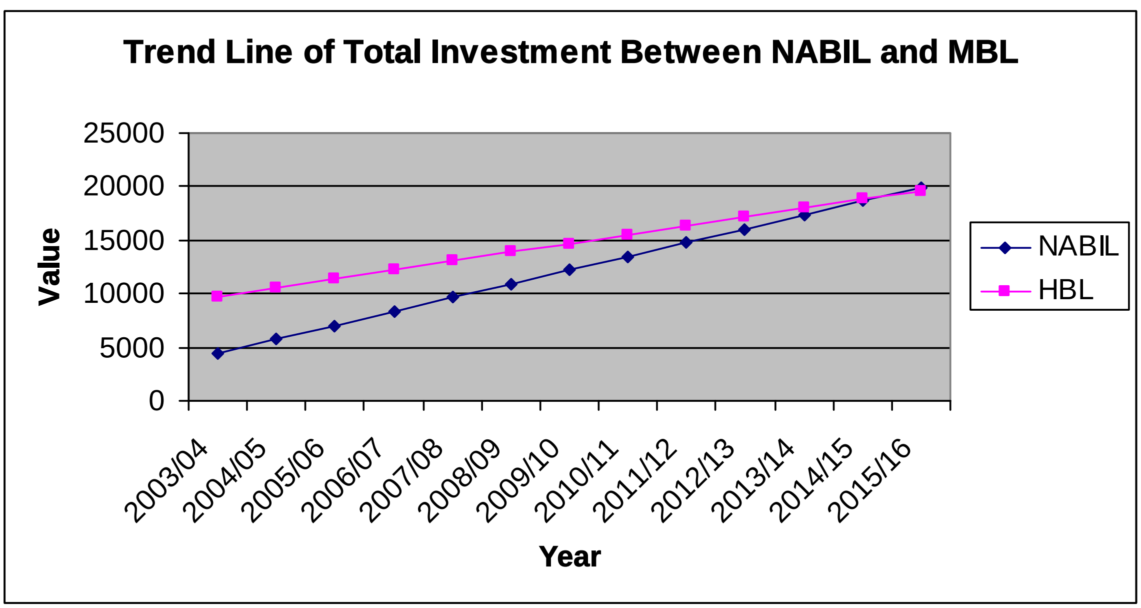
Yc = 11407.33+822.68 X HBL

Table No. 4.29

Trend Line of Total Investment Between NABIL and HBL		
Year(x)	NABIL	HBL
2003/04	4456.21	9761.97
2004/05	5744.79	10584.65
2005/06	7033.36	11407.33
2006/07	8321.93	12230.01
2007/08	9610.5	13052.69
2008/09	10899.1	13875.37
2009/10	12187.6	14698.05
2010/11	13476.2	15520.73
2011/12	14764.8	16343.41
2012/13	16053.4	17166.09
2013/14	17341.9	17988.77
2014/15	18630.5	18811.45
2015/16	19919.1	19634.13

Source: Annul Report of Concern Bank   Appendix -3

Figure No 4.4



Above table shows the Trend of Total Investment between NABIL and HBL. Both Bank NABIL and HBL have increasing trend in making investment. NABIL has little high and upward trend of increasing, but HBL has moderately increasing trend of total investment. The trend of total investment projected to FY 2015/16. The forecasted trend projected that the NABIL has greater increment rate in total investment than the increment rate of HBL. The figure indicates NABIL has highly mobilized the total investment rather than HBL.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of NABIL and HBL have been calculated for five years FY 2003/04 to FY 2007/08 and forecasting for the next eight year till FY 20015/16.

Y= a + bx

Where,

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

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

NABIL	HBL
a = 606.048	a = 431.296
b = 73.712	b = 92.92

Yc = 606.048 + 73.712 X NABIL

Yc= 431.296+92.92 X HBL

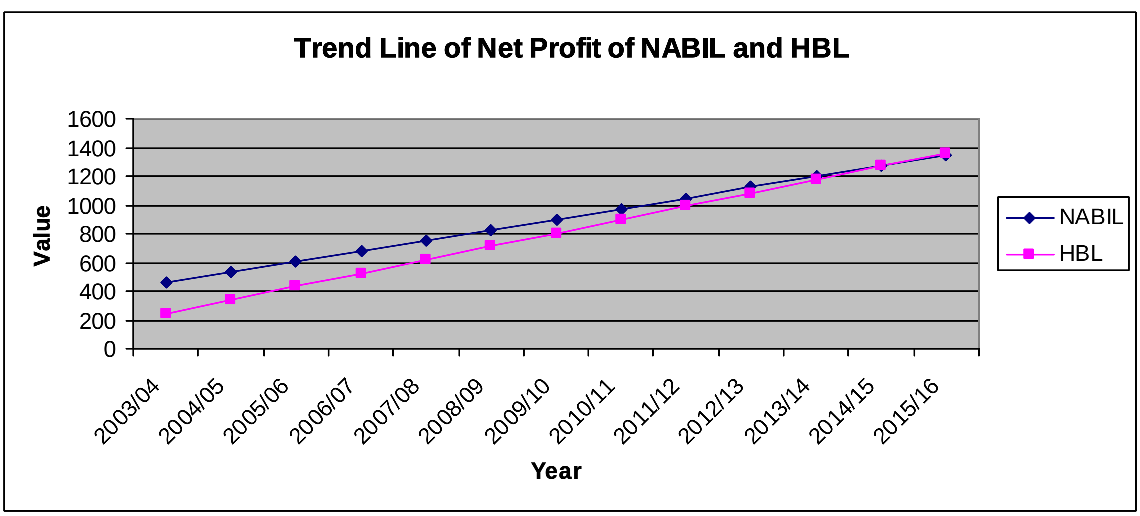
Table No. 4.30

Trend Analysis of Net Profit Between NABIL and HBL		
Year(x)	NABIL	HBL
2003/04	458.624	245.456
2004/05	532.336	338.376
2005/06	606.048	431.296
2006/07	679.76	524.216
2007/08	753.472	617.136
2008/09	827.184	710.056
2009/10	900.896	802.976
2010/11	974.608	895.896
2011/12	1048.32	988.816
2012/13	1122.03	1081.736
2013/14	1195.74	1174.656
2014/15	1269.46	1267.576
2015/16	1343.17	1360.496

Source: Annul Report of Concern Bank

Appendix - 4

Figure No 4.5



The above table reveals the trend of Net profit of NABIL and HBL. Net profit both bank NABIL and HBL forecasted in increasing trend. The trend of increasing value of net profit of HBL is aggressive than NABIL. The net profit of NABIL and HBL has been increasing every year by Rs.73.712 million and Rs. 92.92 million respectively. The trend of Net profit projected to FY 2015/16 i.e. further Eight year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, NABIL is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of HBL is high than the NABIL.

4.3 Major Findings of the Study

From the analysis of the data collected from various sources following findings have been made.

1) In an average, liquidity position of NABIL is greater than HBL i.e. 1.89>1.10 due to high mean ratio. So, NABIL is sound in meeting short-term obligation than HBL. Likewise, S. D. and C.V. of HBL is less than NABIL i.e. 0.33 < 0.55 and 0.18 < 0.30. It can be said that current ratio of HBL is more consistent than NABIL. However they have not met the standard ratio.
2) The mean ratio of cash and bank balance to total deposits of HBL is higher than NABIL. It means the liquidity position of HBL is higher than NABIL. It shows the higher position regarding the meeting of demand of its customer on their deposit at any time than NABIL. However if we see the latest data NABIL has sound liquid fund make immediate payment to the depositor.
3) The average study of cash and bank balance to current assets ratio of NABIL is higher than HBL. It shows that HBL has taken more risk to meet the daily requirement of its customer's deposit than NABIL. In the preceding three years HBL had higher ratio and in succeeding two years NABIL has higher ratio and according to the each year data in the preceding three years HBL was in good condition and in succeeding two years NABIL is in good condition.
4) Mean ratio of current assets on government securities HBL and NABIL are 24.37% and 30.95% respectively. NABIL has higher ratio except in 2005/06 and 2007/08 and mean

too. It means NABIL has invested more money in risk free assets than that of HBL. In another word HBL has emphases on more loans and advances and other short term investment than investment in govt. securities. However in the latest year HBL has invested more in govt. securities out of its current assets than that of NABIL.

5) In average HBL has mobilized 58.18% of its collected deposit in loan and advances that is less than that of NABIL (i.e.68.11%). According to NRB directives above 70% to 90% of loan and advances to total deposit ratio is able to better mobilization of collected deposit. So all of the year both HBL and NABIL haven't met the NRB requirement or they haven't properly utilized its deposit to provide loan.

6) The mean ratio of the total investment to total deposit HBL and NABIL are 42.34% and 34.40% respectively so HBL has higher ratio. It signifies HBL has successfully allocated its deposit in investment portfolio in comparison with NABIL.

7) Loan and advances to total assets ratio of HBL is in increasing trend whereas ratio of NABIL is in fluctuating trend. While observing their ratios; NABIL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year and mean too.

8) Mean ratio of investment in govt. securities out of its total assets HBL and NABIL are 18.15% and 18.68% respectively. HBL has higher ratio in every year except in 2003/04. However NABIL has higher ratio due to the its higher ratio in 2003/04. It means NABIL has invested more money in risk free assets out of its total assets in the year 2003/04 than that of HBL whereas in other remaining years HBL has invested more money in risk free assets out of its total assets. In another word NABIL has emphases on more loans and advances and other short term investment than investment in govt. securities out of its total assets

9) Mean ratio of investment on share and debenture to total working fund HBL and NABIL are 0.18% and 1.02% respectively. NABIL has higher ratio in every year and mean too. It means NABIL has invested more money in risky assets out of its total assets than that of HBL. In another word HBL has emphases on more govt. securities rather than investment on share and debenture out of its total assets.

10) NABIL has higher return on loan and advances in each year and mean too. So it seems successful by generating higher ratio. It can be concluded that NABIL has better

utilized the loan and advance for the profit generation in comparison with HBL. However if we see the latest data HBL has improved it self. It is bad aspect of NABIL as it has decreasing trend.

11) NABIL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is higher than that of HBL (i.e. 2.61%>1.28%) of total assets in an average. NABIL has also higher ratio in each year. However it noted that HBL is doing well in the latest year whereas NABIL is not doing well in the latest year as it has decreasing trend of ratios.

12) NABIL seems successful in managing and utilizing the shareholder capital in order to generate revenue since its ROE ratio is higher than that of HBL (i.e. 31.88%>22.80%) of total equity in an average. NABIL has also higher ratio in each year. However it noted that HBL is doing well in the latest year as it has increased its ROE in the latest year drastically whereas NABIL is not doing well in the latest year as it has decreasing trend of ratios.

13) NABIL seems more conscious about managing its assets in order to earn more interest ratio because it has higher ratio in many years except in 2007/08 and average ratio is also higher. HBL has 5.15% average ratio whereas NABIL shows 5.85% average ratio. The mean ratio of NABIL is more than that of HBL. In comparison, NABIL seems effective in earning interest to some extent but it must break the decreasing trend in coming year. HBL is effective in 2007/08 as it has higher ratio.

14) The mean ratio of Interest Earned to Operating Income of HBL and NABIL are 121.92 % and 102.93% respectively. HBL has higher ratio, it indicates the high contribution in operating income made by lending and investing activities (core banking activity). NABIL has lower ratio, it indicates that high contribution in operating income do not made by lending and investing activities (core banking activity).High contribution in operating income made by lending and investing activities (core banking activity) is not good for long run but in short run it is not so bad. Thus, from short-term view, HBL is in good condition but from long-term view, NABIL is in good condition. In overall, NABIL has managed sound interest earned to operating income ratio.

15) HBL has increasing trend of interest paid to working fund ratio whereas NABIL has fluctuating trend of ratio. Due to the higher ratio in each year and average too of HBL, it seems less conscious about borrowing cheaper fund.

16) NABIL seems effective in all years in the ratios of NPL to total loan and advances. From mean point of view, non-performing loan to total loan and advances ratio of HBL and NABIL are 5.78% and 1.58% respectively during the study period. These Ratios indicate the more efficient operating of credit management of both banks according to NRB directives because according to NRB directives NPL ratio must be less than 5%. However, in comparison, NABIL has efficient operating of credit management than that of HBL from the mean point of view and individual ratios of each year.

17) The mean ratio of liquidity risk of NABIL is higher than HBL. It means HBL has sound liquid fund to make immediate payment to the depositors However if we see the latest data NABIL has sound liquid fund make immediate payment to the depositor.

18) In case of credit risk ratio, HBL has the higher risk than NABIL. However both banks have decreasing trend of credit risk.

19) NABIL has the higher degree of correlation coefficient between deposit and investment than HBL. It states that NABIL is in better position in the mobilization of deposits as investment in comparison to HBL. There is significant relationship between correlation of coefficient of deposit and investment of HBL and NABIL.

20) Correlation coefficient between deposit and loan and advances of HBL is a little bit lower than NABIL. It indicates that NABIL is successfully mobilizing its deposits as loan and advances a little bit. There is significant relationship between correlation coefficient of deposits and loan and advances HBL and NABIL

21) HBL has more significant relationship between Loan and advance and net profit than that of NABIL. And both have significant result.

22) The degree of relationship between total investment and net profit of HBL and NABIL nearly same. This correlation coefficient indicates that the NABIL has performed better a little bit in order to generate net profit through investment than that of HBL. Both banks have significant result in this regard.

23) Total deposit of HBL and NABIL is positively related. 0.961 of correlation coefficient shows that there is highly positive correlation between these two banks in this regard.

This correlation coefficient is also significant because the correlation coefficient is high than 6 P.E r. As the 0.9235 of coefficient of determination, this shows the 92.35 percent of the degree of relationship. The degree of relationship between these two banks is also high.

24) There is moderate positive correlation between HBL and NABIL in case of total investment. It implies that the total investment of HBL and NABIL move in the same direction. Here R < 6 P.Er. Therefore, correlation coefficient is insignificant. This can be said that both HBL and NABIL increase its total investment as same direction but in the form moderate. The coefficient of determination is 0.3869, which shows the only 38.69 percent of the degree of relationship.

25) There is high degree positive correlation between the loan & advances of HBL and NABIL. The correlation coefficient between two banks is 0.984. It means loan & advances of these two banks moves in the same direction in high proportion. This correlation coefficient is significant in order to show the relationship between loan & advances of these two banks because correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.9683 which shows the 96.83 percent of the degree of relationship.

26) There is high degree positive correlation between profits of HBL and NABIL, which is indicated by correlation coefficient of 0.988, this relationship is significant because its correlation coefficient is more than 6 P.Er. The coefficient of determination is 0.9761 which shows the 97.61 percent of the degree of relationship.

27) NABIL and HBL have increasing trend in collecting deposit the rate of increment of total deposit for NABIL seems to be higher than that of BHBL Here NABIL has better position in collecting deposit than HBL.

28) The trend line of loan & advances for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan & advances. The trend line of loan and advances for NABIL seems high growing than HBL. It refers that NABIL is more aggressive in mobilizing its loan and advance.

29) The total investment trend line of NABIL and HBL is upward slopping where as NABIL has aggressive upward slopping of total investment trend line. It refers that NABIL has better increasing trend of total investment than HBL.

30) The trend line of Net profit for NABIL and HBL is upward slopping But NABIL has aggressively and HBL has smoothly. The position of NABIL is better in order to generate profit than HBL.

Above analysis reveals that both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank every ratio of NABIL is higher than the HBL. It indicates better performance of NABIL rather than HBL.

CHAPTER – V

SUMMARY, CONCLUSIONS AND ECOMMENDATIONS

5.1 Summary

The researcher has identified that research problem and set objectives to solve research problems about fund collection and mobilization of Nabil Bank Limited and Himalaya Bank limited. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to under take this research more precisely.

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

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

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

Investment practice of commercial banks is a very risky one. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its investment policy. A good investment policy attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

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

Fund collection and mobilization are undertaken with the goal of earning some expected rate of return. Investors seek to minimize inefficient deviations from the expected rate of return.

Diversification is essential to the creation of an efficient investment because it can reduce the variability of returns around the expected return.

5.2 Conclusion

The overall aspect of liquidity position of NABIL is comparatively better than HBL.However,cash and bank balance to total deposit of HBL is higher in the preceding years.current assets to current liability, cash and bank balance to total deposit in the succeding years, cash and bank balance to total current asets, investment on government securities to total current assets of NABIL is in better position than that of HBL.

An asset management aspect of NABIL is better than HBL in the cases of loan and advances to total deposit and loan and advances to total assets. on the other hand HBL is better than NABIL in the cases of total investment to total deposit and investment on government securities to total assets.

Overall profitability ratios show that NABIL has earned higher profit in relation to every aspects of the bank than HBL.

Credit risk, liquidity risk and assets risk ratio of NABIL is lower than that of HBL.

Earning per share, dividend per share and market price per share of is higher for NABIL in comparison to HBL. It gives good signal of financial performance of the bank in the market. Price- earning of NABIL is higher than HBL which is considered better in security analyzing in order to make investment decision.

Both commercial banks NABIL and HBL have positive correlation between deposit and loan & advances, deposit and total investment, total assets and net profit total investment and net profit. Comparatively both banks have strong relationship between these variables. It is also found that there is positive correlation between total deposit of NABIL and HBL, between loan & advances of both banks and between net profits of both banks

Total Investment, loan & advances, net profit of NABIL and HBL are in increasing trend. Its show positive trend of both banks.

Both NABIL and HBL have high positive co-relation between total deposit and loan & advances, total deposit and total investment.

Correlation between total assets and net profit, total investment and net profit shows both the banks have positive relationship but NABIL has greater correlation coefficient than.

Correlation coefficient of total deposit, total investment, loan & advances and net profit between NABIL and HBL shows positive correlation. It refers that all the variable of both bank moves in the same direction some are closely in the same direction and some are less proportionately.

NABIL and HBL have increasing trend in collecting deposit the rate of increment of total deposit for NABIL seems to be higher than that of HBL. NABIL has better position in collecting deposit than HBL.

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

The trend line of Net profit for NABIL and HBL is upward slopping. The position of NABIL is better in order to generate profit than HBL.

The trend analysis reveals that both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank every ratio of NABIL is higher than the HBL.

From the entire research study, overall all financial performance of NABIL is better than HBL. But HBL is operating smoothly and success in becoming the profitable bank as well.

The profile of financial executives and customers reveals that more Nepalese investors have not knowledge about investment practice adopted by commercial banks. Similarly, NABIL and HBL are adopting investment practices. Commercial banks are not providing investment priority to the rural sectors but being a developing country it is very necessary to give investment priority to the rural area. Therefore, the banks should formulate sound investment policies. Good investment practices ensures maximum amount of investment to all sectors with proper utilization.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the investment policy of NABIL and HBL effective and efficient but comparatively better NABIL. This would help to draw some outline and make reforms in the respective banks

1. Generally, banks have to maintained liquid assets. The current ratio of the two banks, NABIL and HBL is considerable. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to NABIL and HBL.

2. Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that both banks, NABIL and HBL have made some amount of fund in Government securities. But NABIL and HBL are recommended to invest more funds in Government securities instead of keeping them idle.

3. To get success in competitive banking environment, deposit must be utilized as loan & advances. The largest item of bank assets side is loan & advances. It has been found that loan & advances to total deposit ratio of HBL is lower than that of NABIL. NABIL and HBL have a possible risk because there is large amount of doubtful loan & advances and risky investment. So it is recommended to evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.

4. EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the banks have good financial position. It is recommended that HBL should increased EPS, DPS and MPS. On the other hand NABIL's MPS should be decreased as it has higher price earning ratio.

5. Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan & advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.

6. Last political instability directly affected the economic sector such as hotel & tourism, manufacturing and trading sector. Bank loan & advances is decreasing in this sector. So banks should give priority to these sectors as well as banks should create new investing sector to mobilize deposit.

Keeping all these in consideration, the HBL has little less performance than that of NABIL. Therefore, in the future ahead, the HBL should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector both bank NABIL and HBL should be customer oriented. It should strengthen and activate its

Marketing function as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. For this purpose, it is recommended to form a strong market department in its central level, which deals with the banking products, places, price and promotion.

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