

## **CHAPTER – 1**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. So, measuring current and past profitability and projecting future profitability is very important. Profitability is measured with income with expenses. Income is money generated from the activities of the business. For example, if crops and livestock are produced and sold, income is generated. However, money coming into the business from activities like borrowing money does not create income. This is simply a cash transaction between the business and the lender to generate cash for the operation of business or buying assets. Expenses are the cost of resources consumed by the activities of the business.

Profitability is a situation in which an entity is generating a profit. Profitability arises when the aggregate amount of revenue is greater than the aggregate amount of expenses in a reporting period. If an entity is recording its business transactions under the accrual basis of accounting, it is quite possible that the profitability condition will not be matched by the cash flows generated by the organization, since some accrual-basis transactions (such as depreciation) do not involve cash flows.

Profitability is the ability of a given investment to earn a return from its use. The return of any organization depends upon several factors including the nature of business, risk involved in business, etc. Profitability is simply the capacity to make a profit, and a profit is what is left over from income earned after you have deducted all costs and expenses related to earning the income. Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings compare to its expenses and other relevant cost incurred during a specific period of time. For most of this ratio, having a higher value relative to a competitor's ratio or relative to the same ratio from a previous period indicated that the company is doing well. Like all businesses, banks make profit by earning more money than what they pay in expenses. The major portion of a bank's profit comes from the fees that are charged for its services and interest that it earns on its investment. Its major expenses in the interest paid in its liabilities (Paudel Baral, Gautam, & Rana, 2076). The major assets of a bank and financial institutions are its loans to individuals, business, and other organizations

and the securities that it holds. whole its major, liabilities are its deposits and the money that it borrows, either from other bank needs to maintain profitability ratio and analyze its income from various sectors to increase its income in the future by analyzing the results. The bank is a kind of formal financial institution. The banking system in Nepal is a recent phenomenon, began only in 1996 B.S as Nepal Bank Ltd. Which was incorporated under NBL act 2012 after transferring 51% of share to the government? According to oxford dictionary, bank means "an establishment for keeping money and valuable safety of the money being paid out on the customer order by means of cheque and digital payment system in recent days. To sum up, banks accumulate idle money from the general public by providing attractive sound interest rates in their deposits and disburse the collected deposits as loans to business organizations, agricultural, industrial sectors etc. So, the main task of commercial banks is to mobilize resources in productive areas by collecting scattered sources and generating profit.

## **1.2 Profile of the Himalayan Bank**

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

The legacy of the Himalayans lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as the Premium Savings Account, HBL Proprietary Card, and the Millionaire Deposit Scheme, besides services such as ATMs and Tele-banking, were first introduced by HBL. Other financial institutions in the country have been following HBL by introducing similar products and services. Therefore, Himalayan stands for innovations to help customers by modernizing the banking sector. HBL is thought to be the leading banking sector in Nepal, with the highest deposit base and loan portfolio among private sector banks, as well as extending guarantees to correspondent banks covering the exposure of other local banks under their credit standing with foreign correspondent banks. The Bankers' Almanac's most recent rating of HBL as the country's number one easily confirms this claim.

HBL's branches are all integrated into Globus (developed by Temenos), the single banking software in which the bank has made significant investments. This has helped the bank to provide services like 'Any Branch Banking Facility', Internet Banking, and SMS Banking. Living up to the expectations and aspirations of its customers and other stakeholders by being innovative, HBL has introduced several new products and services. The Millionaire Deposit Scheme, Small and Medium Enterprises Loan, Pre-paid Vis Card,

International Travel Quota Credit Card, Consumer Finance through Credit Card and the online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. The bank during the year 2023 has acquired Civil Bank Limited. With this acquisition, the bank has held a strong financial position in the market and has gained competitive advantage. Apart from the financials, today the bank has been able to extend its service to its customers from wider network range of 176 branch offices, 264 ATM Booths including 7 cash recycler machines, 20 extension counters and more than 17000 remittance payment partners as one of the most secure, techno friendly and reliable bank. The successful acquisition has added synergy to the bank and has been able to weather in growing competition in the Nepalese banking industry with its paid-up capital of Npr 21656615632, core capital Npr 26548093623, supplementary capital Npr 9619974390 and total capital fund of Npr 36.17 billion.

### **1.3 Objectives of the Study**

Objectives are the desired outcomes, and they are end results. They are to be acquired. The primary objective of the study is to analyze the profitability position of Himalayan Bank Limited. Besides, primary objectives of the study the other objectives of the study are as follows:

- a. To assess the profitability position of the bank.
- b. To analyze the financial stability of the bank.
- c. To analyze Return on Assets and return on equity.
- d. To evaluate Earning per share and Dividend per Share of the bank.
- e. To evaluate the rate of interest spread over the past five years.

### **1.4 Rationale of the Study**

Profitability analysis decision is a significant managerial decision. The present study deserves some significance of its own kind in this field. Such as.

- a. This study will be concise, practically usable and valuable to the major parties interested in the performance of Himalayan Bank such as, shareholder, management of bank, brokers financial institutions, general public depositors, prospective customers, creditors etc.

- b. Financial executives as well as those other policy making bodies which are concerned with the banking sector would also find it useful.
- c. This study would also be useful to the teachers and students of the subjects particularly to those in commerce, chartered accountancy and institution of finance.
- d. This study would also help the management of the bank to take corrective decisions and action by providing adequate and relevant information.

## **1.5 Review of Literature**

Profitability has been given considerable importance in the finance and accounting literature. According to Hifza Malik, (2011), Profitability is one of the most important objectives of financial management since one goal of financial management is to maximize the owners wealth, and profitability is a very important determinant of performance. A business that is not profitable cannot survive. Conversely, a business that is highly profitable has the ability to reward its owners with a larger return on their investment. Hence, the ultimate goal of a business entity is to earn profit in order to make sure the sustainability of the business in prevailing market conditions. (Poudyal2018) defined the profitability as the ability of a business, whereas it interprets the term profit in relation to other elements. It is necessary to examine the determinants of profitability to understand how companies finance their operations. A financial benefit is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Profitability analysis classifies measures and assesses the performance of the company in terms of the profits it earns either in relation to the shareholders investment or capital employed in the business or in relation to sales, profit, (or loss). Given that most entrepreneurs invest in order to make a return, the profit earned by a business can be used to measure the success of that investment.

### **1.5.1 Review of articles**

During the study period the following articles have been reviewed. Poudyal, C (2018) performed an article entitled on Liquidity and Profitability Analysis of Joint Venture Commercial Banks in Nepal (With Reference to Everest Bank Limited and Nabil Bank Limited) (Doctoral dissertation, Central Development of Management). The purpose of this study is to compare the Liquidity and Profitability Analysis of Joint Venture over the period 2008-2018. In order to evaluate the financial performance of banks, both domestic and

foreign ones, we have analyzed the financial reviews of these banks for 10 years (2008-2018), subsequently drawing the financial reports. The processing of the data of the above-mentioned reports has been done by the STATA software program, specifically using linear regression, Fixed Effect, Random Effect, Hausman Taylor Regression and GMM modeling. Findings: Based on the empirical results of this study, we conclude that all independent variables (return on equity, net sales to net assets ratio, profit margin ratio) are significant at 5% level of statistical confidence. Return on equity and profit margin have a positive impact on increasing the return on assets of commercial banks, while increasing the ratio of net sales/net assets has a negative impact on return on assets.

This paper will provide a detailed analysis of the profitability of commercial banks in Nepal, and through comparative analysis will determine which banks are most profitable, those with foreign capital or banks with domestic capital. This research paper highlights an empirical analysis based on real data, financial reports of the commercial Bank of Nepal and on the financial statements of commercial banks.

Mishra, Kandel, & Aithal, (2021) examined a report on Profitability in Commercial Bank-A Case from Nepal. This study aims to assess the impact, contribution and relationship of size, loans and deposit, inflation and capital on the profitability of the banks, Secondary data from 2013 to 2019 from seven commercial banks along with the survey as primary data were collected. The correlation and regression along with ratio analysis have been used to assure a contributory association among return on assets (ROA), return on equity (ROE) and net interest margin (NIM).

The size of banks is in increasing trend. The decreasing trend of standard deviation showed that the size of Nepalese commercial banks has lower variation in the use of total assets as the year increases. There is a negative relation between ROA and ROE with loan ratio, deposit ratio and capital ratio, while there is positive relation with bank size and inflation. However, in case of NIM, bank size, loan ratio, deposit ratio and inflation exhibit a positive relation while the capital ratio shows the negative relationship with NIM. Majority of the respondents feel that the publication of financial reports is one of the major influencing factors of bank profitability.

Agrawal, (2020), prepared an article on Profitability ratios of commercial banks. The information contained in the profitability analysis and reports are used to check the financial position of the firm. Financial reports are huge collection of data organized according to logical & accounting procedures. Hence, the basic purpose of some financial statement is to

convey on understanding financial aspect of a business firm. Some other definitions can also be taken into consideration which tells us about the meaning of profitability analysis. Any ratio that measures a company's ability to generate cash flow related to some metric, often the amount invested in the company.

Profitability ratios are useful in fundamental analysis which investigates the financial health of companies. The efficiency of a business is measured by the profitability. Profitability is an important measure of a company's operating success. The long-term survival of a business enterprise depends on satisfactory income earned by it. An evaluation of organizations past profit may give to the investors, creditors and other a better understanding for decision-making. Profitability ratios measure the degree of operation success of a company in an accounting period. It tries to establish the relationship among profit, turnover, capital employed, and others.

### **1.5.2 Review of reports**

During the study period the following reports have been reviewed.

Bhandari (2010) had done research thesis on the topic "a comparative financial performance analysis of HBL and EBL". Evaluating and analyzing the financial performance of these two joint venture banks i.e. HBL and EBL and to recommend the suitable suggestions for improvement is the main objective of this study. Both descriptive and analytical design has been followed while conducting this research. This study is on secondary data. Necessary data was obtained from published balance sheet, profit and loss account and other related statement of accounts as well as the annual report of the respectively banks. Various financial and statistical tools are used to analyze the data of this topic. From this study we came to know that EBL has more risky and aggressive capital structure than HBL, total debt to total assets ratio of HBL is higher as compared to EBL which implies that total debt of the HBL has riskier debt financing position than that of EBL, in terms of net profit to total asset ratio, net profit to total deposit ratio, return to net worth (shareholders equity), return on net worth ratio and net profit margin ratio, EBL average ratio is always greater than that of HBL, major source of income of both banks i.e., EBL and HBL is interest receipt, And looking at the interest income the net profit margin ratio of EBL is more fluctuated than HBL.

Shakya (2019) had done a research thesis entitled "A comparative study of Liquidity position of Standard Chartered bank and Everest bank Limited" with the general objective of examining and evaluating the financial performance of SCBL and EBL. The objectives of the

study are to determine the liquidity position of SCBL and EBL, to measure the status of performing and non-performing loans of the bank and to analyze the effectiveness of liquidity of sample banks. Descriptive research has been done for the study of the topic. Secondary data have been analyzed to fulfill the objectives of the study. His major findings were: The Liquidity position of SCBL is better than that of EBL. The EPS and DPS of SCBL are better than EBL. SCBL is more successful in maintaining liquid assets than EBL, so the liquid position of SCBL is better than EBL.

Thapa (2021) had done a research thesis entitled A comparative study of Liquidity position of Himalayan Bank Limited and Investment Bank Limited with the general objective of examining and evaluating the financial performance of HBL and NIBL and concluded the objectives were to determine the liquidity position of NIBL and HBL, to measure the performing and non- performing loans of the banks and to analyze the effectiveness of liquidity management in Commercial banks. Descriptive analysis was done for the studies of the secondary data Secondary data were analyzed to study on the topic. Statistical and financial tools were applied. The Liquidity position of NIBL is better than HBL. The analysis of leverage ratio showed that HBL has higher ability in utilizing the debts than NIBL in terms of total debt to equity, total assets and total capital ratio. The EPS and DPS of HBL is better than NIBL. NIBL is more successful in maintaining liquid assets than HBL, so the liquid position of NIBL is better than HBL.

Koirala (2008) had done research on "Liquidity management of commercial banks in Nepal" of SCBL, HBL, NIBL and NABIL. This study has set objectives to assess the liquidity position, to analyze the problem of liquidity management and to evaluate the liquidity turnover of the sample commercial banks. Descriptive analysis was done for the study of the secondary data. Secondary data collected from the annual reports of the sample commercial banks and different types of statistical and financial tools are applied to analyze the data for the study on the topic. Liquidity funds to total deposit ratio of HBL is highest than others. Balance with NRB to total deposit ratio of NABIL bank's is highest than others. NABIL is maintaining high current ratio than others. NABIL and SCBL are more successful in maintain liquid assets but the liquid position of NABIL and HBL is not good.

Shrestha (2022) had conducted research on "profitability analysis of Himalayan bank limited". This study has objectives of analyzing profitability of Himalayan Bank Limited. Only quantitative data has been used while conducting this analysis qualitative data has not been used. Various types of financial tools like Net profit margin, Return on assets, Return on

Equity, Earning Per Share, Dividend Per Share, Interest Spread has been used while doing this research. Primary data has not been used in this study only secondary data is used. From this study we came to know that the profitability of HBL is not satisfying. Almost every financial tools shows that the profitability of the bank is in decreasing trend. Profitability measuring instrument like Net profit margin, return on assets, Return on Equity, Earning Per Share, Dividend Per Share, Interest Spread is not satisfying and in decreasing trend.

## **1.6 Method of the Study**

Research Methodology is the systematic, theoretical analysis of the methods applied to a field of study to systematically solve the research problem. It is defined as the technique used by the researcher to find out the objective result of their specific research. It deals with the research design, nature of data collection, processing of data and statistical tools are used.

### **1.6.1 Types of research/ research approach**

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions to control variance. (Kothari, 2010). The methodology of this research can be structure in two categories as Quantitative and Qualitative methods. The detailed information about these two methods is as follows.

- a) **Quantitative Research:** Quantitative research relates to aspects that can be quantified or can be expressed in terms of quantity. It involves the measurement of quantity or amount. This study mainly analyzes the quantitative data. Various financial, statistical and econometric methods are available for the quantitative analyses of this study. Some financial methods such as net profit margin return on assets, return on equity etc. are the measure examples of quantitative analysis for this study.
- b) **Qualitative Research:** Qualitative research is concerned with qualitative phenomena (i.e.) phenomena relating to or involving quality or kind. This type of research aims at discovering the underlying motives and desires using in depth interviews for the specific purpose. It does not contain any numerical data. While undertaking qualitative research, seeking guidance from experienced expert researchers is important. This study doesn't analyze qualitative data.



### **1.6.2 Population and sample**

In research, a population is not a demographic population but the entire collection of all observations of interest i.e., people, objects or events as defined by the researcher. It means the entire group of size about which the research project is going to be prepared can be defined as the population. After the selection of subjects or problems for the study, it is very costly and time consuming for the study of the entire population. Thus, to make the study, a representative portion of the population is selected for the study that is known as a sample. A descriptive sampling type has been adopted in carrying out the study, 20 commercial banks currently operating in Nepal are taken as population and Himalayan Bank Limited is selected as a sample of the proposed study. Among them, I have chosen Himalayan Bank Limited for this as per my convenience and interest towards this bank. So here, Himalayan bank limited represent as the sample unit.

### **1.6.3 Types of data**

Mainly data are classified into two types as primary data and secondary data. The detailed descriptions of these two types of data are as follows:

- a. **Primary Data:** Data that has been collected by the researcher himself/herself as per the objective of the research is known as primary data. Such data are originally collected by the researcher and field work is required to generate the primary data. It can be generated through administration of questionnaire, telephone contact, observation, group discussion, interview, etc. But the primary data are not used in this study.
- b. **Secondary Data:** If a researcher uses the data developed by others in the past for their own purpose is known as secondary data. Secondary data can be obtained from the published and unpublished sources. Those data which are published by other organizations in the form of reports and publications like government reports, and publication report of NGOS and INGOS, reports of private organizations etc. are published sources of secondary data and unpublished sources refers to the report of various research conducted by individuals and organizations but not published by the researcher. For the purpose of my project work, secondary data are collected from many sources such as annual report of the bank from the year 2018/19 to 2022/23, website of this bank, website of NRB, news journals published about the bank, previous studies and reports related to the bank etc.

#### **1.6.4 Data collection procedure**

There are several ways of collecting data for a project. It is important for a researcher to know the sources of data which he requires for different purposes. Mainly there are two sources of information of data they are-Primary and Secondary data. It is very important to the researcher to identify year the most suitable and reliable source of data and its collection procedure. Data collection procedure section mainly includes the sources of data and methods of collecting them. This project work is totally based on secondary data. So, it does not have any primary data and no need to apply any methods of primary data collection.

However, the secondary data needed for the project work are collected from many sources. Such as annual report of Himalayan bank, previous project work, journals and articles published about bank, articles published by NRB, books and articles of college library, finance related news and articles and others.

#### **1.6.5 Instruments**

The general information was taken out of the online portal of the bank's website. Since the study concentrates on the profitability and financial aspects of the Himalayan bank, tools like ratio analysis have been used. In addition, the statistical tools like average, percentage, bar diagram etc. has also been applied in order to make the analysis more systematic, scientific and useful. Most of the financial analysis tools like ROA, ROE, NPM, EPS, DPS, NIM, IS etc. are used on this study.

#### **1.6.6 Techniques of analysis**

Data analysis, also known as data analytics, is a process of inspecting, cleansing, transforming, and modeling data with the goal of discovering useful information, suggesting conclusions, and supporting decision making. Data analysis has multiple facts and approaches, encompassing diverse techniques under a variety of names, in different business, science and social science domains. There are various terms and techniques that can be used to measure the profitability of the firm. The base of each ratio depends upon net income which is compared with other elements to find out the margins or ratios which gives the result about profitability position. The profit measures the management ability regarding how well they have utilized their funds to generate surplus. There are various techniques to analyze the profitability position of the firm. Such as Gross profit margin, Net Interest Margin, Return on Sales, Return on

Investment, Return on Assets, Return on Shareholder's Equity, return on capital employed, Earning per share, Dividend per share, Interest Spread, Net Interest Margin etc. tools which is used for calculating or analyzing profitability are as follows:

**a. Net Profit Margin (NPM)=** It is one of the important parts of the profitability ratio. Net profit margin is the ratio between net income and sales of the firm. Here, operating income of the bank is considered as sales. The main objective of computing this ratio is to determine the overall profitability due to various factors such as operational efficiency, trading on equity etc. Higher the ratio, higher will be the overall efficiency and better utilization of the resources. A lower ratio is indication of poor financial planning, low efficiency and lower utilization of business reserve. It is calculated by using this formula:

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Operating Income}} \times 100$$

**b. Return on Assets (ROA)=** The return on assets measures the total effectiveness of management in generating profit with its available assets. It shows the relationship between net income and total assets. This ratio indicated the bank's ability of generating profit utilizing the total asserts. Higher the ratio more will be efficiency of the management in the utilization of total assets and vice versa. This ratio is calculated to find out how efficiently the total asserts have been used by the management. It can be calculated by using the following formula:

$$\text{Return on Asset} = \frac{\text{Net Income}}{\text{Assets}} \times 100$$

**c. Return on Equity (ROE)=** Return on equity is the ratio between net income and shareholders' equity. It measures the return on the owner's investment in the firm. This ratio indicates the bank's ability of generating profit per rupee of shareholder's funds. This ratio finds out how efficiently the funds supplied by the shareholders have been used. Higher the ratio more will be the efficient management and shareholder's funds utilization. We can find out the Return on Equity by the following formula:

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Total Equity}} \times 100$$

**d. Earnings per Share (EPS)=** An Earnings per share is the net income per share available to the common stockholders after paying preferred dividends, It is the widely used

ratio in assessing the profitability of a firm the owners' point of view. Main objective of calculating this ratio is to measure the profitability of the firm on per equity basis. Higher earnings per share are better for the organizations. It is calculated as follow:

$$\text{Earning Per Share} = \frac{\text{Net Income}}{\text{No. Of Share}} \times 100$$

**e. Dividend per Share (DPS)**= Dividend per share show the relationship between total amounts of dividend paid to equity shareholders and number of equity shares. The motive of computing this ratio is to know how much per share the dividend is distributed to common shareholders. In general, higher the DPS, better it is and vice versa. It is calculated as follow:

$$\text{Dividend Per Share} = \frac{\text{Dividend Paid}}{\text{No. Of Equity share}} \times 100$$

**f. Interest Spread (IS)**= Interest spread is also a major tool to calculating the profitability ratio of the institution. It is the difference between average rate of return on interest earning assets and average rate of interest expenses on interest paying liabilities. All the firms expect the higher the interest spread ratio, which is also better for the organization. It is calculated by using this formula:

$$\text{Interest Spread} = \frac{\text{Interest Income}}{\text{Interest Earning Assets}} - \frac{\text{Interest Expenses}}{\text{Interest Paying Liabilities}}$$

**g. Net Interest Margin (NIM)**= Net interest margin (NIM) is a measurement comparing the net interest income a financial firm generates from credit products like loans and mortgages, with the outgoing interest it pays holders of savings accounts and certificates of deposit (CDs). Expressed as a percentage, the NIM is a profitability indicator that approximates the likelihood of a bank or investment firm thriving over the long haul. This metric helps prospective investors determine whether or not to invest in a given financial services firm by providing visibility into the profitability of their interest income versus their interest expenses. It is calculated by using this formula:

$$\text{Net Interest Margin} = \frac{\text{Net Interest Income}}{\text{Interest Earning Assets}} \times 100$$

**h. Operating Profit Margin (OPM)**= Operating profit ratio is a metric that is obtained by dividing the operating income of a business by its net sales. It is a ratio that depicts how much profit a business is making for each dollar worth of sales it is making. Operating profit

ratio does not account for tax or interest in the numbers it deals with. It is calculated using following formula.

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{Operating Income}}$$

*Note:* Out of these tools only few were taken to analyze profitability in this study

### **1.7 Limitations of Study**

This study is conducted in partial fulfillment of the requirements for the BBS 4th year. So, it possesses some limitations of its own. Every study cannot be perfect and complete without some limitations. One of the limitations of the study is with regard to temporary coverage of the study to arrive any meaningful conclusions regarding the trend in the pattern and structure of financial a time service of fairly a long period is needed. But this study has covered only financial year from 2018/19 to 2022/23 However, the followings are some of the limitations of conducting the whole research study:

- a. This report is prepared with limited sources of information and within limited time period.
- b. Only the data from the Fiscal Year 2018/19 to 2022/23 are used in this study, which may not reflect the actual profitability position of the study.
- c. This study is based mainly on secondary data and has ignored the aspect of primary data.
- d. The study has not paid attention towards funds flow, cash flow patterns.
- e. The study ignores the qualitative aspects and bases on quantitative aspects.
- f. Only the important and useful ratios are calculated.

## **CHAPTER - 2**

### **RESULT AND ANALYSIS**

#### **2.1 Data Presentation**

The previous chapters as Introduction, Review of Literature and Research Methodology provide the basic idea and concept to analyze and interpret the data. In this chapter, those collected data are analyzed and interpreted as the state methodology in the previous chapter. This chapter presents the data and facts, which is related to different aspects of Himalayan Bank Limited. The collected data are tabulated, analyzed and interpreted so that financial forecast of the bank can be done easily. Data presentation and analysis is the most important work to prepare report. It helps to clearly understand about the collected data and evaluated profitability position of the firm. So, I have used tabulation and bar diagram method to present the various data and analyzed the profitability position of HBL using the following tools:

##### **2.1.1 Net Profit Margin (NPM)**

Net profit margin is the ratio between net income and sales of the firm. Here, operating income of the bank is considered as sales. It is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (except common stock dividends) have been deducted from a company's total revenue. To ascertain the net profit margin, the net profit is divided by operating income. The net profit margin of Himalayan Bank from 2016/17 to 2021/22 has been shown in the following table and figures:

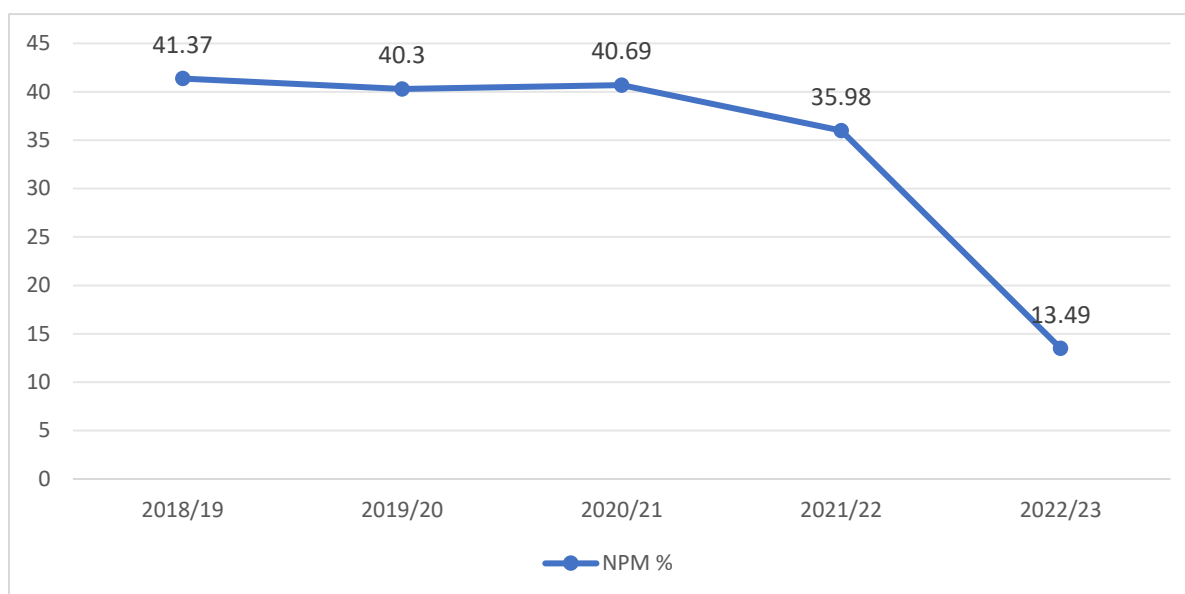
Table 1

*Net Profit Margin*

Fiscal Year	Net Profit	Operating Income	Net Profit Margin (%)
2018/19	2763848475	6680856224	41.37
2019/20	2586722710	6418810145	40.30
2020/21	2998623045	7369634009	40.69
2021/22	2367538235	6579197325	35.98
2022/23	1562817944	11578743051	13.49

*Note.* Appendix A

From the above table it can be explained that net profit of Himalayan Bank Limited is in fluctuating trend. NPM of Fiscal Year 2018/19 is 41.37%, in Fiscal Year 2019/20 it was decreased to 40.30%, in Fiscal Year 2020/21 it was increased by small margin and went to 40.69%, in Fiscal Year 2021/22 it was decreased to 35.98% and in the final year it fell to 13.49.



*Figure 1.* Net profit margin

The above figure shows the net profit margin of Himalayan Bank Limited of the last five years. The x-axis of figure represents fiscal years, and the y-axis of figure represents net profit margin in percentage. It has decreased in Fiscal Year 2019/20 comparison to Fiscal Year 2018/19 and has been increased in Fiscal Year 2020/21. In Fiscal Year 2021/22 it has decreased and similarly in Fiscal Year 2022/23 it has been decreased by big margin.

### **2.1.2 Return on Assets (ROA)**

Ratio between total assets and net profit is called return on assets. This ratio measures the overall effectiveness of management in generating profit with its available assets. This is the ratio which represents how much of the assets are mobilized towards its earnings. The higher the firms return on assets the better it is doing in operation and vice-versa. The portion of net profit allocated towards the total assets of the any organization can be termed as the Return on Assets.



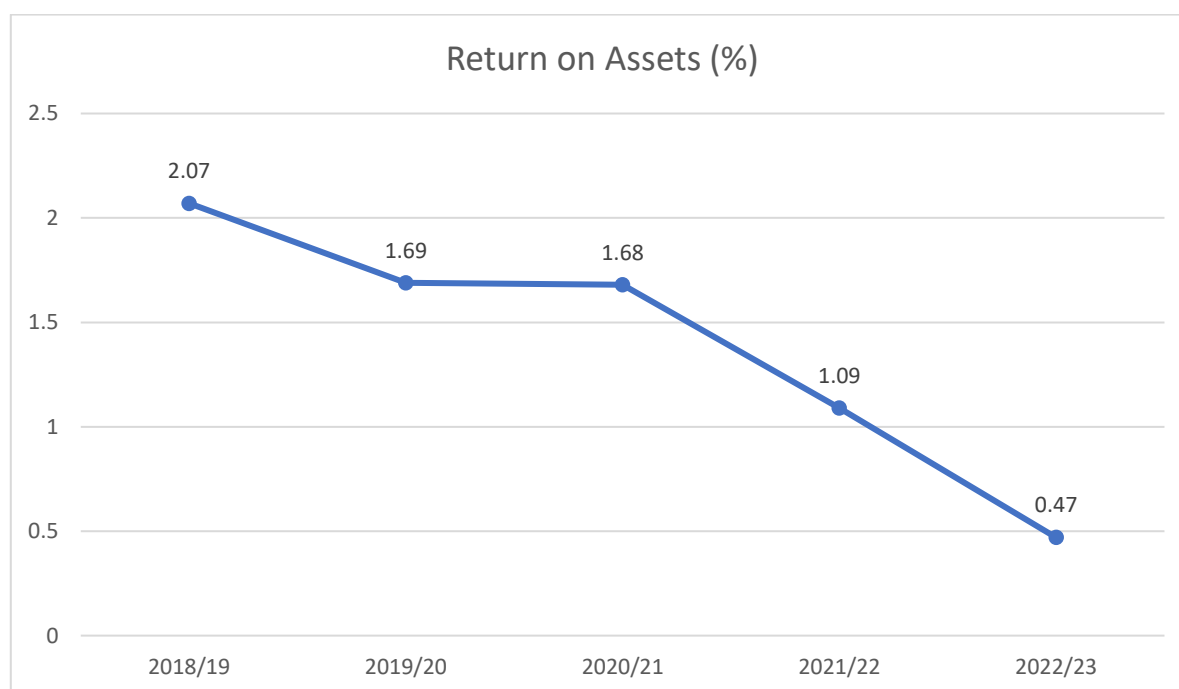
Table 2

*Return on Assets*

Fiscal Year	Net Profit	Total Assets	Return on Assets (%)
2018/19	2763848475	133151142073	2.07
2019/20	2586722710	155884918983	1.69
2020/21	2998623045	178490925886	1.68
2021/22	2367538235	216286273674	1.09
2022/23	1562817944	332392900007	0.47

*Note.* Appendix A

The trend of return on assets of Himalayan Bank Limited is in decreasing trend. The ROA of bank in the Fiscal Year 2018/19 was 2.07% which was decreased to 1.69% in the Fiscal Year 2019/20. In the Fiscal year 2020/21 ROA was decreased by small margin and went to 1.68%, in the fiscal year 2021/22 it decreased to 1.09% and in the final year it went to 0.470%. The decreasing trend of ROA shows that, the bank is not mobilizing its total assets in effective manner in respect of the Net profit. This shows the bank has not been able to mobilize its assets properly.



### *Figure 2: Return on Assets*

In the above figure x-axis represents fiscal year and y-axis represents return on assets in percentage. The above figure shows that return on assets is in decreasing trend. ROA has been continuously decreased since the Fiscal Year 2019/20. It shows that the bank isn't mobilizing its assets effectively.

### **2.1.3 Return on Equity (ROE)**

The return on equity measures the return on the owner's investment in the firm or the organization. It may be also called as the benefit to the investor's capital of the firm. The owner's investment refers to the equity capital employed by the organization. It includes common stock, paid-in capital and retained. Earnings. Higher ratio of return on equity is better for the owners. The return on equity of Himalayan Bank Limited has been shown in the following table and figure:

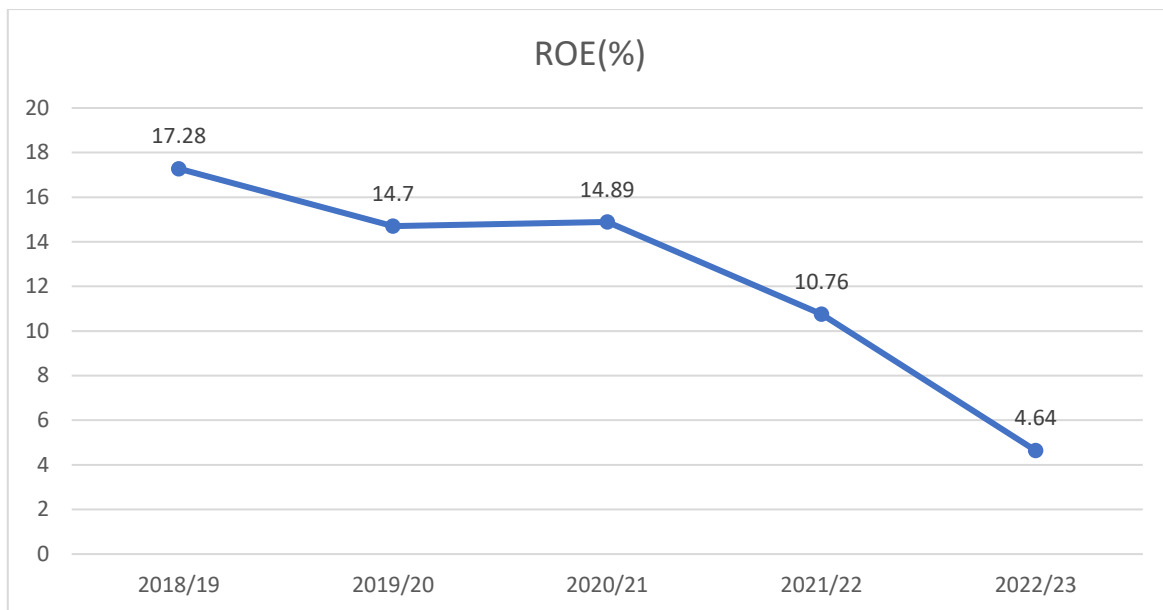
Table 3

#### *Return on Equity*

Fiscal Year	Net Profit	Total Equity	Return on equity (%)
2018/19	2763848475	15994798380	17.28
2019/20	2586722710	17589253612	14.70
2020/21	2998623045	20132713390	14.89
2021/22	2367538235	22010195996	10.76
2022/23	1562817944	33630369815	4.64

*Note:* Appendix A

The above table shows the return on equity of HBL from the Fiscal Year 2018/19 to 2022/23. The ROE of the bank in the Fiscal Year 2018/19 was 17.28% which was decreased to 14.70% in the Fiscal Year 2019/20. ROE in the fiscal year 2020/21 was increased to 14.89% again it came down to 10.76% in the fiscal year 2021/22 and in the final year it fell to 4.64% by big margin.



*Figure 3: Return on Equity*

In the above figure x-axis represents Fiscal Year and y-axis represents Return on Equity in percentage. In the above figure, the trend of Return on Equity of Himalayan Bank Limited is also in decreasing trend. The decreasing trend of ROE shows that, the investors of this bank are getting less return from the bank these years than previous year.

#### **2.1.4 Earning per Share (EPS)**

Earnings per share are widely used ratio assessing the profitability of a firm from the owner's point of view. EPS is the net income per share available to the common stock holders after paying preferred dividends by the organization. Earnings per share are the availability of profit to per unit of equity share. This ratio shows that return from the share is they held. The objective of computing this ratio is to measure profitability of the firm on the basis of each unit of equity shares. On the basis of this ratio bank can decide whether to increase or decrease the number no shares on issues. The earnings per share of the Himalayan Bank Limited have been shown in the following table and figure:

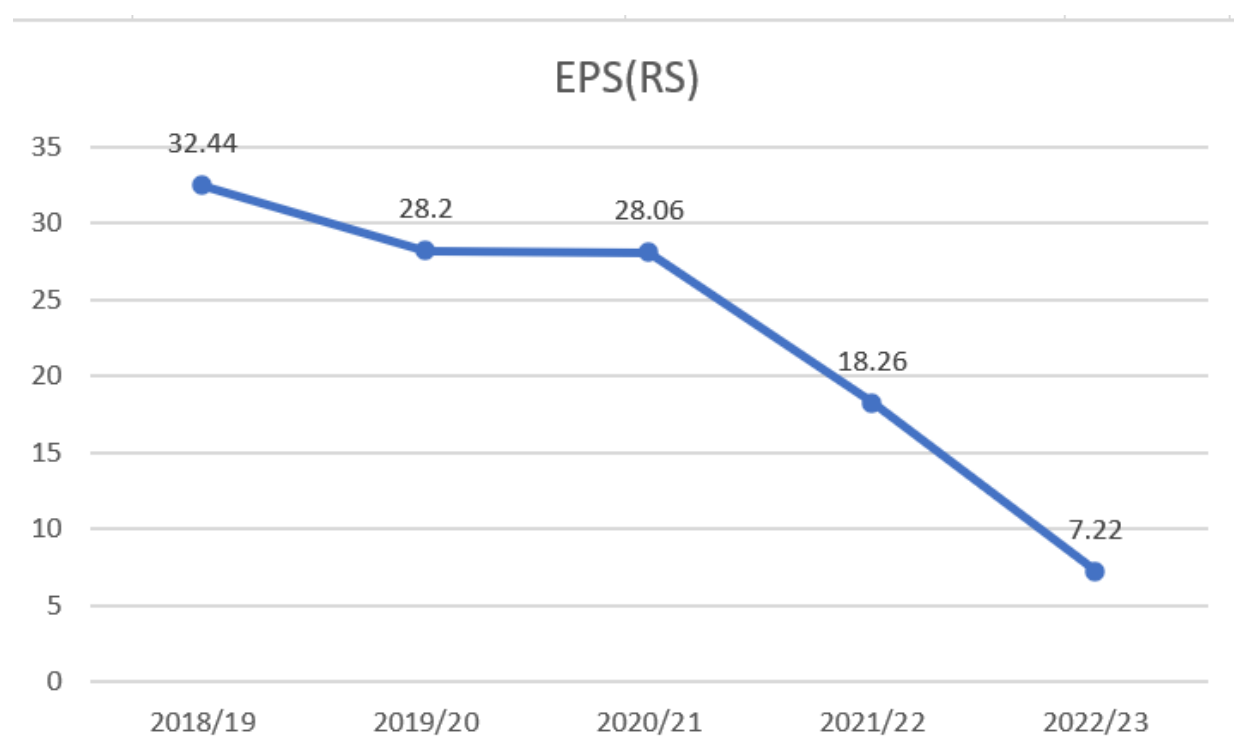
Table 4

*Earning Per Share*

Fiscal Year	Net Income	No. of Share	EPS(RS)
2018/19	2763848475	85202558	32.44
2019/20	2586722710	93722814	28.2
2020/21	2998623045	106844008	28.06
2021/22	2367538235	129687257	18.26
2022/23	1562817944	216566156	7.22

*Note.* Appendix A

The above table shows the Earning per share (EPS) of HBL from the Fiscal Year 2018/19 to 2022/23. The EPS of Himalayan Bank Limited is in decreasing trend. The Earning per share of the bank was Rs. 32.44, Rs. 28.20, Rs. 28.06, Rs. 18.26 and Rs 7.22 from the fiscal year 2018/19 to 2022/23 continuously.



*Figure 4:* Earning per Share

In the above figure x-axis represents fiscal year and y-axis represents Earning per Share in RS. In the above figure, the trend of Earning per Share of HBL is decreasing. In the Fiscal year 2018/19 it was RS.32.44 and since then decreasing continuously.

### **2.1.5 Dividend per Share (DPS)**

Dividend per Share show the relationship between total amounts of dividend paid to equity shareholders and number of equity shares. In general, higher the DPS, better it is and vice versa. This ratio is computed by dividing total dividend paid to equity shareholders by number of equity share. The DPS has been shown in the following table and figure.

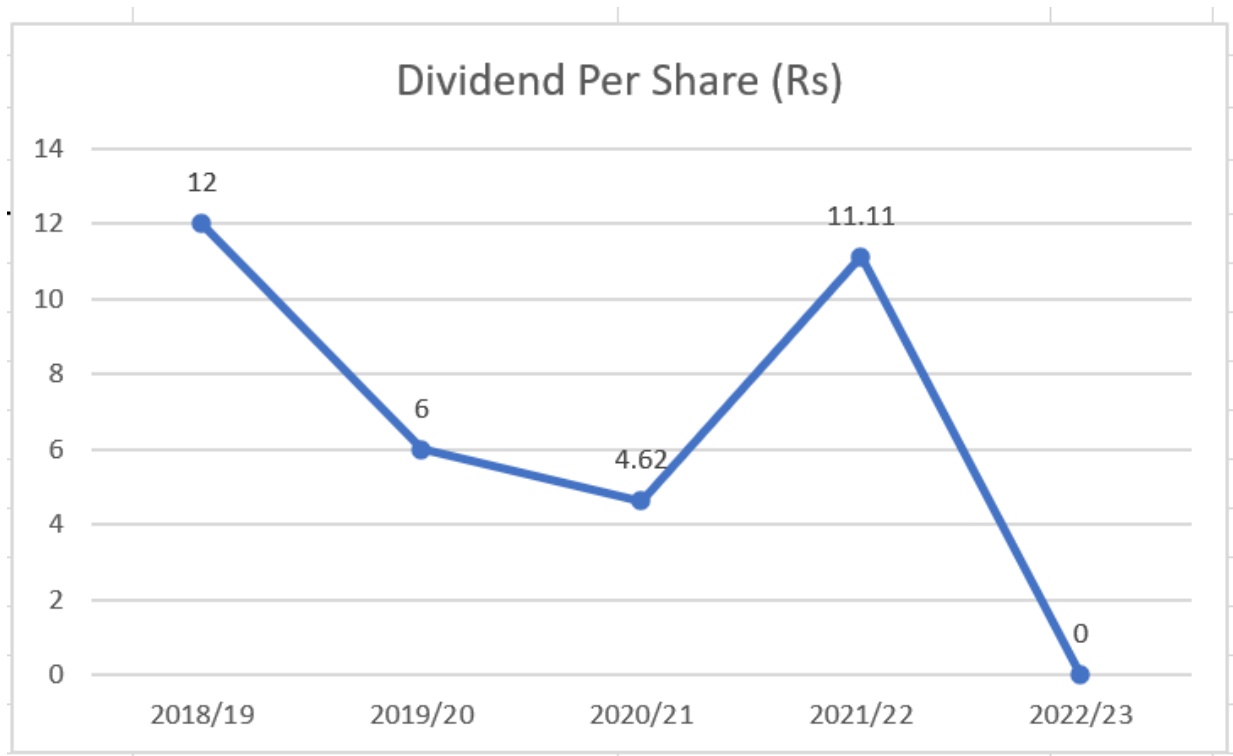
Table 5

#### *Dividend per Share*

Fiscal year	Dividend Amount (Rs)	No. of equity share	Dividend Per Share (Rs)
2018/19	1022430701	85202558	12
2019/20	562336885	93722814	6
2020/21	493619319	106844008	4.62
2021/22	1440825425	129687257	11.11
2022/23	-	216566156	-

#### *Note. Appendix A*

The above table shows the DPS of Himalayan Bank Limited from the Fiscal Year 2018/19 to 2022/23. In this table DPS in the Fiscal Year 2018/19 was RS 12, in Fiscal Year 2019/20 it was RS 6, in Fiscal Year 2020/21 it was RS 4.62, in Fiscal Year 2021/22 it was RS 11.11 and in the final year it is Nil because bank did not distribute its dividend this year. Firms pay no dividends due to cash constraints and investment opportunities.



*Figure 5. Dividend per Share*

The x-axis of the figure represents fiscal year and y-axis represents dividend per share in rupees. From the above figure we can say that DPS has increased in year 2021/22 but it was decreasing before that. In the final year 2022/23 bank did not distribute dividend so, DPS is Nil. Banks do not pay dividends because of poor profitability and earnings.

#### **2.1.6 Interest Spread (IS)**

The Interest spread is also a tool to calculating the profitability ratio. Interest is the main source of income for the banking and financial institution. Interest spread is difference between average rate of return on interest earning assets and average rate of interest expenses on interest paying liabilities higher the interest spread better will be the performance of the bank. On the basis of above formula, interest spread of HBL can be illustrated from the following table and figure:

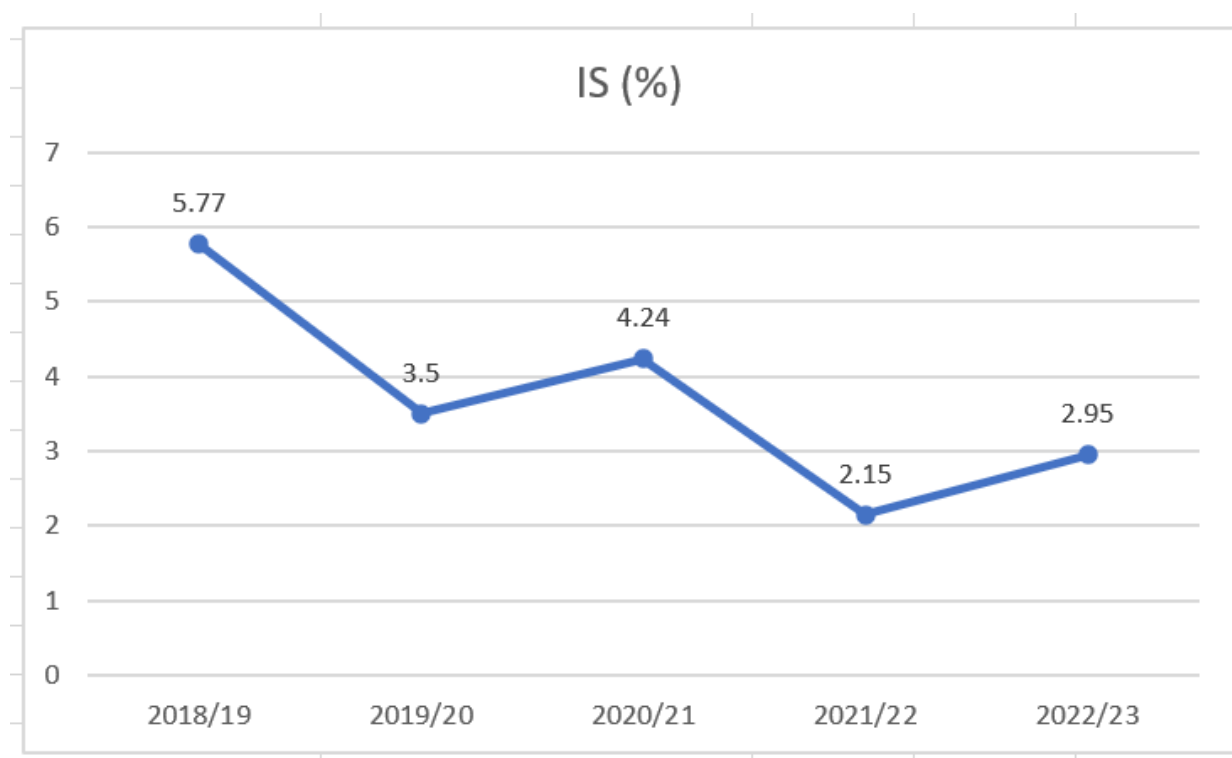
Table 6

*Interest spread of Himalayan Bank Limited*

Fiscal year	II	IEA	IE	IPL	IS (%)
2018/19	11625415050	122963274000	6594074206	114273938000	5.77
2019/20	12178993328	135771983000	7357289768	134579649000	3.50
2020/21	10370835427	162728919000	6582118789	155100120000	4.24
2021/22	16565846220	199684081000	11622526653	188988824000	2.15
2022/23	29094716822	304119763000	19173934653	289426101000	2.95

*Note.* Appendix A

The above table shows the interest spread percentage of Himalayan Bank Limited from the Fiscal Year 2018/19 to 2022/23. In this table interest spread ratio as on 2018/19 was 5.77%, in 2019/20 it was 3.50%, in 2020/21 it was 4.24%, in 2021/22 it was 2.15% and in the final year it is increased to 2.95%. The interest spread ratio is highest in the year 2018/19 and lowest in the year 2021/22.



*Figure 6.* Interest Spread of HBL

In the given figure x-axis represents fiscal year and y-axis represents Net interest Spread in percentage. It seems ratio of Net Interest Spread is in fluctuating trend. The above figure shows that the interest spread of HBL from fiscal year 2018/19 to 2022/23. Higher the interest spread better will be performance of a firm.

### 2.1.7 Net Interest Margin

Net interest margin is the difference between the interest income generated and the amount of interest paid out to lenders. It is an industry-specific profitability ratio for banks and other financial institutions that lend out interest-earning assets. Net interest margin has been shown in the following table and figure.

Table 7

*Net interest margin*

Fiscal Year	II	IE	NII	IEI	NIM (%)
2018/19	11625415050	6594074206	5031340844	122963274000	4.09
2019/20	12178993328	7357289768	4821703560	135771983000	3.55
2020/21	10370835427	6582118789	3788716638	162728919000	2.32
2021/22	16565846220	11622526653	4923319567	199684081000	2.46
2022/23	29094716822	19173934653	9920782169	304119763000	3.26

*Note.* Appendix A

The above table shows the Net Interest Margin of Himalayan Bank Limited. Here, NIM has increased in the final year i.e., 2022/23 but before that it was in decreasing trend. Net Interest Margin shows the profitability of the bank. From the above data we can say that the bank is not earning good income. Interest expenses is increasing by greater margin than the interest income. This situation is not good for the bank.



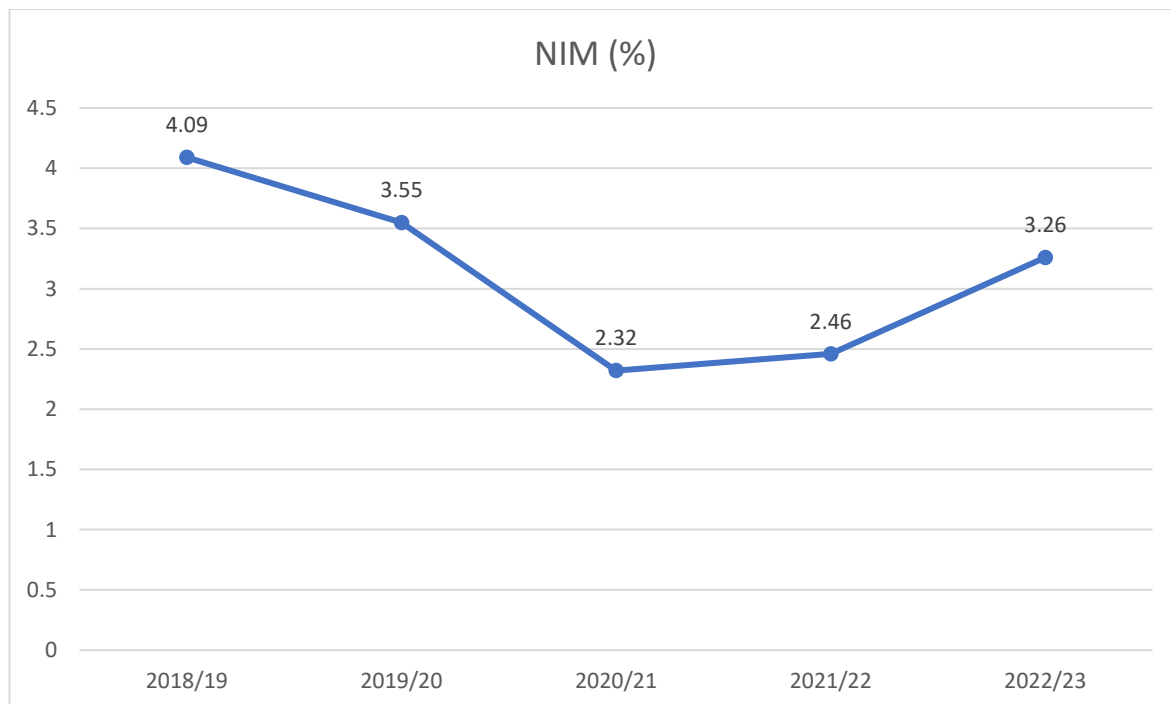


Figure 7. Net Interest Margin

The x-axis of the figure represents the fiscal year and the y-axis of the figure represents the Net Interest Margin of Himalayan Bank Limited. In the above figure we can see that the NIM in the final year has increased but before that it was in decreasing trend. The NIM of the bank is below 5% and in latest years it is even below 4%. It shows NIM of the bank is not satisfying.

## 2.2 Findings

After making any study, it is essential to present its major findings based on the collected and presented data. The overall profitability study of Himalayan Bank had been prepared through using five different tools of profitability. It shows sound financial position of the bank. The following findings can be enlisted from the above data:

- a. The study shows that the net profit isn't in satisfactory level because earning of HBL is around 30% to 40% but it is in the fluctuating trend and had decreased in last year.
- b. The study shows that the return on assets isn't in satisfactory level because return on assets of HBL is below 2% in all of the year except the fiscal year 2018/19. It is in the fluctuating trend and has been decreasing in recent 4 years. This shows that mobilization of assets isn't on satisfactory trend.

- c. The study shows that the return on equity is below satisfactory level because return on equity of HBL is below 20% and is in decreasing trend this shows utilization of equity capital is not that satisfactory.
- d. Earnings per share of the bank is in fluctuating trend and has decreased in the recent year. This indicates bank has either low level of earning or increase share capital by raising the number of shares in the market.
- e. Dividend per share of the bank is in decreasing trend but has increased in the latest year. This shows that the earning of the bank was not distributed to shareholders sufficiently in the past year but this year it is distributed sufficiently.
- f. Interest spread ratio of the bank is in fluctuating trend and it has also decreased in the latest which indicates that the bank is not earning healthy in its investment which generates decrease income from it.
- g. Net Interest margin of the bank is not satisfying. Although it has been increased in the final year but the NIM in the latest year is below 3%. It indicates that the bank is not earning sufficient interest income.

## **CHAPTER – 3**

### **SUMMARY AND CONCLUSION**

#### **3.1 Summary**

The information which was presented in the above report was collected from the financial record of Himalayan Bank Limited. The above report generally discusses about the profitability analysis of the Himalayan Bank Limited with the help of net profit margin, return on assets, return on equity, earnings per share, dividend per share and net interest margin.

The study focuses on the financial performance of Himalayan Bank Limited about analysis on its profitability. The financial statements of these five years are obtained from the financial reports of HBL. This project work report has been divided into three main chapters' introductions, data and analysis and summary and conclusion, in the study or profitability analysis different ratio such as profitability ratios, earning per share and dividend per share are used to calculate and analyzed. Here, under profitability ratio Net Profit Margin, Return on Assets, Return on Shareholder's Equity, Earning per Share, Dividend per Share, Interest Spread and Net Interest Margin all are in fluctuating trend.

HBL have pioneered in extending various customer friendly products such as Home Loan, Education Loan, HBL Flexi Loan, HBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals. HBL was one of the first banks to introduce Any Branch Banking System (ABBS) in Nepal. HBL in association with Smart Choice Technology (SCT) is providing ATM service to its customers through more than 123 ATMs and over 900 Point of Sales across the country. ATM sharing arrangement with Punjab National Bank has facilitated usage of HBL Debit Card at more than 4000 PNB ATM outlets across the India at a nominal rate. Similarly, Indian tourists and businessmen having PNB cards will be able to use HBL ATM, while in Nepal. Being the first Nepalese bank to open a representative office in Delhi, India, the Nepalese in India can open account in Nepal from the designated branches of Punjab National Bank and remit their saving economically through banking channel of Nepal. The

Bank is also offering Cash Management System through HDFC Bank., India for managing the funds of corporate exporting to India by collecting their fund from about 183 locations in India.

Thus, the position of Himalayan Bank Limited is basically seen in a fluctuating trend because of increasing unstable economic and political crisis and instability as well as recession. Although, an unstable economic and political environment, it has been able to increase its operating profit as compared to last years. So, bank has been contributing in the development of banking as well as the country.

### **3.2 Conclusion**

The study was based on profitability of Himalayan bank limited. The analysis was done with the help of secondary data. The following conclusion can be derived from the above study.

- a. The net profit margin of Himalayan Bank is in fluctuating trend that does not represent smooth efficiency of bank. Bank needs to maintain it in a constant side or growing trend.
- b. The return on assets of bank is also in decreasing trend it indicates bank has not effectively utilized the assets available to bank.
- c. The return on equity is also in the fluctuating trend which is not good to all equity shareholders. Mostly we can say it has decrease in the recent years.
- d. The earnings per share in recent years are in the lowest side which indicates that bank has not earned healthy.
- e. The dividend per share of the bank in recent year is nil which indicates the bank has poor profitability and earning.
- f. The interest spread has increased by small margin in recent year but before that it was in decreasing trend which indicates expenses of the bank is increasing more as compare to interest income.
- g. Net Interest Margin of the bank is below 5% in recent years. It indicates bank is not earning sufficient interest income but the interest expenses of the bank is increasing.

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## Appendix A

Key indicators of Himalayan Bank Limited from 2017/18 to 2021/22.

Fiscal year	2018/19	2019/20	2020/21	2021/22	2022/23
Net profit	2763848475	2586722710	2998623045	2367538235	1562817944
Operating income	6680856224	6418810145	7369634009	6579197325	11578743051
Total assets	133151142073	155884918983	178490925886	21628627367 4	332392900007
Total equity	15994798380	17589253612	20132713390	22010195996	33630369815
No of share	85202558	93722814	106844008	129687257	216566156
Dividend (Rs)	1022430701	562336885	493619319	1440825425	-
Interest Income	11625415050	12178993328	10370835427	16565846220	29094716822
Interest earning assets	122963274000	135771983000	162728919000	199684081000	304119763000
Interest Expenses	6594074206	7357289768	6582118789	11622526653	19173934653
Interest Paying Liabilities	114273938000	134579649000	155100120000	188988824000	289426101000
Earning per share (Rs)	32.44	28.20	28.06	18.26	7.22
Dividend per share (Rs)	12	6	4.62	11.11	-

*Note.* Annual report of the Bank 2022/23