CHAPTER I

INTRODUCION

1.1 Background of the study

Nepal is one of the developing countries of the world. Poverty has stood as a serious challenge to the country. In such context, it is realized that without industrial development, it is impossible to have social and economic development. Banks play vital role in the industrial and economic development.

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

Banking industry has acquired a key position in mobilizing resources for finance and social economic development of a country. Bank assists both the flow of goods and services from the producers to the consumer and the financial activities of the government. Banking provides the country with a monetary system of making payment and also makes loan to maintain production in the economy. Commercial bank is an institution, which accepts demand deposits, subject to check and make short-term loan to business enterprises, regardless of the scope of its other services. Nowadays, Joint venture Banks (JVBs) are increasing in Nepal.

“For the development of the nation it is required to have enough capital, without adequate capital investment may not be possible, formation of the adequate capital through the financial institution like finance company banks etc. is important” (Encyclopedia, 1966:232).

“In global perspective, joint ventures are the mode of trading through partnership among nations and also a form of negotiations between various groups of industries and trades to achieve mutual exchange of goods and services for sharing comparative advantages. A Joint Venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production or trade)” (Gupta, 1995: 24).

“Commercial banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post shipment finance to exporters. They start their operation with automated system, which could easily attract the elite group of business community due to their prompt served modern management. In this way, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promote and expand export-import trade, introduce new techniques and technologies. All these reveal the vital role and the need of joint ventures in Nepalese banking sector or financial service industry” (Shrestha, 2009:21).

“Commercial banks are corporations and largest among the financial intermediaries who rise funds primarily by issuing checkable deposits, saving deposits, and time deposits. They then use these funds to make variety of loans such as commercial, consumer, and mortgage loans. Banks are owned by stockholders and the management is subject to the control of stockholders. The bank’s depositors are the creditors, who claim on the bank’s debt. These creditors have no formal control over its management. Commercial banks are also the major buyer of government securities and municipal bonds. These

banks make the large diversified portfolio of assets" (Shrestha & Gurung,2008:23).

Commercial bank is an institution, which accepts demand deposits, subject to check and make short-term loan to business enterprises, regardless of the scope of its other services. Nowadays, Joint venture Banks (JVBs) are increasing in Nepal.

NABIL Bank Limited

Nepal Arab Bank Limited (Currently named as 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. 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 meet customer's entire gamut of financial requirements that is why it prides us in being 'Your Bank at Your Service.

Table 1.1

Capital Structure of NABIL Bank Limited

Capital as at 2009/10	Amount in Rs. '000'
Authorized Capital	16,00,000
Issued Capital	14,49,124
Paid up Capital	14,49,124

Source: Annual Report of Nabil Bank Ltd.

Standard Chartered Bank Ltd.

Standard Chartered Bank Nepal Limited, formally known as Nepal Grindlays Bank Limited has been in operation since 1987. It is one of the topmost joint venture banks of Nepal. Capital structure of this bank is; 50 percent by Chartered Grindlays Bank, 33 percent by Nepal Bank Limited, the country's oldest and largest financial institutions and 17 percent by the Nepalese public. On 31st July 2000, Standard Chartered Bank Nepal Limited conducted the acquisition with ANZ Grindlays Bank Limited of the Australia and New Zealand Banking Group. With this acquisition, 50 percent shares of Nepal Grindlays Bank Limited (NGBL), previously owned by ANZ Grindlays Bank Limited, change the name of bank to Standard Chartered Bank Nepal Limited with effect from 16 July 2001.

Table 1.2

Capital Structure of Standard Chartered Bank Nepal Limited

Capital as at 2009/10	Amount in Rs. '000'
Authorized Capital	20,00,000
Issued Capital	13,98,483.6
Paid up Capital	13,98,483.6

Source: Annual Report of Standard Chartered Bank Nepal Ltd.

Himalayan Bank Ltd.

Himalayan Bank Limited was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation commenced from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial banking services, the bank also offers industrial and merchant banking services.

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

Table 1.3

Capital Structure of Himalayan Bank Limited

Capital as at 2009/10	Amount in Rs. '000'
Authorized Capital	20,00,000
Issued Capital	16,00,000
Paid up Capital	16,00,000

Source: Annual Report of Himalayan Bank Ltd.

The study focuses on the mobilization of deposits and reinvestment aspects of three banks viz. NABIL Bank Limited, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. The study is mainly focused on the optimum portfolio between deposits and investment. It revolves round the concept of managing the surplus financial assets in which a way, which leads to the wealth maximization and provides a significant future source of income. It focuses on analyzing the causes of investment problems, their management and remedies, and developing the new investment areas and sectors, which can again boost the Nepalese economy.

1.2 Statement of the Problem

The need of fund mobilization for economic development of a country is no more to question. There is a problem of resource mobilization. There are 31 commercial banks in Nepal, which are very much considered to be vital

financial institutions to mobilize domestic resources. This has attracted the potential customers to deposit their money into banks, as there are very few sectors to make a 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 very little investment opportunity. They are even discouraging people by offering very low interest rate and minimum threshold balance. This will definitely make inverse impact on economy of the country.

This has decelerated the pace of economic development. Lack of sound investment policy is another reason for a commercial bank not to properly utilize its deposits that is making loan and advances or lending for a profitable project. This condition will lead the commercial bank to the position of liquidation. They face so many difficulties to mobilize their deposit fund on the profit making investment, so they can achieve sufficient return from the investment and satisfy their shareholder. The lack of knowledge on financial risk, interest rate risk, management risk, business risk, liquidity risk, default risk and purchasing risk, granting loan against insufficient deposit, overvaluation of goods pledge, land and building mortgaged, risk averting decision regarding loan recovery and negligence in recovery of overdue loan are some of the basic lapses and the result of unsound credit policy sighted in the banks.

They have a good performance in the course of mobilizing idle deposits. The problems associated with commercial banks with regard of financial performance are highlighted below:

- What is the trend of total deposit of the sampled banks?
- What is the investment position of the sampled banks?
- What are the profitability, liquidity, assets management and leverage position of the sampled banks?

- What is the relationship between investment, loan and advances and total deposits?
- How far the gap between deposits and investments of the sampled banks?
- What are the sources and uses of funds of the sample banks?

1.3 Objective of the Study

The main objective of the study is to analyze the financial performance position of the sample commercial banks. The specific objectives of the study are as follows:

- To analyze the deposit position of the sample commercial banks.
- To analyze the liquidity management & mobilization of fund of the sample commercial banks.
- To analyze the relationship between deposits, loan and advances and total investment of the sample commercial banks.
- To analyze the financial position of the sample commercial banks on the basis of profitability, liquidity, assets management etc.
- To analyze the trend of total deposits of sample commercial banks.

1.4 Significant of the Study

This study draws the attention from every corner of investors, academicians, entrepreneurs and also for interested parties. This study will be helpful to financial manager to be familiar with how different factors affect the financial performance. The proper mobilization and utilization of domestic resources become indispensable for any developing country aspiring for a sustainable economic prosperity of the nation. The success and prosperity of the banks relies heavily upon the successful formulation and effective implementation of investment policy.

The significances of the study are pointed out as below:

- The study helps to know how well the banks (Himalayan Bank Limited, NABIL Bank Limited and Standard Chartered Bank Nepal Limited) are utilizing their deposits.
- The study is important to policy makers and academic professionals to formulate policies and plans on the basis of the performance of these banks.
- The study helps these banks to compare each other's performance and plan accordingly for future.
- The study helps these banks to make sound programs and policies based on the recommendation suggested.
- The study guides to investors, customers (depositors, loan takers as well as other types of clients), competitors, personnel of the banks, stockbrokers, dealers, market makers, etc. to take various decisions regarding deposits and borrowings.

1.5 Limitation of the Study

This study explored the financial performance of commercial banks. Only secondary data are analyzed. However, this study has some limitations, which are listed as below:

- The study is based only on secondary data.
- The study covered the five fiscal years from 2005/06 to 2009/10.
- Only 3 banks were taken as the sample banks out of 31 commercial banks.
- This research used only the selective tools for analysis and interpretation of data.

1.6 Organization of the Study

Chapter I: **Introduction**

This chapter dealt with the subject matter of study. The outline of the research is presented in the chapter. It dealt with introduction, Background of

commercial banks, statement of the problem, objectives of the study, Limitation of the study and significance of the study.

Chapter II: Review of Literature

This chapter dealt with the review of literature. It included a discussion on the conceptual framework on financial performance. It also included review of various studies (i.e. various books, journals & articles, master's degree thesis etc) related with financial performance decision.

Chapter III: Research Methodology

Research methodology chapter consisted of research source of data, population and sample statistical tools and financial tools.

Chapter IV: Presentation and Analysis of Data

The chapter four is the main part of the study. This chapter covered presentation of data and analyzing them with the help of various statistical tools and financial tools. Secondary data were used to analyze the real situation. In this chapter, descriptive analysis was made based on the data collected and information using statistical as well as financial tools with which findings were drawn.

Chapter V: Summary, Conclusion and Recommendation

The chapter five dealt with summary of the entire study, conclusions and recommendations.

CHAPTER II

REVIEW OF LITRATURE

2.1 Origin of the word ‘Bank’

The origin of the word ‘Bank’ is linked to German word ‘Bank’ means a joint stock company. Latin word ‘Bank’ means a bench. Italian word ‘Bank’ means a bench and French word ‘banquet’ means a bench. Moneylenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they are unable to meet their liabilities, the depositors used to break their benches. Hence the word ‘Bankruptcy’ is derived from there.

There are different opinions on the origin of the bank. According to one opinion, the term bank was originated from Italian word ‘Banco’ which meant bench. The money exchangers at that time kept heap of money on the bench from which came the use of word ‘Banko’. In the opinion of Macleod, since banko means ‘heap’, it denotes the joint fund contributed by many persons.

2.1.1 Concept of Bank

Generally, an institution established by law, which deals with money and credit is called bank. It is obvious that in a common sense, an institution involved in monetary transactions is called bank. A bank is a financial institution, which plays a significant role in the country. It facilitates the growth of trade and industry, and boost national economy. However, a bank is a resource of economic development, which maintains the self-confidence of various segments of society and extends credit to the people. A bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credits and transfers funds by written orders of depositors.

“The business of the banking is collection of funds from community and extending credit to people for useful purposes. Bank plays a vital role in making money from lenders to borrowers. Bank is a profit seeking business,

not a community charity profit seeker. It is expected to pay dividend and otherwise, add to the wealth of shareholders" (Encyclopedia, 1984: 6).

Hence, in concise, there is no single universally accepted definition of bank. In brief, it is an institution, which accepts deposits in different accounts, provides loans of different types, and creates credit.

2.1.2 Historical Development of Bank in Nepal

The history of banking in Nepal is not very old. It goes back to the Lichchhavi era. There were 'Gosthies' to work as credit banks established under the permission of Royal order and they conducted through local legislation called 'Panchali'. Then the King Jayasthiti Malla from Malla dynasty, allowed 'Tankadhari', a class of people, to deal in depositing and lending of money and ornaments. The Banda who still worked in ornaments used to deal in lending and depositing the ornaments in that time also. Then the King, Ram Shah, in developing the banking system in Nepal. He found that unorganized lending was taking place in the society at very high interest rates. So, he fixed up the interest rates of lending.

Though it seemed realizing the development of banking in those early times, it could not be materialized till the end of Rana regime. The first government institutionalized credit house called 'Tejarath Adda' was established during the tenure of Prime Minister, Ranoddip Singh (1936-1937A.D.). The 'Tejarath Office' used to give loans to government employees against the securities of gold, silver, etc.

Banking in true sense started with the inception of Nepal Bank Limited on 15th Nov, 1937 A.D. as the first commercial bank of Nepal under Nepalese Banking Law and Nepal Bank Act 1937 A.D. formulated by the Industrial Board of Nepal.

After that Nepal Rastra Bank was established as a central bank on 26th April, 1956 A.D under Nepal Rastra Bank Act, 1955 A.D. The bank was empowered by the Act to have direct control over banking institution of the country to manage the circulation of national currency along with foreign exchange rate. Then came Rastriya Banijya Bank established on 23rdJan, 1966 A.D established under Rastriya Banijya Bank Act, 1964 A.D.

Nepal Arab Bank Limited was established on 09th July, 1984 A.D as a first joint venture bank under Banijya Bank Act, 1974 A.D. Having observed the success of Nepal Arab Bank Limited (currently named as Nabil Bank Limited) and of liberal economic policy adopted by the government, various other commercial banks including joint venture banks and privately ownership banks established in Nepal (Shrestha, 2007: 3).

2.1.3 Concept of Commercial Bank

"A commercial bank is one which exchanges money, deposits money, accepts, grants loan and performs commercial banking functions and which is not a bank meant for cooperative agriculture industries or for such specific purpose" (Nepal Commercial Bank Act, 1974 :1).

"Commercial banks are those banks, which pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand of on short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash, credits and overdrafts. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc. to their customers" (Vaidya, 1999: 38).

"The American Institute of Banking has laid down for functions of the commercial banks i.e. receiving and handling deposits, handling payments for its clients, granting loan and investment and creating money by extension of credit" (American Institute of Banking, 1985: 609).

"Commercial banks are that financial institutions which deal in accepting deposits of people and institutions and giving loans against securities. They provide working capital needs of trade, industry, and even to agricultural sector. Commercial banks also provide technical and administrative assistance to trade, industries, and business enterprises. Commercial bank is a corporation, which accepts demand deposits, subject to check and makes short-term loan to business enterprises, regardless of the scope of its other services" (Shrestha and Gurung, 2008:38).

2.1.4 Functions of Commercial Bank

Commercial banks are the most important types of financial institution for the nation in terms of aggregate assets. Traditional functions of commercial banks are only concerned with accepting deposits and providing loans. But modern commercial banks work for overall development of trade, commerce, services, and agriculture also. The business of banking is very broad in modern business age. The number and variety of services provided by bank will probably expand. Recent innovation in banking include the introduction of credit cards, accounting services for business firms, factoring, leasing, participating in the Euro-dollar market, and lock-box banking. The main functions of commercial banks are as follows:

Accepting Deposits

It is fair deduction that no person or body, corporate or otherwise, can be banker who does not take deposits, issue and pay cheques and collect cheques from his customers. Here, all functions are related with the acceptance of deposits. Therefore, accepting deposits by bank is the oldest function of bank.

A bank accepts deposits in three forms viz. saving, current and fixed. Saving deposit is one of the deposits collected from small depositors and low-income depositors. The banks usually pay small interest to depositors for their deposits. Current account is also known as demand deposits. Under this, any amount may be deposited. There are no restrictions regarding number and amount of withdrawals as contrary to saving account. The banks don't pay any interest on such account but charge small amount on the customers having current account. A fixed or time deposit is one where customers are requested to keep a fixed amount in the bank for specific period, generally by those who don't need money for stipulated time. The bank pays a higher interest on such deposits.

Giving Loans

The second major function of a commercial bank is to provide loans and advances from the money, which it receives by way of deposits for the development of industry, trade, commerce, services, and agriculture. The main purpose of commercial bank is to boost up the development pace of communities and the economy as a whole.

Investment Funds

The banks invest their surplus funds in three types of securities: Government Securities, corporate securities and other securities. Governments securities are securities of both the central and state government such as treasury bills, long-term government bonds, and municipal bonds etc. other securities are securities issued by corporate sectors. Banks also purchased the securities issued by corporate securities. For example, corporate bonds, preferred stock and common stocks etc.

Agency Functions

The bank also performs number of services on behalf of the customers. The following are the agency functions provided by the bank.

- Dealing with the transaction of foreign exchange business.
- Serving as an agent of correspondent on behalf of the customers.

- Issuing letter of credit, circulate note, traveler's cheques, etc.
- Purchasing and selling different kinds of securities and remitting funds.
- Keeping valuable article in safe custody.
- Providing financial advice to various persons and bodies whenever required. (Thapa, 2008: 54-56)

Credit Creation

"The major function of the bank that separates it from other financial institution is the ability to create money and to destroy money, which is accomplished by lending and investing activities. The power of the commercial banking is of great economic significant as it results in the elastic credit system that is necessary for the economic progress at a relatively steady growth rate" (Thapa, 2008: 57).

2.1.5 Resources of Nepalese Commercial Bank

Commercial banks have mainly three sources for their advancing. They are as follows:

Capital

"As far as the capital fund is concerned, it is only a nominal source. Therefore, it can be used for investment purposes. This capital fund consists of two elements; paid up capital and general reserve" (Thapa, 2008: 40).

Deposits

Deposits are the main resource of the banks for advancing loans. It is received from different forms and accounts. There are mainly three types of deposits viz. saving, current, and fixed. In a developing country like Nepal where the majority of people are still poor, saving deposits has played a significant role in the development of a country. Therefore, the main source of raising capital is deposits. Sudharsanam (1976) rightly says, "The deposit function of the bank is important because it has to aggregate small sums of money lying scattered here and there like twenties, fifties, and hundreds. Singling these sums has no

economic efficiency what so ever but they can accomplish herculean tasks when they are aggregated and employed by the banker"(Sudharsanam, 1976: 20).

Internal and External Borrowing

"Internal and external borrowings are very important for a developing country like Nepal. Commercial banks alone cannot fulfill the necessity of the society. Therefore, they are allowed to borrow from two sources, external and internal. Generally, external borrowing means the borrowing from foreign bank, foreign government, IBRD, IMF, etc. Internally, the banks can borrow from only one source, i.e. from NRB" (Shrestha, 2009: 77).

2.1.6 Concept of Joint Venture Bank

"A Joint Venture Bank is joining of forces between two or more enterprises for the purchase of carrying out a specific operation i.e. industrial and commercial investment production or trade" (Gupta, 1984: 15).

Joint Venture banks are the mode of trading to achieve mutual exchange of goods and services for sharing comparative advantages by performing joint investment scheme between Nepalese investors, financial, non financial institute as well as private investors and their parent banks each supplying 50% total investment. The parent banks, which have been experiencing highly mechanized and efficient modern banking management skill and an international of banking institutions, JVBs are formed in Nepal as full-fledged commercial bank under the Economy Act, 1964 A.D and operated under the Banijya Bank Act, 1975 A.D.

"All the Nepalese JVBs are established and operated under the rules, regulations, and guidance of NRB. NRB has issued a certain direction to the banks regarding the mandatory credit allocation to the priority sector. The NRB has directed to the government owned banks to invest 3% and the JVBs to invest 0.5% of their total outstanding credit to the priority sector" (NRB, 1998: 4).

"The existence of foreign joint venture bank has presented an environment of healthy competition among the existing commercial banks. The increased competition had led to improve their quality and has caused an extension of services by simplifying procedures and training" (Chopras, 1990: 231).

"Nepal Government's deliberate policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage local traditionally run commercial banks enhancing their banking capacity through competition, efficiency, modernization, and mechanization via computerization and prompt customer service" (Vaidhya, 1999: 44-45).

2.1.7 Role of Joint Venture Bank

"The commercial bank is different from the other banks especially from central bank. In appearance the main distinction between Central Bank and a Commercial Bank is that now-a-days the Central bank does not much banking, but the more fundamental difference is one of aim. The main objective of the Commercial Bank is to make profit whereas the Central Bank thinks of the effects of its operations on the working of the economic system. The Commercial has the shareholders and is expected to the best it can for them but the Central Bank by contrast is usually owned by the government. The Commercial Bank may be few or many and they are to be found business with the general public all over the country. But, there is only one central bank in each country. Its market operations are mainly impersonal, and are confided to what is necessary for influencing the country's financial business in the directions citrated by economic policy" (Sayers, 1972: 17-18).

In brief, the role of JVBs is presented below:

Introducing New Methods and Technology in Banking Services

The JVBs have created a new habit of banking in this remote Himalayan sectors by introducing high technology and efficient methods in the banking business. Other areas of expertise are forward cover for foreign exchange

transaction by importers and exporters, merchant banking, inter-bank market for money and securities, arranging foreign currency loans, etc.

Providing New Services

Even though the JVBs so far have not provided any remarkable new services that were not offered by the domestic banks, they have drawn a large number of customers who assume that they will eventually benefit from their association with these banks when they introduce new services. At present, a speedy service than that of the domestic banks is the hallmark of the JVBs though their services are basically in traditional areas. This could highly be educative for the domestic banks.

Offering Better Links with International Market

The JVBs are usually better placed to raise resources internationally for viable projects in a developing country like Nepal mainly due to their creditability and an access to international markets. In other words, it is very much essential for Nepalese business to produce international linkage through JVBs.

Creating a Competitive Environment

The JVBs have created a competitive environment in banking business in Nepal. Prior to arrival of JVBs, there was little competitive zeal between NBL and RBB as they had almost set bunch of customers, working areas, and services. This competitive environment will benefit the local people, business and industry, and the country as a whole.

Providing more Resources for Investment

The JVBs have played a significant role in channeling additional resources for investment for the development of the country. Although many that resources rose to locally in the prevailing market argue it those resources would have been mobilized net additional resources if they have tapped so far untapped resources in the local market.

2.1.8 Meaning of Deposit

"Deposit is one of the most important sources of the commercial bank. Deposit an account with a bank or other financial institution such as a building society in the UK. Deposit may be on current account UK or checking account or sight deposit US, which bear no interest and can be withdrawn on demand, or deposit accounts UK or saving account or time deposits US which bear interest but require notice of withdrawal. In recent years new types of account have blurred" (Oxford Dictionary of Economics, 2004: 116).

"It is important that the commercial bank's deposit policy is the most essential policy for its existence. The growth of bank primarily depends upon the growth of its existence. The volume of funds that management will use for creating income, through loans and investment, is determined largely by the bank's policy governing deposits. In other words, when the policy is restrictive, the growth of bank is restarted or accelerated with the liberalization in the deposit policy. In banking business, the volume of credit extension much depends upon the deposit base of a bank. The deposits creating powers of the banks forces to raise the assets along with the liabilities side of the balance sheet. In other words, assets give rise to liabilities. Traditionally, the deposit structure of a commercial bank was thought to be determined by the depositors and not by the bank's management. There are regular changes in this view in the modern banking industry. Thus, the banks have evolved from relatively passive acceptors of deposits to achieve bidders for funds. Deposit is one of the aspects of the bank liabilities that management has been influencing through deliberate action" (Vaidya, 1999: 68).

2.1.9 Types of Deposits

The receipt of the deposits and granting loans, these are the two – fold functions which are performed by the bank. The bank borrows money by accepting different types of deposits. It not only undertakes to take care of the deposits but also agrees to honor the demand of the depositor for withdraw of

money from the deposits. Deposits accepted by the bank are of different type's current, saving and fixed deposits.

Current Deposit

"Current deposits are also known as demand deposits. The deposit in which an amount is paid immediately at the time of any account holder's demand is called demand deposit. Though the bank can't gain profit by investing it in new sector after taking from the customer, this facility is given to the customer. Therefore, the bank does not give interest on this account. A customer can open a current a/c with a bank by making an initial of Rs.1000. Any amount may be deposited in this account. The bank makes small charges on the customer having current deposit account" (Baxley, 1987: 43).

Saving Deposit

"In saving deposits, there is restriction on the maximum amount that can be deposited and also withdrawals from the account. The bank may not permit more than one or two withdrawals during a week. This deposit is suitable and appropriate for the people of middle class who have low income and small saving. The bank usually pays small interest to the depositor against their deposit" (Baxley, 1987: 44).

Fixed Deposit

"Fixed deposit is the one, which a customer is required to keep a fixed amount with the bank of specific periods, generally by those who do not need money for the stipulated period. She/he is not allowed to withdraw the amount before expiry of the period. The rate of interest is higher than other deposit. The bank pays a higher interest on such deposit" (Baxley, 1987: 44).

2.1.10 Mobilization of Deposits

"Collecting scattered small amount of capital through different Medias and investing the deposited or collected fund in productive sector with a view to

increase the income of the depositors is meant deposit mobilization. It also supports to increase the saving through the investment of increased of extra amount" (NRB, 1984: 12).

"Capital formation is possible through collecting scattered unproductive and small savings from the people. This collected fund can be utilized in productive sectors to increase employment and national productivity. Deposit mobilization is the most important source of the capital formation" (RBB, 1998: 14).

"A commercial bank changes the scattered unproductive small savings into loanable and active savings. The bank not only collects saving, but also provides incentives to the savers and helps them to be able to save more" (RBB, 1998:15).

"Commercial banks are set up with a view to mobilize national resources. The first condition of national economic development is to be able to collect more and more deposits. In this context, the yearly increasing rate of commercial banks deposit clearly shows the satisfactory progress of deposit mobilization" (RBB, 1998: 20).

2.1.11 Needs for Deposit Mobilization

"Commercial banks expect to make a profit. If there is no profit, there will be unfavorable criticism against public sector banking, both in and outside the parliament when these banks are asked to open new branches in areas which do not allow profits for years, or asked to grant loan to the priority sectors such as small industries and agriculture with a high incidence of bad debts, there is need for counter balancing profit from elsewhere. Therefore, these banks will have to show an ascending order of profit in order to ensure growth with stability. For this purpose the bank will have to allocate land able resources to different segments in such a manner these banks can ensure adequate profitability while at the same time responding to the policy laid down in

accordance with national purpose. Bank should separate the useful and profitable sector for mobilizing their funds" (Adhikari, 2002: 54).

Therefore bank should mobilize its funds in suitable and profitable banking activities. Mainly a bank has mobilized its funds in following activities**:**

Liquid Funds

A bank has kept a volume of amount in liquid funds. These funds have so many responsibilities in banking activities. A liquid fund has covered the following transactions.

- Cash in hand
- Balance with Nepal Rastra Bank
- Balance with domestic bank
- Call Money

Investment

Bank invests its fund in different banking activities and different fields. Bank invests its funds in following titles:

- Government Securities
- Share Debenture
- NRB Bond
- Joint Venture

Loan and advances

Bank mobilizes its funds by providing different types of loan and advances to customers, by charging fixed interest. Different types of loan and advances are

- To government enterprises
- To private enterprises (Adhikari, 2002: 55).

2.1.12 Advantages of Deposit Mobilization

In that report of NRB, Bankers Prakashan Group "B" states the following points as the advantages of deposit mobilization:

Circulation of Idle Money:

Deposit mobilization helps to circulate the idle money. The meaning of deposit mobilization is to convert idle saving into active saving. It helps the depositor's habit of saving on one side, and it also helps to circulate the idle saving in productive sector on the other. This helps to create incentives to the depositors. Again, investment in productive sector helps directly in country's economic development, and also increases investor's income.

To support in Fiscal and Monetary Policy:

Fiscal policy of the government and monetary policy of the central bank for economic development of a country can be supported by deposit mobilization. It helps to canalize idle money in productive sectors. Again, it helps in money supply, which saves the country from deflation and helps central bank in achieving the objective of monetary policy.

To promote Cottage Industries:

Deposit mobilization is needed to facilitate cottage industries located in rural and urban areas. If the bank utilizes the collected deposit in the same rural or urban sector for the development of cottage industries, it is helpful not only to promote cottage industries in the area, but also supports in the development of the locality as a whole, increasing employment and income of the local people.

Capital Formation:

Capital plays a vital role for the development of industries. But in an underdeveloped country, there is always lack of capital to support such industries. Capital formation and industrialization is possible through deposit mobilization.

Developing of Banking Habit:

One of the important sides of economic developing country is to increase banking habit in the people. Deposit mobilization helps in this aspect. If there is proper deposit mobilization, people believe bank and banking habit develops in people.

To Check the Miss Utilization of Money:

Mostly our customs and habits are supported by social and religious beliefs. There is also tendency of copying others and to show their superiority buying unnecessary and luxury items in our society. In such society, deposit mobilization proves a tool to check the mis- utilization of money.

To Support Government Development Projects:

Every underdeveloped country's government needs a huge amount of money for development projects. The deposit collected by the banks can fulfill to some extent the need of money of the people.

Co-ordination between Different Sectors:

Deposit mobilization helps to collect capital from surplus and capital hoarding sectors. The fund can be invested for the needy sectors. Thus, it helps to fulfill the gap between these two different sectors. Earning interest in their deposit and the needy sector receiving loan and advances, benefits the surplus and hoarding sectors. Thus, it helps to keep good co-ordination between different sectors.

Others:

Deposit Mobilization supports small savers by earning interests, helps to the development of rural economy, protects villagers from being exploitation of indigenous bankers investment incentives, provides facilities to the small farmers to purchase tools and fertilizers, etc (NRB,1984: 12-14).

2.1.13 Investment, Investment Policy, and Its Principles

Investment

"Investment, in its broadest sense, means the sacrifice of current Rupees (Dollars) and resources for the sake of future Rupees (Dollars) and resources. In other words, it is a commitment of money and other resources that are expected to generate additional money and resources in the future. Such a commitment takes place in the present and is certain to occur but the reward comes in the future and always remains uncertain. Therefore, every investment entails some degree of risk. Investments are made in assets. Assets, generally, are of two types: real assets (land, buildings, factories etc.) and financial assets (Stocks, Bonds, and T-bills etc). These two types of investments are not competitive but complementary, highly-developed institutions for financial investment greatly facilitating real investment" (Bhattarai, 2009: 1).

Investment Policy

"The investment policy is the most important strategy performed by the banks. The profit and the growth of the bank totally depend upon the decision taken by the banks to grant the loan. Investment policy involves determining the investor's objectives and the amount of his/her investible wealth. Because there is a positive relationship between risk and return for sensible investment strategies, it is not appropriate for an investor to say that his/her objective is to 'make a lot of money'. What is appropriate for an investor in this situation is to state that the objective is to attempt to make a lot of money while recognizing that there is some chance that large lose may be incurred. Investment objectives should be stated in terms of both risk and return" (Francis, 1983: 10).

Principles of Sound Investment Policy

The principles of sound investment policy, i.e. the features of sound lending policy are explained below:

Safety and Security

A bank should be very careful while planning the investment procedure and setting policy thereto. It should always be able to avoid investing in too much volatility because a little alteration may cause a great loss. It must not invest its funs without careful analysis of the proposal of the borrower. A bank must not invest funds in the speculative business. Such business may cause bankrupt at once and earn millions in a minute. Only commercial, durable, marketable, and high marked valued securities are good for investment to the commercial banks.

Profitability

There must be profit prospect in the project to make investment decision. It should select the most profitable investment area so that it can be able to maximize the shareholders' wealth. The profits of the commercial banks depend on the interest rate, volume of loan provide, maturity period, and the nature of investment.

Liquidity

Liquidity is the ability of the bank pay cash in exchange of deposit. People deposit their hard earned money in the bank making in the min that they will withdraw it when they need it. So, a bank should always try to maintain the liquidity position. It should not invest all the money seeing the uncertain future profit. Once it losses the trust of the customers, the bank may be in the shortage of the funds in future. So, to have the customers' faith, banks should always maintain the liquidity.

Purpose of Loan

Before sanctioning the loan to the customers, banks should learn the purpose of taking loan by the customers. If the seems to be for unproductive project which may yield nothing for the customers or the customers misuse the then he/she can never repay it on time. Therefore, banks nee the detail intention of the customers before granting loan.

Diversification

Diversification of the investment will reduce the risk. It can diversify the risk by investing in various sectors so that loss on one can be compensated by the profit of other. It should not lay all its eggs on the same basket.

Legality

All the commercial banks are required to follow the directions given by NRB for the investment. Illegal method of investment seems good on short term but it will consequently hamper the bank leading towards bankruptcy as well (Shrestha, 2009: 82-84).

2.1.14 Non- Performing Assets

"The term non-performing assets and non-performing loans are used interchangeably but non-performing assets embodies a wider area of assets portfolio inclusive of non-performing loans. Non-performing loans are distressed loans classified as per the regulations of the central bank. It is the loan which has ceased to earn income or which has been categorized as sub-standard, doubtful or loss. Remaining portion of loan which falls in the category of pass is considered as performing loans. In the total assets portfolio of a bank, loans and advances constitute the major portion of assets because interest earned on loans and advances is the major sources of income for banker" (Shrestha, 2009: 255).

"Often NPA and NPL are found to be used synonymously but NPA encompasses a broader area as stated earlier. Non- performing assets or a bank refers to assets that is not utilized for productive use and constitutes from the accumulated figures of five basic components namely non banking assets, non-performing loan, remaining non performing loan, interest suspense and utilizated assets. Hence, non-performing loan is only a part of non-performing assets" (Shrestha, 2009: 255).

2.2 Review of the Previous Studies

This part consists of a review of past studies conducted by other researchers, which are relevant to the topic.

2.2.1 Review of Journals and Books

Pradhan, Surendra Babu (1996) in his article "*Deposit mobilization, its problem and prospects*" has presented that deposit is the life-blood of every financial institution like commercial bank, finance company, co-operative or non-government organization. Mr. Pradhan further ads consider the most of banks and finance companies that the latest figure does produce a strong feeling that serious review must be made on problems and prospects of deposit sector on study period. Leaving few joint venture banks, other organizations rely heavily on the business deposit and credit disbursement.

Sharma, Bijay (2000) in his article, "*Banking future on competition*" states that all the commercial banks are establishing and operating in urban areas. His achievements are:

- Commercial banking are charging rate of interest on lending.
- Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the RBB and NBL have branches in rural areas.
- They do not properly analyze the credit system. The researcher further states that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

Pradhan, Shekhar Bahadur (2001) in his articles, *"Deposit Mobilization, its Problem and Prospects"*, presented the following problems in the context of Nepal:

- People do not have knowledge and proper education for saving in institutional manner. They so now know financial organizational process withdrawal system depositing system etc.
- Financial institutions do not want to operate and provide their services in rural areas.
- He has also recommended about how to mobilize the deposit collection by the financial institutions by rendering their services in rural areas, by adding various services.
- By operating rural banking programms and unit.
- Nepal Rastra Bank must organize training programmers to develop the skilled human resources.

By spreading a numbers of co-operative societies to develop mini banking services and improves the habits of public on deposit collection to the rural areas.

Shrestha, Shiba Raj (2006) in his article "*Portfolio Management in commercial Bank, Theory and practice*" has emphasized that portfolio management is essential for individual and institutional investors. Though in the case of small investor as they are not left with much of an option it may be limited to small savings, but for large investors, diversification through investment in mutual funds, shares, debentures should be practiced as any rational investor would seek to derive the maximum return on investment although assuming some risk at the same time. A best mix of investment assets fulfilling the under mentioned aspects are preferred by prudent (large) investors.

They are:

- Higher return which is comparable with alternative opportunities available not undermining the risk taking capability of the investor.
- Adequate liquidity with sufficient safety and profitability of investment.

With these in view, the following strategy needs to be adopted:

- To have a portfolio of different securities and not just holding a single security.
- Don't put all the eggs in the same basket. (For instance don't invest in a single company or single sector). Diversification of investment should be practiced for adequate safety, liquidity and profitability.
- Choose such a portfolio of securities, which ensures maximum return with low degree of risk and uncertainty.

  The research has put forward the following approach to be adopted for designing & managing good portfolio.
- Search investment assets (generally securities), which have scope for better returns, depending upon individual characteristics like age, health, need deposition, liquidity and tax liability etc.
- To identify variety of securities for investment to reduce volatility of returns and risk.

This research has also recommended that banks in order to succeed in portfolio management should have skilled manpower, research and analysis team, and proper management information system. He has suggested that the banks having international network can also offer access to global financial markets.

He has also stressed that:

- The survival of every bank depends upon its own financial health and various activities.
- In order to develop and expand the portfolio management activities successfully the investment management methodology of a portfolio manager should reflect high standard and give their clients the benefits of global strength, local insights and prudent philosophy.

2.2.2 Review of the Previous Thesis

Gupta, Ram (2003) conducted research on the topic "*Deposits and reinvestment problems of Nepalese commercial banks*" an unpublished master level thesis submitted to Shanker Dev Campus Faculty of Management, T.U.

He points out that strengthening and the institutionalization of the commercial banks is very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms is also needed such as consolidation of commercial banks, directing attention to venture capital financing, appropriate risk return trade of by linking credit to timely repayment schedules, avoiding imperfection, allowing flexibility in lending, one window service from NRB, need of strong supervision and monitoring from NRB, diversity scope of activities for commercial banks, professional culture within commercial banks, etc. All these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal. The major objectives are as follows:

- To analyzed the liquidity management of sample banks.
- To analyze the deposit and investment position of the banks.
- To find out the relationship between deposit, investment, loans and advances and net profit.

The major findings of this study are as follows:

- The total deposit of EBL and HBL is increasing trend over the study period. The average total deposit of EBL is 14825.18 and 27.41 .28 of HBL. In comparison the HBL seems higher in deposit collection than the NABIL Bank.
- Cash and bank balance to total deposit ratio of EBL has higher HBL than i.e. 10.7% > 6.82% which indicates that the bank has higher liquidity of EBL as compare to HBL.
- The total investment to total deposit of HBL is higher than EBL i.e. 42.34% > 26.3%. It shows the HBL is mobilizing its funds on investment in various securities efficiently.

Bohara, Bhoj Raj (2007) had conducted a research on Comparative study of *"The Financial Performance of NABIL and NIBL"* an unpublished master level

thesis submitted to Shanker Dev Campus, Faculty of Management, T.U. The basic objectives of his research were to highlight the financial performance and role of joint venture banks in the liberalized Nepalese economy. His attempts of analyzing financial performance were concentrated in ratio analysis and he derived the strength and weakness of two major joint venture banks by calculating important ratios, such as: Liquidity Ratios, Leverage Ratios, Turnover/Activity Ratios, Profitability Ratios and other relevant ratios like EPS, MPS, Cash Dividend per Share and P/E ratios etc.

After calculating and analyzing the above ratios, along with income and expenditure analysis and trend analysis, he has come out with some remarkable suggestions/findings o the venture banks, which are outlined below:

- Banks need to balance between disbursing cash dividend and issuing of bonus shares.
- They need to increase operational profit by concentrating in consistence earning rather than fluctuating earnings.
- They need to maintain liquidity in the form of CRR as per the regulation of NRB. Besides these suggestions, he has emphasized in small entrepreneurs development programmers, branch expansion and mobilization of deposits in the productive sectors.

Sadula, Manoj (2007), in his thesis entitled *"Financial performance of commercial banks and returns to investors: With special reference to BOK, EBL, SCBNL, NIBL and NABIL"* an unpublished master level thesis submitted to Central Department of T.U., Faculty of Management, has pointed out following objectives:

- To evaluate Liquidity position of these Banks.
- To analyze comparative financial performance of these banks.
- To study comparative position of selected banks.
- To offer a package of suggestion to improve the financial performance.

Major Findings of this study are as follows:

- Commercial Bank except SCBNL and NABIL are not maintaining constant DP Ratio, It is recommended to maintain a constant DP Ratio so as to have the confidence of general shareholders.
- Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP Ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

Shrestha, Brinda (2009), on study entitled *"A Comparative Analysis of Financial Performance of Selected Joint Venture Banks"* an unpublished master level thesis summated to Central Department of T.U., Faculty of Management; has selected the banks NABIL, HBL and NB for this study. In this present situation, NB Bank is devolved by NRB due to its improper management and internal weaknesses. The basic objectives of her research study are as follows:

- To examine the comparative financial strengths and weaknesses of the selected Joint Venture Banks.
- To analyze different financial ratios of these banks etc.

Shrestha attempts of analyzing financial performance were concentrated in ratio analysis and she derived the strengths and weaknesses of Joint Venture Banks by calculating important ratios such as liquidity ratios, leverage ratios, profitability ratios etc. after calculating the above ratios along with income and expenditure analysis and trend analysis, she has come out with some findings which are outlined below:

- Analysis of liquidity ratio indicates better liquidity position of NB Bank.
- NB Bank is efficiently utilizing its deposit of loans and advances however total investment of NABIL is better than that of NB Bank and HBL.

- Capital adequacy ratio of NABIL is better than the other two JVBs etc.

After preparing that research study, she prepared some suggestions which are: NABIL and HBL must shift their investment from low income generating loans and advances and overdraft to increase its profit and to become one of the leading JVBs of Nepal. The venture banks should not only centralized in urban areas but are recommended to activate foreign technology and investment in Nepal by means of their operating skills and international banking techniques.

Shrestha, Sundar (2010), in study entitled *"A Comparative Study of Financial Performance Standared Chartered Bank Nepal Ltd., Nabil Bank Ltd. And Himalayan Bank Ltd."* an unpublished master level thesis summated to Shanker Dev Campus, Faculty of Management, T.U. has pointed out following objectives:

- To analyze and compare the liquidity, portability, efficiency and leverage position among three commercial banks.
- To analyze and compare solvency ratio such as capital adequacy ratio.
- To examine the position of NPA in the banks.
- To analyze the financial strength and weakness of these banks.

Major Findings of this study are as follows:

- The liquidity position of NABIL is best than that of SCBNL and HBL, as the current ratio of NABIL is highest than that of SCBNL and HBL.
- HBL is most efficient in utilizing the fixed deposit in granting loan and advance than NABIL and SCBNL.
- NABIL has utilized its assets more effectively to generate highest profit than SCBNL and HBL, since the average net profit to total assets of NABIL is highest.
- SCBNL has the highest control on interest expenses than other banks, as the interest paid to interest income of SCBNL and HBL.
- SCBNL has got as sound earning position as of NABIL and HBL. SCBNL is providing highest return to its share holders then other banks.

Tamrakar, Nagendra (2010), in *"A Comparative Study on the Financial Performance of Nepal Investment Bank Ltd and Laxmi Bank Ltd."* an unpublished master level thesis submitted to Central Department of T.U., Faculty of Management, has pointed out following objectives.

- To compare analyze the liquidity, profitability, capital structure, capital adequacy leverageness and operation of NIBL and LXBL.
- To evaluate trend in growth of net profit loan and advance, total deposit, net interest earned EPS and DPS of these selected banks and make a projection of these for next five years.
- To analyze the relationship between DPS and EPS of NIBL and LXBL.
- To evaluate the soundness of profitability and operating efficiency of LXBL comparing with that of NIBL.
- To evaluate the relationship between the variables in term of total deposits to total investment, total deposits to total net profit of LXBL and NIBL.
- To make suggestion for the improvements of financial performance of NIBL and LXBL for the future.

Major Findings of this study are as follows:

- NIBL has higher and better liquidity position than that of LXBL.
- LXBL has to increase the utilization of its current assets by providing loan and advances.
- LXBL is successfully utilizing its resources in profit generating field than NIBL and LXBL bank requires to utilized fixed deposits in loan and advance more efficiently.
- NIBL's performance is better than LXBL. It is managed to LXBL bank to Utilized optimally both its equity fund long term fund.

2.2.3 Research Gap

The previous researchers had tried to explain the utilization and mobilization of funds of commercial banks in their research studies. There are various studies made on financial performance of financial institutions in Nepal. Among them few studies were made on financial performance of commercial banks in Nepal. The previous studies were unable to focus on all criteria for comparing their financial performance.

Various quantitative and qualitative factors affect the company's performance analysis. Many studies documented that shorter and longer financial assets and liabilities are most influencing factors in share price formation or company's performance analysis.

This study fully discuss on financial analysis, the financial analysis is concerned with analyzing financial statements of a firm to identify its relative strengths and weakness associated to various aspects of financial performance. In this study also consists of the comparison of financial performance of different firms on the basis of financial information contained in different financial statements, namely income statement and balance sheet.

Every year the financial performances are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the in depth analysis of the financial performance which is the major concern of the shareholders and stakeholders. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial bank.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

The research design is a mixture of descriptive, exploratory and analytical. A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Current research applies both descriptive and analytical techniques to financial performance for selected banks. It is analytical in the sense that it uses different analytical tools to find out ratio similarly it is descriptive in the sense that it clarifies different aspects of performance of companies data.

3.2 Population and Sample

There are altogether 31 commercial banks performing all over the nation and most of their stocks are traded actively in the stock market which is considered as the population. Out of 31 commercial banks given below are selected three commercial banks.

1. Nabil Bank Limited
2. Standard Chartered Bank Limited
3. Himalayan Bank Limited

3.3 Nature and Sources of Data

This study was conducted on the basis of secondary data. The data relating to the investment, deposit, loan and advances, and profit were obtained from the balance sheet and profit and loss account of concerned banks. Supplementary data and information were collected from number of institutions and regulating authorities like Nepal Rastra Bank, Security Board Nepal, Nepal Stock Exchange Limited, Ministry of Finance, Budget Speech of different fiscal years, Economic Survey and National Planning Commission, etc.

All the secondary data were compiled, processed and tabulated in the time series as per the need and objectives. Formal and informal inter-action with the concerned departments of the banks was made to obtain additional information of the related problem. Similarly, various data and information were collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.4 Analysis of Data

The data collected from various sources leads to the logical conclusion only if the appropriate tools and technique were adopted. The collected data will have no meaning if such data will not be analyzed. Statistical and financial tools were used in this study based on the nature of data.

3.4.1 Financial Tools

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

Ratio Analysis

Ratio analysis is a powerful and most widely used tool of financial analysis. A ratio defined as "The indicated quotient of two mathematical expression" and as the "Relationship between two or more things" (Webster, 1975: 132).

a) Liquidity Ratios

"Liquidity refers to the ability of a firm to meet its short-term or current obligations. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined" (Van Horne, 1997: 147).

Cash and Bank Balance to Total Deposit Ratio

This is the most important ratio for measuring the short-term solvency position of the commercial banks. The sound ratio indicated the strong liquid position of the bank to meet the immediate cash requirement of

the customers and creditors. This ratio is obtained by dividing the total cash with the bank itself and at bank as:

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

Cash and Bank Balance to Current Assets Ratio

This ratio measures the extent of the portion of the cash and bank balance over total current assets maintained by the bank. It also gives a good indicator of liquid assets in a bank. A moderate ratio is desirable for banks because too high ratio indicates the excess idle funds and too low ratio signifies the shortage of short-term funds of the bank. However, there is lack of perfect standard regarding this ratio. It is calculated as

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

b) Turnover Ratios

The turnover ratios indicate the extent of the utilization of the total assets of the bank in credit lending schemes. In simple words, these ratios are used to detect the level of mobilization of deposits collected in lucrative sector. The main purpose of bank is to collect/accept various kinds of deposits and to mobilize them safely in profit generating sectors.

Total Deposit Turnover Ratio

This ratio is calculated to identify how effectively the total deposits are mobilized in the bank. Higher ratio is desirable for all commercial banks. It is calculated by dividing the total credit (loans) and advances by total deposits as:

$$\text{Total Deposit Turnover Ratio} = \frac{\text{Credit \& Advances}}{\text{Total Deposits}}$$

Credit and Advances to Total Assets Ratio

The entire funds obtained through various sources are invested in banks in the form of various assets. In other words, these are the sectors where the funds collected using various sources are employed or mobilized so as to get respective returns. Higher and higher ratio is desirable for commercial banks. However, such lending must be safe, transparent, and performing. This ratio is calculated as:

$$\text{Credit and Advances to Total Assets} = \frac{\text{Credit \& Advances}}{\text{Total Assets}}$$

c) Profitability Ratios

Profitability ratios are used to measure the bank's overall effectiveness of operation. The ratios used in this part are one of the good indicators of best performances. These ratios are used to indicate the profitability per unit with regards to various areas of the investment and sources of funds. The major ratios that we consider in this section are:

Return on Total Assets Ratio

Return on total assets measures the profitability of the total investment of a firm. The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher the ratio indicated the higher efficiency in the utilization of total assets and vice-versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and over use of higher interest bearing amount of debt and vice-versa. In this study, net profit/loss to total assets ratio is examined to measure the profitability of all the financial resources in bank-assets and is calculated by applying the following formula:

$$\text{Net Profit to Total Assets} = \frac{\text{Net profit}}{\text{Total assets}}$$

Return on Fixed Assets Ratio

This ratio measures the effectiveness of banks in generating profits through the usage of available fixed assets. This ratio is calculated by dividing the net profit after taxes by net fixed assets of the banks as:

$$\text{Return on Fixed Assets} = \frac{\text{Net profit}}{\text{Fixed assets}}$$

Return on Total Credit Ratio

This ratio measures the overall effectiveness of credit and advances (loans and advances) in generating profit. Higher ratio is desirable for banks. The banks having higher ratio is considered of having sound credit performance and with lower bad debts. This ratio is measured by dividing the net profit after taxes by total credit and advances as:

$$\text{Return on Total Credit} = \frac{\text{Net profit}}{\text{Total credit \& advances}}$$

Earnings per Share (EPS)

EPS is one of the most widely quoted statistics when there is a discussion of a company's performance or share value. It is the profit after tax figure that is divided by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders earned for every share held. A company can decide whether to increase or reduce the number of shares on issue. This decision will automatically affect the earnings per share. The profits available to the ordinary shareholders are represented by net profit after taxes and preference dividend. Symbolic expression of EPS is given below:

$$\text{EPS} = \frac{\text{Earnings available to shareholders}}{\text{Total no. of common stocks outstanding}}$$

Interest Earned to Credit and Advances Ratio

Credit and advances refer to the major part of sales of the banking services. Sound credit policy with minimal amount of non-performing credit reveals the success of banks in having better performance. In

return, the banks charge interest on their amount of lending. Thus, a higher ratio is desirable for all kinds of financial institutions.

$$\text{Interest income to credit and advances} = \frac{\text{Interest Income}}{\text{Total Credit \& Advances}}$$

Non-performing Credit to Credit and Advances Ratio

This ratio is used to identify the share of bad debts or useless credits in the total credit and advances of banks. In other words, this is the share or credits, which are failed to generate regular earnings. It is always expressed in percentage. Lower and lower ratio is desirable for banks. It is calculated as:

$$\text{Non-performing Credit to Credit and Advances} = \frac{\text{Non - performing credit}}{\text{Total credit \& advances}}$$

d) Market Indicator Ratios

Market indicator ratios or market value ratios are useful in detecting the position or value of the banks in the market. Under it, following ratios have been calculated:

Market Price per Share (MPS)

Market price of share is determined on the basis of demand and supply of shares in the secondary market. Various factors affect on the formation of share prices. Those factors may be both the intrinsic (company specific) factors and external factors including international economic scenarios or trends. Higher price is desirable for banks. It is also known as market value per share.

Book Value per Share

Book value per share represents the total net worth left over to the share of each common stock after deducting all external liabilities and provisions. The more the value per share better will be the performance and stronger will be the firm’s position. It is obtained by dividing the

total book net worth of a firm by the number of common stocks outstanding.

$$\text{Book Value per Share} = \frac{\text{Book net worth}}{\text{Total no of common stocks outstanding}}$$

Price-Earnings Ratio (P/E ratio)

It indicates the performance (efficient utilization of funds collected) of the CBs. It indicates the number of times the earnings are turnover with respect to price in the market. Higher ratio is desirable since increase in earnings is associated with the increase (growth) in stock's price. However, the high ratio obtained by dividing the low price by very low earnings is not considered good at any cost. The validity of higher P/E ratio lies only when both the market price and earnings are growing.

$$\text{Price – Earnings Ratio} = \frac{\text{Market price per share (MPS)}}{\text{Earnings per share (EPS)}}$$

3.4.2 Statistical Tools

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

Arithmetic Mean ($\overline{X}$)

Averages are statistical constants, which enable us to comprehend in a single effort of the whole (Gupta, 2000: 87). It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\overline{X} \text{ X} \frac{X}{N}$$

Where,

X = Sum of observations

N = Number of observations

Standard Deviation (S.D.)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. or σ (Shrestha, 1991: 43). It is used as absolute measure of dispersion or variability. It is calculated as:

$$\pm \sqrt{\frac{\phi\varepsilon^2}{N} - \left(\frac{X}{N}\right)^2}$$

Coefficient of Variation (C.V)

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

$$CV = \frac{\pm}{\bar{X}}$$

Where,

σ = Standard Deviation

$\bar{X}$ = Mean

Correlation Analysis

The popular method of statistical tool, Karl Pearson's co-efficient of correlation has been adopted to measure the significance of the relation between investment and profit of NABIL Bank Limited, Standard Chartered Bank Nepal Limited and Himalayan Bank Limited. The formula for computing the correlation coefficient (r) using direct method is as follows:

Karl Pearson's co-efficient of correlation (r) = $\frac{N \quad xy - (\quad x).(\quad y)}{\sqrt{N \quad x^2 - (\quad x)^2} \mid \sqrt{N \quad y^2 - (\quad y)^2}}$

Here,

N = Number of pairs of x and y observed

x = Values of Investment

y = Values of Profit

r = Karl Pearson's co-efficient of correlation

3.4.3 Trend Analysis

Trend analysis is the tools that are used to show grandly increase and decrease of variable in a period of time, is known as trend analysis. With the help of trend analysis; the tendency of variables over the period can be seen clearly. Here, trend analysis of deposit, investment and profit has been conducted. The projections are based on the following assumptions.

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

The trend of related variable can be calculated as Y = a+bx.

Where,

Y = Dependent variable

X = Independent variable

a = Intercept

b = Slope of the trend line.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Ratio Analysis

4.1.1 Liquidity Ratios

Cash and Bank Balance to Total Deposit

This is the most important ratio for measuring the short-term solvency position of the commercial banks. The sound ratio indicates the strong liquid position of the banks to meet the immediate cash requirement of the customers, and creditors. This ratio was obtained by dividing the total of cash and bank by total deposits.

Table: 4.1

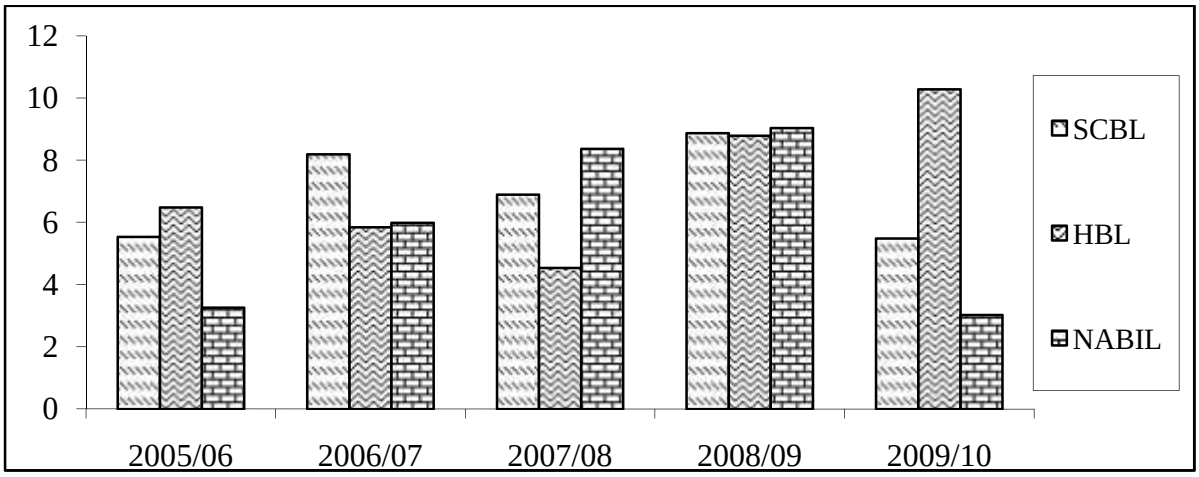
Cash and Bank Balance to Total Deposit Ratio (In %)

	NABIL	SCBL	HBL
2005/06	3.26	5.53	6.48
2006/07	5.99	8.19	5.84
2007/08	8.36	6.89	4.54
2008/09	9.03	8.87	8.79
2009/10	3.02	5.48	10.28
Average $(\overline{X})$	**5.93**	**6.99**	**7.19**
S.D (σ)	**2.79**	**1.53**	**2.32**
C.V (%)	**47.017**	**21.92**	**32.23**

Sources: Annex 1

Figure: 4.1

Diagrammatical Presentation of Cash and Bank Balance to Total Deposit Ratio



The table 4.1 depicts 9.03% as the highest ratio in the fiscal year 2008/09 and the lowest ratio of 3.02% in the fiscal year 2009/10 of NABIL. The average ratio of NABIL remained at 5.93% over the study period. The standard deviation of cash and bank balance to total deposit ratio of NABIL is 2.79 % during the study period and the CV is 47.01.

Similarly, SCBL is highest ratio is 8.87% in 2008/09 period and lowest is 5.48% in 2009/10. The CV is 21.92 which show the ratio of SCBL is lower fluctuating then NABIL. The average ratio shows the SCBL is 6.99%, standard deviation of SBCL is 1.53%.

Likewise, the average ratio of HBL is 7.19%, standard deviation is 2.32 and CV is 32.23. Highest ratio of HBL is 10.28 % in 2008/09 and lowest ratio is 4.54% in 2007/08. So we can conclude HBL's cash and deposit is medium fluctuate it means NABIL is highest risk, HBL is medium and SCBL is lower risk on cash and deposit ratio.

Cash and Bank Balance to Current Assets

This ratio is used to measure the bank's ability to meet the current obligation to its current assets. It ratio examines the commercial bank liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals

the ability of the banks to make the quick payment of its customer deposits. This ratio is computed by dividing cash and bank balance by current assets.

Table: 4.2

Cash and Bank Balance to Current Assets (In %)

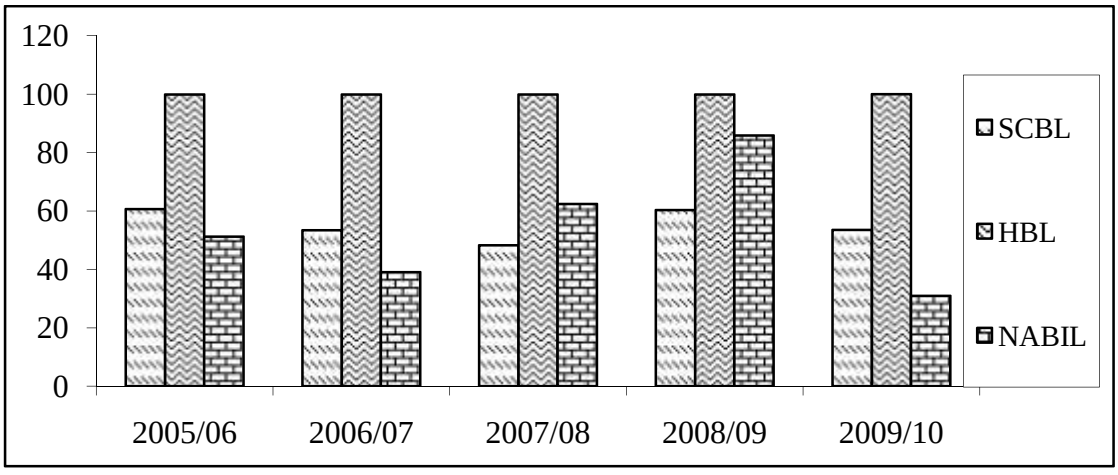
	NABIL	SCBL	HBL
2005/06	51.29	60.67	99.94
2006/07	39.13	53.43	99.90
2007/08	62.45	48.26	99.96
2008/09	85.91	60.41	99.96
2009/10	30.98	53.61	99.992
Average($\overline{X}$)	**53.95**	**55.27**	**99.95**
S.D (σ)	**21.494**	**5.264**	**3.37**
C.V (%)	**39.84**	**9.52**	**3.37**

Sources: Annex 2

This ratio measures the extent of the portion of the cash and bank balance to current assets of three commercial banks. It also gives a good indicator of liquid assets in a bank. A moderate ratio is desirable for banks. However, HBL ratio is stable than SCBL and NABIL in the five fiscal years (2005/06 to 2009/10). It is shown in the above table 4.2 and figure 4.2 given below:

Figure: 4.2

Diagrammatical Presentation of Cash and Bank Balance to Total Assets



The above table 4.2 and figure 4.2 show ratio between cash and bank balance to total current assets. In table 4.2 average is highest is 99.95% of HBL, NABIL is 53.95% and 55.27% of SCBL. The highest data on the table 4.2 is 99.99% in 2009/10 of HBL and lowest data is 30.98% of NABIL in 2009/10.

Standard deviation of highest of NABIL 21.494%, SCBL is 5.264% and HBL is 3.37%. The standard deviation shows the total risk so NABIL is high risk on the ratio of cash and bank balance total current assets. CV measure per unit risk it shows the NABIL is higher volatile then other two banks.

4.1.2 Turnover Ratio's

The turnover ratios indicate the extent of utilization of the total assets of the bank in credit lending schemes. In simple words, these ratios are used to detect the level of mobilization of deposits. The main purpose of bank is to collect various kinds of deposits and to mobilize them safely in profit generating sectors.

Total Deposit Turnover Ratio

The ratio was calculated by dividing the credit and advances by the total deposits of the respective commercial banks.

Table: 4.3

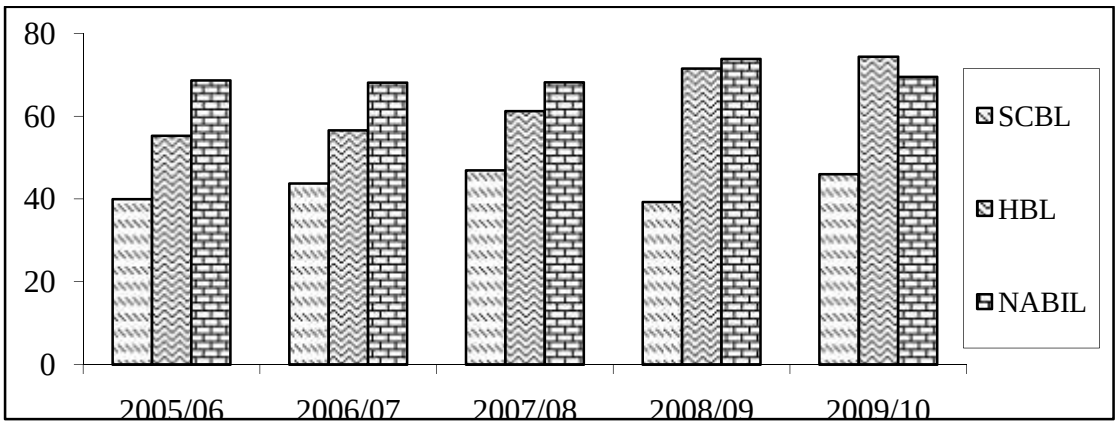
Total Deposit Turnover Ratio (In %)

	NABIL	SCBL	HBL
2005/06	68.63	39.92	55.27
2006/07	68.13	43.78	56.57
2007/08	68.18	46.95	61.23
2008/09	73.87	39.27	71.49
2009/10	69.53	45.98	74.39
Average ($\overline{X}$)	**69.66**	**43.18**	**63.79**
S.D (σ)	**2.41**	**3.47**	**8.702**
C.V (%)	**3.46**	**8.04**	**13.64**

Source: Annex 3

Figure 4.3

Diagrammatical Presentation of Total Deposit Turnover Ratio



This ratio is calculated to identify how effectively the total deposits are mobilized in the bank. Higher ratio is desirable for all commercial banks. It is calculated by dividing the total credit (loans) and advances by total deposits. The above table4.3 and figure 4.3 shows the deposit turnover ratio of respective banks.

The average is highest of NABIL and Standard deviation of 2.40 of NABIL shows the lower risk and CV also NABIL is lower per unit risk shows. The highest of total risk and per unit risk shows the HBL is highest risk on the other two banks.

Credit and Advance to Total Assets

The credit and advance to total assets ratio was calculated through credit and advance is dividing by total assets. Three sample companies credit and advance to total assets ratio are as follows.

Table: 4.4

Credit and Advance to Total Assets (In %)

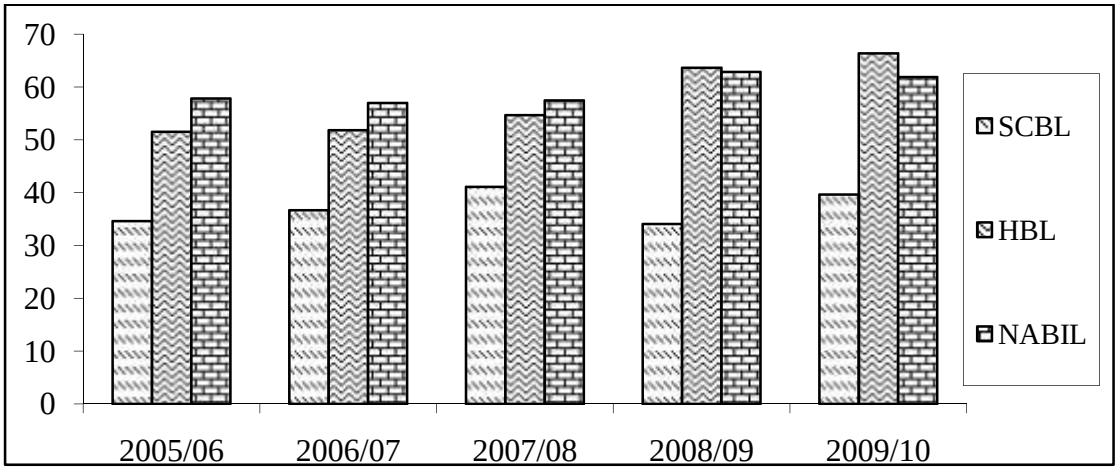
	NABIL	SCBL	HBL
2005/06	57.87	34.67	51.54
2006/07	57.04	36.73	51.85
2007/08	57.53	41.15	54.75
2008/09	62.89	34.14	63.72
2009/10	61.96	39.68	66.4
Average($\overline{X}$)	**59.46**	**37.27**	**57.65**
S.D (σ)	**2.74**	**3.07**	**6.94**
C.V (%)	**4.61**	**8.24**	**12.04**

Sources: Annex 3

The entire funds obtained through various sources are invested in banks in the form of various assets. In other words, these are the sectors where the funds collected using various sources are employed or mobilized so as to get respective returns. Higher and higher ratio is desirable for commercial banks. However, such lending must be safe, transparent, and performing.

Figure: 4.4

Diagrammatical Presentation of Credit and Advance to Total Assets



Above table 4.4 and figure 4.4 shows the ratio of credit and advance to total assets of sample three banks. The above table 4.4 indicate highest average ratio

59.46 % of NABIL, 57.65% of HBL and 37.27% of SCBL. The total risk and per unit is higher of HBL then SCBL and lowest of NABIL.

The highest ratio of NABIL is 62.89% in 2008/09 and ratio is between 57% in three years i.e. 2005/06 to 2007/08. The highest of SCBL is 41.15% in 2007/08 and lowest is 34.66% in 2005/06. The ratio of HBL is highest in 2009/10 i.e. 66.4% and lowest is i.e. 51.54% in 2005/06. The above table and figure indicate the loan and advance cover to the total assets. Higher ratio indicates higher value to the company to invest into the company. In above data NABIL is highest then other two SCBL and HBL.

4.1.3 Profitability Ratios

Profitability ratios are used to measure the bank's overall effectiveness of operation. These ratios are used to indicate the profitability per unit with regards to various areas of the investment and sources of funds. The major ratios that we consider in this section are:

Return on Assets

The total net assets of the banks reflect the total investments of the total funds collected by them through various sources to earn sufficient profits. This ratio is given by:

Table: 4.5

Return on Assets (in %)

	NABIL	SCBL	HBL
2005/06	3.23	2.56	1.55
2006/07	2.72	2.42	1.47
2007/08	2.32	2.46	1.76
2008/09	2.55	2.56	1.91
2009/10	2.37	2.70	1.19
Average ($\overline{X}$)	**2.64**	**2.54**	**1.576**
S.D (σ)	**0.37**	**0.11**	**0.27**
C.V (%)	**13.90**	**4.28**	**17.55**

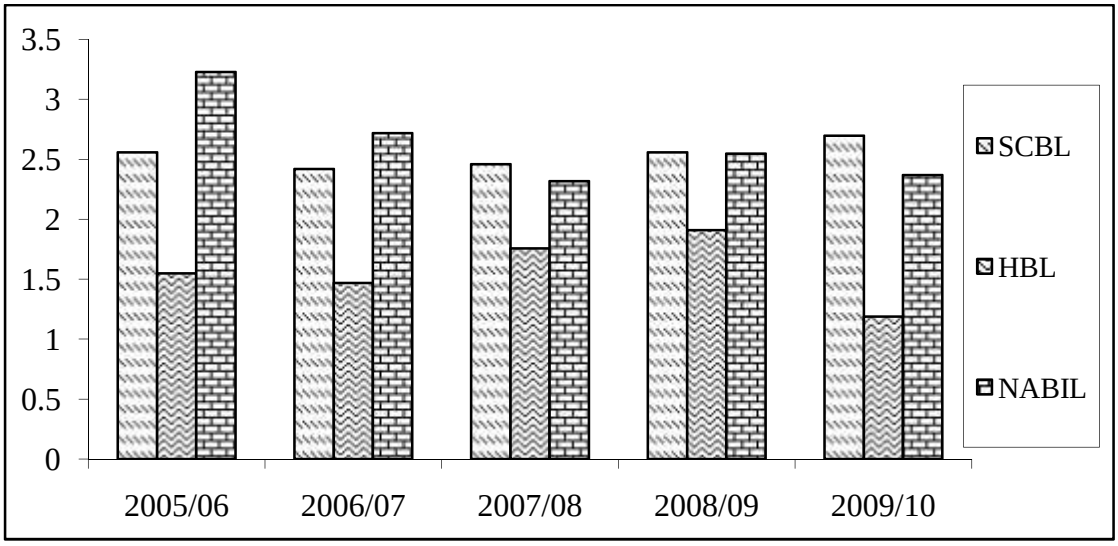
Sources: annual report of respective banks

The above table 4.5 shows the ratio of return of assets. Higher ratio indicate higher return of the assets it shows the company's economic condition is higher and the company's return is perfect. The above table 4.5 NABIL is higher average return of assets, higher total risk and per unit risk also higher than other sample banks. SCBL is shows the lower total and per unit risk. And the value SCBL is not fluctuating then other sample banks.

Below figure 4.5 shows table value in graph it also shows the SCBL is less fluctuating then others sample bank.

Figure: 4.5

Diagrammatical Presentation of Return on Assets



Return on Fixed Assets

This ratio measures the effectiveness of banks in generating profits through the usage of available fixed assets. This ratio is calculated by dividing the net profit after taxes by net fixed assets of the banks.

On the basis of below tables, the return on fixed assets of NABIL were 10.48%, 39.52%, 124.82%, 155.98% and 145.69% in the years 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratio for the five-year period was 95.3%.

The returns on fixed assets of SCBL were 650.29%, 550.37%, 698.31%, 746.66% and 916.03% in the years 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratio of the bank over the five-year period remained at 712.40%.

In the same manner, the ratios of HBL were obtained as 84.58%, 85.67%, 79.95%, 79.06% and 47.91% in the years 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratio of the bank over the study period remained at 75.43%.

Despite of several fluctuations in the ratios, the return on fixed assets ratios of SCBL showed an upward trend over the study period. Similarly, the trend lines of the ratios of NABIL and HBL were almost horizontal in shape. However, the slopes of their trends were inclined at a very lower rate but declined at a very higher rate.

Table: 4.6

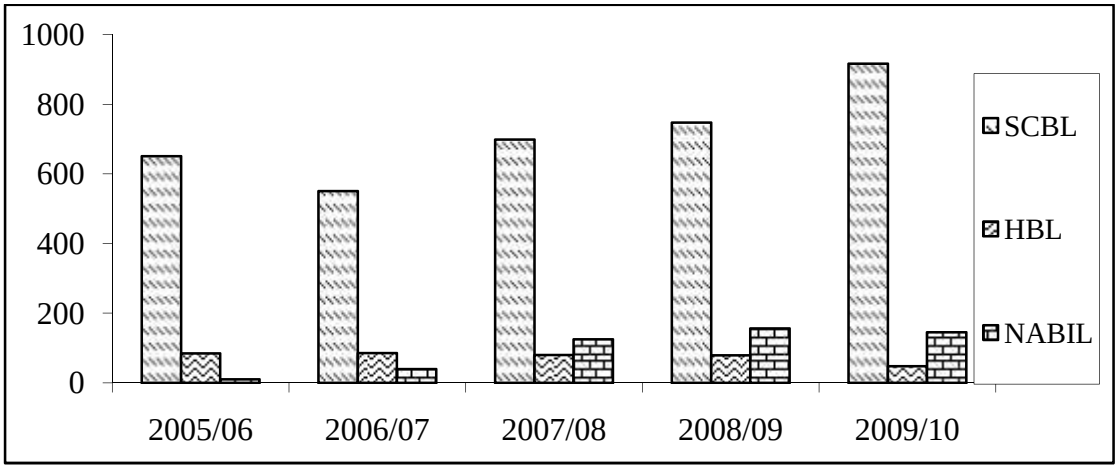
Return on Fixed Assets (in %)

	NABIL	**SCBL**	**HBL**
2005/06	10.48	650.29	84.58
2006/07	39.52	550.73	85.67
2007/08	124.82	698.31	79.95
2008/09	155.98	746.66	79.06
2009/10	145.69	916.03	47.91
Average ($\overline{X}$)	**95.30**	**712.40**	**75.43**
S.D (σ)	**65.95**	**134.93**	**15.64**
C.V (%)	**69.21**	**18.94**	**20.74**

Source: Annex 4

Figure: 4.6

Diagrammatical Presentation of Return on Fixed Assets



Return on Total Credit

This ratio measures the overall effectiveness of credit and advances (loans and advances) in generating profit. Higher ratio is desirable for banks. The banks having higher ratio is considered of having sound credit performance and with lower bad debts. This ratio is measured by dividing the net profit after taxes by total credit and advances as:

Table: 4.7

Return on Total Credit (In %)

	NABIL	**SCBL**	**HBL**
2005/06	5.24	7.63	3.12
2006/07	4.62	6.75	2.89
2007/08	3.96	6.24	3.26
2008/09	4.02	7.93	3.04
2009/10	3.47	6.91	1.82
Average ($\overline{X}$)	**4.26**	**7.09**	**2.826**
S.D (σ)	**0.68**	**0.68**	**0.57**
C.V (%)	**16.01**	**9.63**	**20.46**

Source: Annex 5

The tables depicted just above shows the profit margin of three listed CBs over the past five years. Similarly, the figure depicted above represents the five-year trends of the three banks. The ratios of NABIL were 5.24%, 4.62%, 3.96%, 4.02% and 3.47% in the years 2005/06, 06/07, 07/08, 08/09 and 09/10 respectively. The ratio for the bank was highest in the year 2005/06 and lowest in the year 2009/10. The ratios of NABIL showed in fluctuating trend. However, the rate of increment and decrement is faster 4.26%.

The same ratios for SCBL were 7.63%, 6.75%, 6.24%, 7.93% and 6.91% in the years 2005/06, 06/07, 07/08, 08/09 and 09/10 respectively. The average ratio over the five-year period is 7.09%. The ratios of SCBL were found to be in up-down trend but at a slower pace over the five-year period.

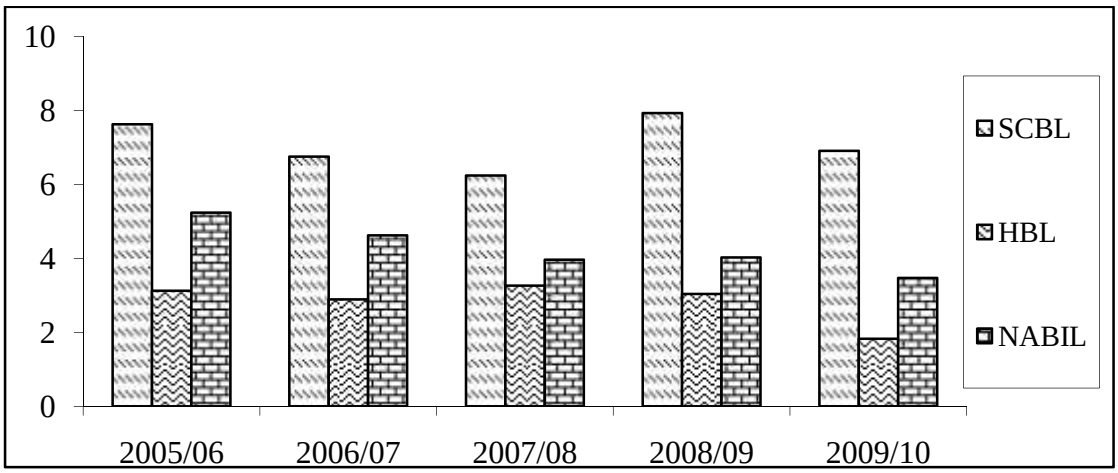
At last, the ratios of HBL were 3.12%, 2.89%, 3.26%, 3.04% and 1.82 in the years 2005/06, 06/07, 07/08, 08/09 and 09/10 respectively. The average ratio of HBL over the five-year period is 2.83%. As the variations in the ratios were small, the five-year trend of return on total credit of HBL remained almost horizontal in shape.

The average return on total credit (profit margin) of NABIL remained at 4.26%. Similarly, the average ratio of SCBL remained at 7.09% over the five years period. And the average profit margin of HBL remained at 2.83% over the five-year period.

The above analysis of the ratios and the five yearly trends showed that SCBL, NABIL and HBL respectively had the highest average return on credit and advances.

Figure: 4.7

Diagrammatical Presentation of Return on Total Credit



Earnings per Share (EPS)

This ratio measures the amount of earnings available to each share of common stock. Earnings per share is calculating through net income available to common share holders dividing by no of common stock outstanding, the higher amount is desirable for all firms.

Table: 4.8

Earnings per Share (EPS) (In Rs.)

	NABIL	**SCBL**	**HBL**
2005/06	129.21	175.84	59.24
2006/07	137.08	167.37	60.66
2007/08	108.31	131.92	62.74
2008/09	106.76	109.99	61.90
2009/10	78.61	77.65	31.80
Average ($\overline{X}$)	**111.99**	**132.55**	**55.27**
S.D (σ)	**22.81**	**40.65**	**11.79**
C.V (%)	**20.37**	**30.67**	**21%**

Source: Annual Report of Respective Banks

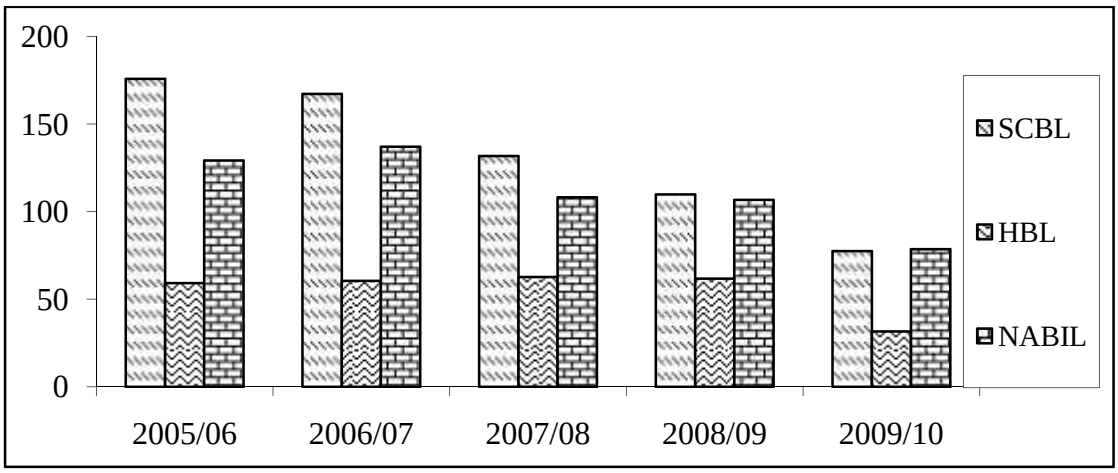
The above table 4.8 presents the EPS of the three sample companies for the period fiscal year starting from 2005/06 to 2009/10. Above table shows the EPS of company first increasing order and decreasing order. The EPS of SCBL is also increasing order till 2006/07 then decreasing at 2009/10. Its average EPS is Rs. 132.6. The EPS of the bank is above average in 2005/06 and 2006/07 and SD of EPS of SCBL is 36.36 and its CV is 30.67%.

Likewise, the average EPS of NABIL is Rs. 112.The EPS of the company is above average EPS in 2005/06 and 2007/08.The MPS of the company range from Rs.78.61 to Rs. 137.08.The EPS was highest decrease in year 2009/10 from 2008/09. The Standard Deviation of EPS of the NABIL is 20.402 and its CV is 18%.That means the EPS of NABIL is less fluctuates than SCBL.

The average EPS of HBL is Rs.55.27. The EPS of the company is above the average EPS in four fiscal years except 2009/10. Standard Deviation of EPS of EBL is 11.79 and its CV is 21%.

Figure: 4.8

Diagrammatical presentation of Earnings per Share (EPS)



In above figure 4.8 shows the EPS of sample Company. The OX axis shows the sampling years and OY axis shows the EPS amount. All bank EPS is decreasing then beginning amount. In above shows the SCBL is higher EPS

and the HBL is lowest EPS amount in every sampling years. HBL EPS is less volatile then the other all sampling banks.

Interest Earned to Credit and Advances

Credit and advances refer to the major part of sales of the banking services. Sound credit policy with minimal amount of non-performing credit reveals the success of banks in having better performance. In return, the banks charge interest on their amount of lending. Thus, a higher ratio is desirable for all kinds of financial institutions.

Table: 4.9

Interest Earned to Credit and Advances (in %)

	NABIL	SCBL	HBL
2005/06	8.29	6.19	10.32
2006/07	8.14	7.11	9.98
2007/08	8.04	6.65	9.73
2008/09	8.82	8.54	9.18
2009/10	10.41	8.78	10.81
Average ($\overline{X}$)	**8.74**	**7.45**	**10.004**
S.D (σ)	**0.980**	**1.15**	**0.61**
C.V (%)	**11.22**	**15.44**	**6.12**

Source: Annual Report of Respective Banks

The interest incomes earned by NABIL by extending credit and advances were 8.29%, 8.14%, 8.04%, 8.82% and 10.41% in the years 2005/06, 06/07,07/08,08/09 and 09/10 respectively. The average ratio remained at 8.74% in the five-year period.

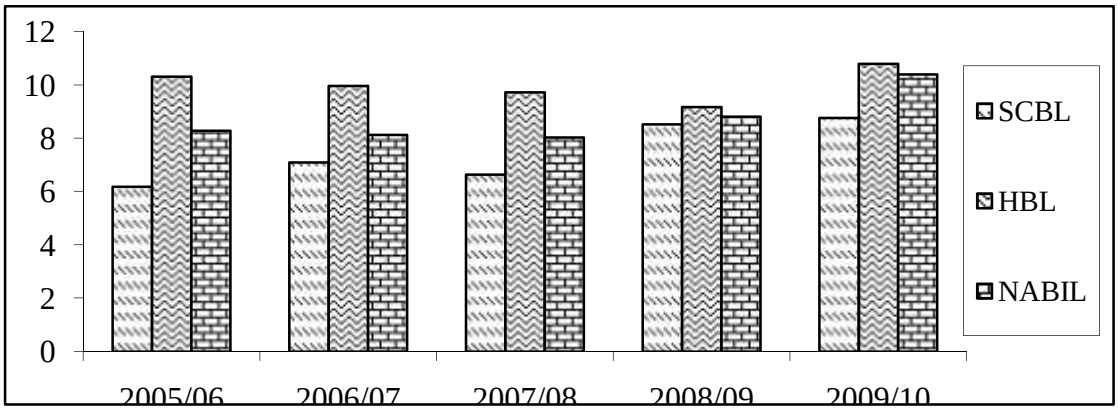
The interest income to credit and advances ratios of SCBL were 6.19%, 7.11%, 6.65%, 8.54% and 8.78% in the years 2005/06, 06/07,07/08,08/09 and 09/10 respectively. The average interest earned over credit and advances ratio of the bank over the five-year period remained at 7.45%

The ratios of HBL were 10.32%, 9.98%, 9.73%, 9.18% and 10.81% in the years 2005/06, 06/07, 07/08, 08/09 and 09/10 respectively. The average interest earned ratio remained at 10.004% over the five-year period.

HBL had the highest average interest earned to credit and advances ratio. Similarly, SCBL had the lowest average interest earned ratio over credit and advances employed. However, NABIL had been found to have the moderate rate of return over the study period with comparison to HBL and SCBL.

Figure: 4.9

Diagrammatical Presentation of Interest Earned to Credit and Advances



Non-performing Credit to Credit and Advances

This ratio is used to identify the share of bad debts or useless credits in the total credit and advances of banks. In other words, this is the share or credits, which are failed to generate regular earnings. It is always expressed in percentage. Lower and lower ratio is desirable for banks. It is calculated as:

The shares of non-performing assets on credit and advances of NABIL were 1.38%, 1.12%, 0.74%, 0.80% and 1.47% in the 2005/06, 06/07, 07/08, 08/09 and 09/10 respectively. On an average, 1.10% of the component of the credit and advances remained as non-performing credit. The ratio of NABIL showed an up-down trend over the years as shown in the figure above.

The non-performing credit to credit and advances ratio of SCBL were 2.13%, 1.83%, 0.92%, 0.66% and 0.61% in the years 2005/06, 06/07, 07/08, 08/09 and 09/10 respectively. The average ratio of the bank however remained at 1.23% over the five-year period. The ratios of SCBL also showed a declining trend over the years.

The shares of non-performing credits over total credit and advances of HBL were 6.60%, 3.61%, 2.36%, 2.16% and 3.52 in the years 2005/06, 06/07, 07/08, 08/09 and 09/10 respectively. The average ratio of non-performing credit remained at 3.65% at a slightly decreasing trend.

On the basis of above calculations and their analysis, it is found that the share of non-performing credit over total credit and advances ratio of HBL was the highest of all banks. And they were found even at a decreasing trend also in the last year of study period. It means that the shares of non-performing credit of HBL are decreasing over the years. Among all, the non-performing credit of SCBL was the lowest of all. And they were declining over the years. Therefore, we can regard that SCBL had been performing well. But NABIL had the very decreasing trend over the five-years of study period.

Table: 4.10

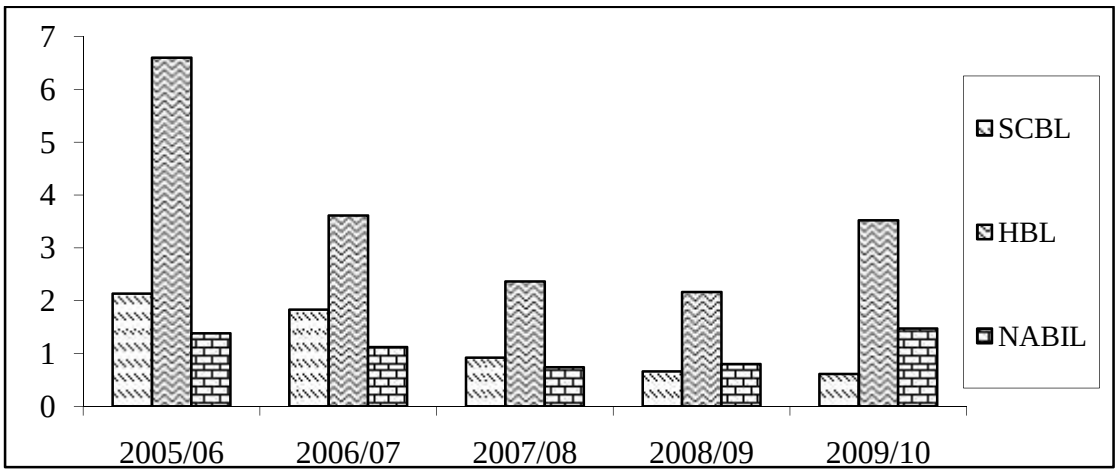
Non-performing Credit to Credit and Advances (in %)

	NABIL	**SCBL**	**HBL**
2005/06	1.38	2.13	6.6
2006/07	1.12	1.83	3.61
2007/08	0.74	0.92	2.36
2008/09	0.80	0.66	2.16
2009/10	1.47	0.61	3.52
Average ($\overline{X}$)	**1.10**	**1.23**	**3.65**
S.D (σ)	**0.32**	**0.70**	**1.77**
C.V (%)	**29.93**	**57.13**	**48.63**

Source: Annual Report of Respective Banks

Figure: 4.10

Diagrammatical presentation of Non-performing Credit to Credit and Advances



4.1.4 Market Indicator Ratios

Market indicator ratios or market value ratios are useful in detecting the position or value of the banks in the market. Under it, following ratios have been calculated:

Market Price per Share (MPS)

The below table 4.11 and below figure 4.11 shows the market price per share of selected banks in fiscal year of 2005/06 to 2009/10. Market price of share is determined on the basis of demand and supply of shares in the secondary market. Higher price is desirable for banks. It is also known as market value per share. The average MPS of NABIL is Rs. 3969.60.The MPS of the company is above average MPS in 2006/07 and 2007/08.The MPS of the company range from Rs. 2384 to Rs.5275.The MPS was highly decrease to RS. 2384 in 2009/10 from Rs.4899 MPS in 2008/09.The Standard Deviation of MPS of the NABIL is 478.12 and its CV is 40%.

Likewise, The MPS of SCBL is also increasing order till 2006/07 then decreasing at 2009/10. Its average MPS is 5158.80. The MPS of the bank is above average in except 2009/10 and SD of MPS of SCBL is 1379.52 and its CV is 27%. The average MPS of HBL is Rs. 1479.20. The MPS of the

company is above the average MPS in three fiscal years except 2006/07 to 2008/09. The MPS of the company ranges between Rs. 816 to Rs.1980. Highest MPS in fiscal year 2006/07 and the lowest MPS in fiscal year 2009/10. Standard Deviation of MPS of HBL is 443.01 and its CV is 30%.

Table: 4.11

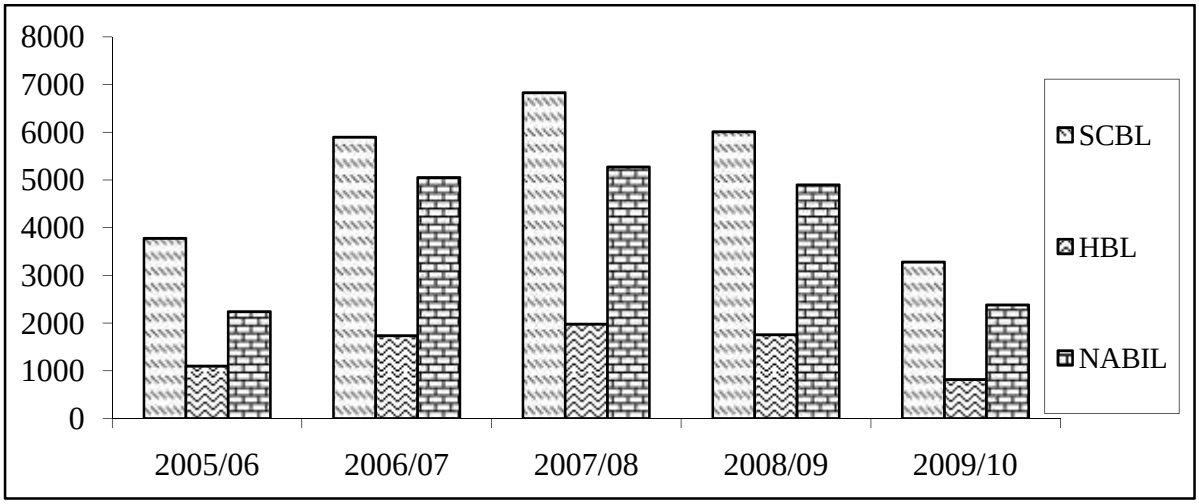
Market Price per Share (MPS) (In Rs.)

	NABIL	**SCBL**	**HBL**
2005/06	2240	3775	1100
2006/07	5050	5900	1740
2007/08	5275	6830	1980
2008/09	4899	6010	1760
2009/10	2384	3279	816
Average ($\overline{X}$)	**3969.60**	**5158.80**	**1479.2**
S.D (σ)	**478.12**	**1379.52**	**443.01**
C.V (%)	**40**	**27**	**29.95**

Source: Annual Report of Respective Banks

Figure: 4.11

Diagrammatical Presentation of Market Price per Share (MPS)



Book Value per Share

Book value per share represents the total net worth left over to the share of each common stock after deducting all external liabilities and provisions. The more value per share better will be the performance and stronger will be the firm's position. It is obtained by dividing the total book net worth of a firm by the number of common stock outstanding.

Below table 4.12 shows the book value per share book value is calculate through total book net worth and dividing through number of common stock outstanding. Below table 4.12 and figure 4.12 shows the three sample banks book value higher the book value indicate strong of the company in financial performance. SCBL is highest average book value, NABIL is lower than SCBL and higher then HBL. HBL is lowest book value per share.

Below table 4.12, highest in 200/07 of SCBL is Rs. 512.12 and lowest in 2006/07 of HBL is Rs. 228.72.

Table: 4.12

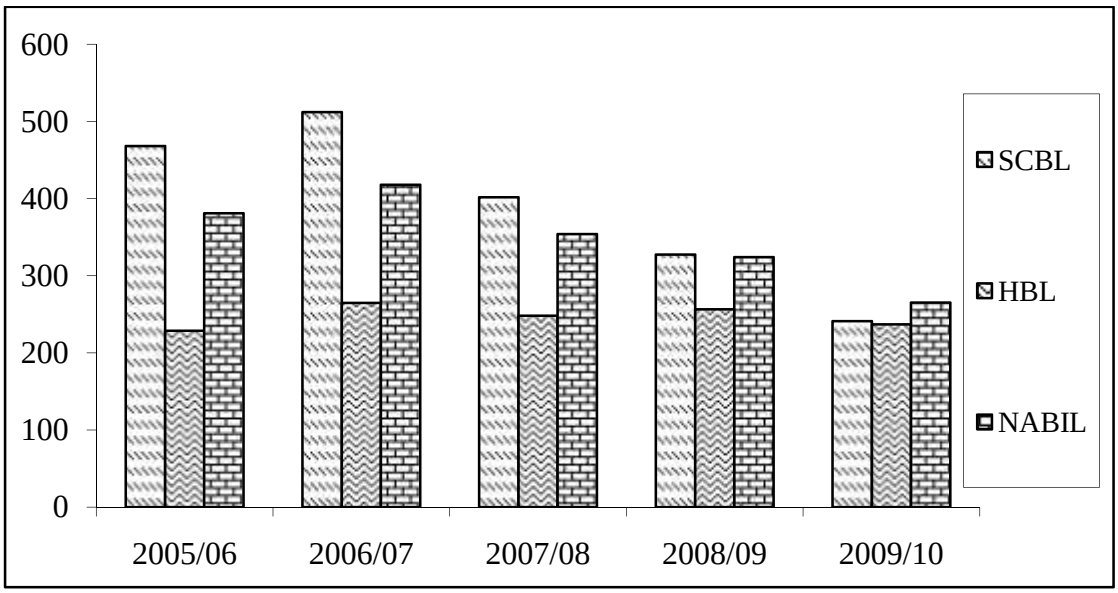
Book Value per Share (in Rs.)

	NABIL	**SCBL**	**HBL**
2005/06	381	468.22	228.72
2006/07	418	512.12	264.74
2007/08	354	401.52	247.95
2008/09	324	327.53	256.52
2009/10	265	240.95	236.79
Average ($\overline{X}$)	**348.4**	**390.07**	**246.944**
S.D (σ)	**58.07**	**108.72**	**14.53**
C.V (%)	**16.67**	**27.87**	**5.88**

Source: Annual Report of Respective Banks

Figure: 4.12

Diagrammatical Presentation of Book Value per Share



Price-Earnings Ratio (P/E Ratio)

It indicates the performance (efficient utilization of funds collected) of the CBs. It indicates the number of times the earnings are turnover with respect to price in the market. Higher ratio is desirable since increase in earnings is associated with the increase (growth) in stock's price. However, the high ratio obtained by dividing the low price by very low earnings is not considered good at any cost. The validity of higher P/E ratio lies only when both the market price and earnings are growing.

The above table 4.13 shows the ratio of price earning it indicates the company's market value is dividing through earning of the company. Above table SCBL is high average price earnings ratio then NABIL and HBL. NABIL is highest ratio at the period of 2007/08 is 48.70% and lowest is 17.34% in 2005/06. The average of NABIL is 35.82, SD is 12.65 and CV is 35.31.

Likewise, SCBL is highest in 2007/08 is 54.64 and lowest is 21.46 in 2005/06. The average 41.07, SD indicate total risk is 41.07 and CV indicate per unit risk is 32.62. HBL is highest in the year of 2007/08 and lowest is 18.56 in 2005/06

is 18.56 in. The average price earnings ratio of HBL is 26.58%, SD is 4.94 and CV is 18.58.

Below figure 4.13 shows below table data of price earnings ratio by chart. It also indicates only different views not the different result then table.

Table: 4.13

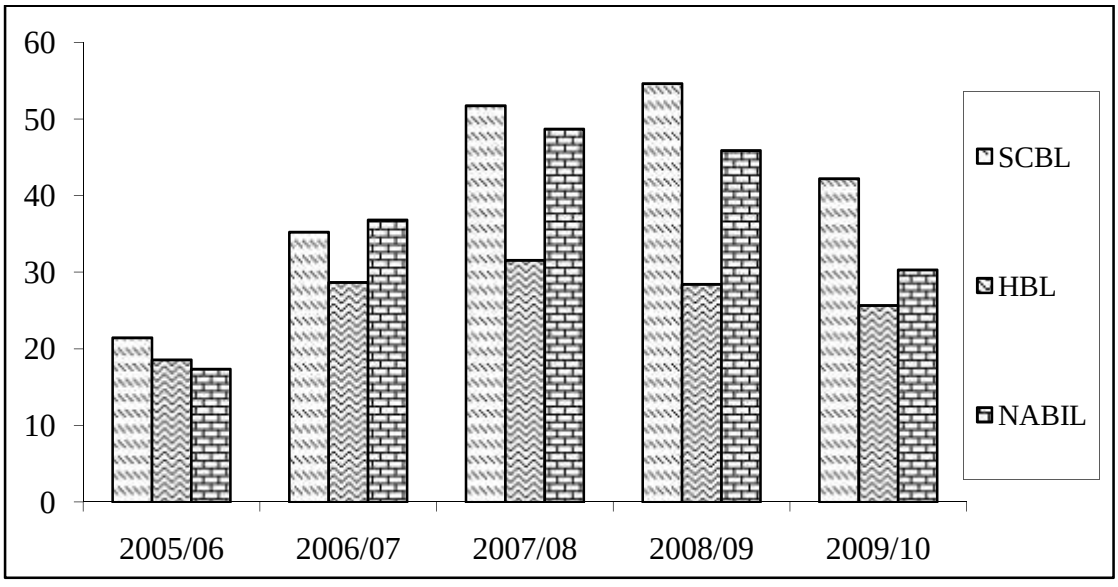
Price-Earnings Ratio (P/E ratio)

	NABIL	SCBL	HBL
2005/06	17.34	21.46	18.56
2006/07	36.84	35.25	28.68
2007/08	48.70	51.77	31.55
2008/09	45.89	54.64	28.43
2009/10	30.33	42.22	25.66
Average($\overline{X}$)	**35.82**	**41.07**	**26.58**
S.D (σ)	**12.65**	**13.40**	**4.94**
C.V (%)	**35.31**	**32.62**	**18.58**

Source: Annual Report of Respective Banks

Figure: 4.13

Diagrammatical Presentation of Price-Earnings Ratio (P/E ratio)



4.2 Analysis of Sources and Uses of Funds

The following table presents the list of sources and used of funds of NABIL, SCBL and HBL respectively. And it represents the proportionate contribution to the total fund.

4.2.1 Analysis of Sources and Uses of Funds of NABIL

Management of fund is the importance part of the banking business. The problem of managing fund is a great for bank. Then it is for almost any other enterprise. The sources and uses analysis took out proportion of each source and each use to the total funds of the bank and it were expressed in percentage. The percentage was compared with the standard percentage of a typical bank. This analysis also concerned behaviors of the sources of funds. The uses were analyzed in terms of their supporting ability to the source of funds to which they represent. In order to make study easier, the sources and uses of funds of banks were categorized and presented below:

Table: 4.14

Percentage of Various Sources of Funds from Total Sources of NABIL

Particulars	Years					Total	Average
	2005/06	2006/07	2007/08	2008/09	2009/10		
Capital Funds	8.4	7.55	7.21	7.82	8.37	**39.35**	**7.87**
Borrowings	0.78	73.24	3.66	3.82	0.144	**81.644**	**16.3288**
Deposits	86.64	85.65	85.95	85.13	88.98	**432.35**	**86.47**
Others	4.18	3.56	3.18	3.21	0.025	**14.155**	**2.831**

Table: 4.15

Percentage of Various Uses of Funds from Total Uses of NABIL

Particulars	Years					Total	Average
	2005/06	2006/07	2007/08	2008/09	2009/10		
Liquid Funds	10.59	11.53	12.45	8.95	8.8	**52.32**	**10.464**
Investment	27.67	32.82	26.77	24.68	26.11	**138.05**	**27.61**
Loan & Advance	57.87	57.04	57.54	62.89	61.96	**297.3**	**59.46**
Others	3.87	2.93	3.24	3.48	3.13	**16.65**	**3.33**

The table 4.14 shows that the, average contribution of capital fund in total sources is 7.87%. Major source of capital funds are; share capital, statutory reserve and others reserves. Likewise deposits contribute more funds out of total source of funds i.e. 86.47%. Major source of deposits are; savings, fixed, current accounts and call deposits. Considering the contribution of borrowing to total sources, it is 16.3288 which are the lowest among other sources of funds. Major sources of borrowings are, interbank and NRB. Other source of fund is 2.831%.

These sources of funds are used for different purpose. From table 4.15, NABIL has maintained liquid funds of 10.464%. Major uses of funds as liquid funds in call money, in the other financial institutions and cash in hand. NABIL make average investment of 27.61% on government securities and share and debentures. Similarly it provides loan and advances of 59.46% to its customers. Major uses of funds are as loan and advances in private sector and government enterprises. Interest accrued and other uses cover 3.33%.

4.2.2 Analysis of Sources and Uses of Funds of SCBL

The sources and uses analysis took out proportion of each source and each use to the total funds of the bank and it were expressed in percentage. The

percentage was compared with the standard percentage of a typical bank. This analysis also concerned behaviors of the sources of funds. The uses were analyzed in terms of their supporting ability to the source of funds to which they represent.

Table: 4.16

Percentage of Various Sources of Funds from Total Sources of SCBL

Particulars	Years					Total	Average
	2005/06	2006/07	2007/08	2008/09	2009/10		
Capital Funds	6.8	7.4	7.5	7.6	8.4	**37.7**	**7.54**
Borrowings	-	1.4	-	0.74	-	**2.14**	**0.428**
Deposits	89.5	86.2	89.22	88.23	87.49	**440.64**	**88.128**
Others	3.69	5.01	3.29	3.4	4.13	**19.52**	**3.904**

Table: 4.17

Percentage of Various Uses of Funds from Total Uses of SCBL

Particulars	Years					Total	Average
	2005/06	2006/07	2007/08	2008/09	2009/10		
Liquid Funds	12.63	13.23	12.74	12.96	8.95	**60.51**	**12.102**
Investment	49.82	47.39	41.71	50.51	49.36	**238.79**	**47.758**
Loan & Advance	34.68	36.73	41.15	34.14	39.68	**186.38**	**37.276**
Others	2.87	2.65	4.4	2.39	2.14	**14.45**	**2.89**

From table 4.16, average contribution of capital fund in total sources is 7.54%. Major source of capital funds are; share capital, statutory reserve and others reserves. Likewise deposits contribute more funds out of total source of funds i.e. 88.128%. Major source of deposits are; savings, fixed, current accounts and call deposits. Considering the contribution of borrowing to total sources, it is 0.528 which is the lowest among other sources of funds. Major sources of borrowings are, interbank and NRB. Other source of fund is 3.904%.

These sources of funds are used for different purpose. From table 4.17, SCBL has maintained liquid funds of 12.102%. Major uses of funds as liquid funds in call money, in the other financial institutions and cash in hand. SCBL make average investment of 47.76% on government securities and share and debentures. Similarly it provides loan and advances of 37.28% to its customers. Major uses of funds are as loan and advances in private sector and government enterprises. Interest accrued and other uses cover 2.89%.

4.2.3 Analysis of Sources and Uses of Funds of HBL

The problem of managing fund is a great for bank. Then it is for almost any other enterprise. The sources and uses analysis took out proportion of each source and each use to the total funds of the bank and it were expressed in percentage. The percentage was compared with the standard percentage of a typical bank. This analysis also concerned behaviors of the sources of funds. The uses were analyzed in terms of their supporting ability to the source of funds to which they represent. In order to make study easier, the sources and uses of funds of banks were categorized and presented below:

Table: 4.18

Percentage of Various Sources of Funds from Total Sources of HBL

Particulars	Years					Total	Average
	2005/06	2006/07	2007/08	2008/09	2009/10		
Capital Funds	5.34	5.77	6.26	6.82	7.79	**31.98**	**6.396**
Borrowings	1.75	1.65	1.74	2.56	1.25	**8.95**	**1.79**
Deposits	85.94	86.63	87.57	86.39	86.60	**433.13**	**86.626**
Others	6.97	5.95	4.43	4.23	4.36	**25.94**	**5.188**

Table: 4.19

Percentage of Various Uses of Funds from Total Uses of HBL

Particulars	Years					Total	Average
	2005/06	2006/07	2007/08	2008/09	2009/10		
Liquid Funds	8.51	8.9	10.10	5.34	10.54	**43.39**	**8.678**
Investment	40.50	35.61	34.45	36.19	21.75	**168.5**	**33.7**
Loan & Advance	46.59	51.54	51.85	54.75	63.72	**268.45**	**53.69**
Others	4.4	3.95	3.6	3.72	3.99	**19.66**	**3.932**

From table 4.18, average contribution of capital fund in total sources is 6.4%. Major source of capital funds are; share capital, statutory reserve and others reserves. Likewise deposits contribute more funds out of total source of funds i.e. 86.626%. Major source of deposits are; savings, fixed, current accounts and call deposits. Considering the contribution of borrowing to total sources, it is 1.79 which is the lowest among other sources of funds. Major sources of borrowings are, inter bank transactions. Other source of fund is 5.118%.

These sources of funds are used for different purpose. From table 4.19, HBL has maintained liquid funds of 8.678%. Major uses of funds as liquid funds in call money, in the other financial institutions and cash in hand. HBL make average investment of 33.7% on government securities and share and debentures. Similarly it provides loan and advances of 53.69% to its customers. Major uses of funds are as loan and advances in private sector and government enterprises. Other uses of HBL cover 3.932% of total uses of funds.

4.3 Relationship between Total Deposits and Total Investments

In this research study, the relationship between total deposits and total investment of NABIL, SCBL and HBL were calculated. The total deposits are independent variables (X) and total investment is dependent variable (Y).

Table: 4.20

Relationship between Total Deposits and Total Investments

Name of Banks	Base of Evaluation				Remarks
	r	R^2	P.E	6 x P.E	
NABIL	0.9672	0.9355	0.2918	1.7505	r < 6 x P.E
SCBL	0.9370	0.8780	0.2827	1.6959	r < 6 x P.E
HBL	-0.6088	0.37064	0.1898	1.1390	r < 6 x P.E

Source: Annex 6

The above table 4.20 shows that the coefficient of correlation between total deposits and total investments of NABIL, SCBL and HBL are 0.9672, 0.9370 and -0.6088 respectively. It shows a high and positive relationship of NABIL & SCBL however that of HBL negative, it means the bank has not made investment in the ratio of increase in deposit; instead, it has increased the loan as reflected below. Similarly it considered the value of coefficient of determination (R^2) of NABIL 0.9355, 0.8780 of SCBL and 0.37064 of HBL. It means the total variation in the investment has been explained by the total deposit. Since, r of NABIL is positive and is lesser than 6P.E, it can be said that there is positive relationship between total deposits and total investments. However r is positive and r < 6P.E, it can be concluded that SCBL, NABIL and HBL have very high significant and HBL have strong negative correlation between total deposits and total investments.

4.4 Relationship between Total Deposits and Loan and Advances

Table: 4.21

Relationship between Total Deposits and Loan and Advances

Name of Banks	Base of Evaluation				Remarks
	r	R^2	P.E	6 x P.E	
NABIL	0.9941	0.9883	0.2999	1.7992	r < 6 x P.E
SCBL	0.9236	0.8531	0.2786	1.6716	r < 6 x P.E
HBL	0.9795	0.9594	0.2955	1.7727	r < 6 x P.E

Source: Annex 6

The above table reflects that the coefficient of correlation between total deposits and loan and advances is 0.9941, 0.9236 and 0.9795 of NABIL, SCBL and HBL respectively. It shows a high and positive relationship. Similarly it considered the value of coefficient of determination (R^2) of 0.9883, 0.8531 and 0.9594 of the banks NABIL, SCBL and HBL respectively. It means the total variation in the dependent variable has been explained by the independent variable. Since, r of NABIL is positive and is lesser than 6P.E, it can be said that there is only positive relationship between total deposits and loan and advances. However r is positive and r < 6P.E, it can be concluded that SCBL and HBL have very high insignificant and strong positive correlation between total deposits and loan and advances.

4.5 Trend Analysis of Total Deposits

Here the trend value of NABIL, SCBL and HBL has been calculated for five year from 2005/06to 2009/10. The forecast for next five years till 2014 has been done.

Table: 4.22

Trend Value of Total Deposits of NABIL, SCBL and HBL (in Rs.)

Years	NABIL	SCBL	HBL
2005/06	18,04,62,23,162	22,60,76,83,019	26,76,01,95,558
2006/07	24,85,94,80,451	26,10,24,01,189	29,44,75,58,372
2007/08	31,67,27,37,740	29,59,71,19,359	32,13,49,21,186
2008/09	38,48,59,95,029	33,09,18,37,529	34,82,22,84,001
2009/10	45,29,92,52,318	36,58,65,55,699	37,50,96,46,815
2010/11	52,11,25,09,607	40,08,12,73,870	40,19,70,09,629
2011/12	58,92,57,66,896	43,57,59,92,040	42,88,43,72,443
2012/13	65,73,90,24,185	47,07,07,10,210	45,57,17,35,257
2013/14	72,55,22,81,474	50,56,54,28,380	48,25,90,98,072
2014/15	79,36,55,38,763	54,06,01,46,550	50,94,64,60,886

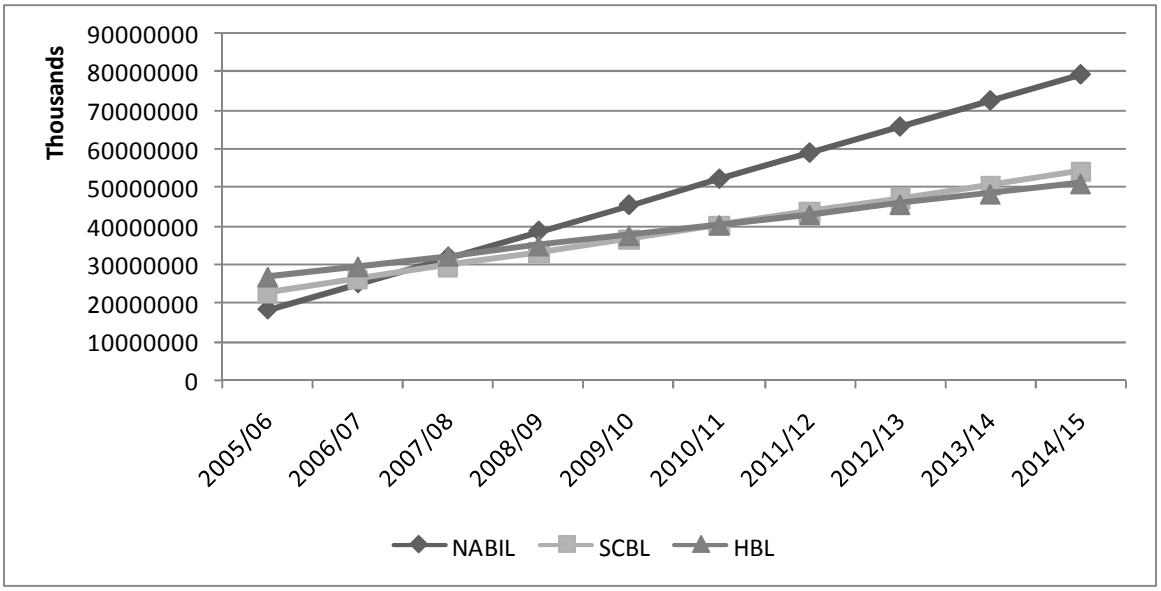
Source: Annex 7

The above comparative table of trend values of total deposits shows that deposits of three banks NABIL, SCBL and HBL has increasing trend. Other things remaining the same, the deposits of NABIL in the year 2014/15 will be Rs. 79365538763, SCBL Rs. 54060146550 and HBL Rs. 50946460886 which are the highest under the study period.

From the above analysis it can be concluded that NABIL deposit is comparatively better than that of SCBL and HBL.

Figure 4.14

Trend Analysis of Total Deposit of Sample Banks



4.6 Major Findings of the Study

The major findings drawn on the bases of analysis of the relevant data of the respective banks are as follows.

1. The cash and bank balance to total deposit ratio of HBL is 7.19% highest among the sampled banks; 6.99% is SCBNL has moderate ratio and lowest ratio with NABIL is 5.93%.
2. The average ratio of cash and bank balance to total current assets ratio, HBL comes in first position with 99.95%, SCBL comes in second

position with 55.27% and NABIL is 53.95% comes in last position among these three commercial banks in the case of cash and bank balance to total current assets ratio.

3. The average credit and advance to total deposit ratio of NABIL (69.66%), HBL (63.79%) and SCBNL (43.18%) are respectively.
4. HBL has the highest ratio of credit and advance to total assets according to standard deviation (6.94%) and coefficient of variation (12.04), NABIL has the moderate ratio and SCBNL has the lowest ratio.
5. The return on total assets ratio of, NABIL is the highest among all of the sample banks. Similarly, SCBNL has the moderate ratio and HBL has the lowest ratio.
6. SCBNL has the highest return on fixed assets ratio of 712.20%, NABIL of 95.30% and HBL is 75.43%.
7. SCBNL, NABIL and HBL come respectively in first, second and third position according to return on loans and advances or total credit ratio.
8. In the case of earning per share, SCBNL has highest EPS, i.e. Rs. 132.55, NABIL has the moderate EPS, i.e. Rs. 111.99 and HBL has the lowest EPS, i.e. Rs. 55.27 only.
9. HBL (10.004%) has the highest ratio, NABIL (8.74%) comes in second position and SCBNL (7.45%) comes in last position on the basis of interest income to credit and advances ratio.
10. HBL has the highest ratio of non-performing credit to total credit and advances ratio, then after SCBL comes in second position and NABIL comes on last position among these three sample banks.
11. SCBNL has the highest market price per share among the sample banks. Similarly, NABIL and HBL come in second and third position respectively according to the market price per share.
12. Likewise, book value per share is highest with SCBNL (Rs. 390.07), lowest with HBL (Rs. 246.944) and moderate with NABIL (Rs. 348.4).

13. SCBL (41.07) has the highest average price-earnings ratio, NABIL (35.82) has the moderate ratio and HBL (26.58) has the lowest ratio among these three commercial banks.
14. All three banks have deposit is primary source then other sources. NABIL is 88.98%, SCBL is 87.49% and HBL is 86.6 % cover by deposit of total sources.
15. HBL and NABIL banks are uses of fund in loan & advance then SCBL is investment cover higher percentage of total fund.
16. Correlation between total deposit and total investment is positive of NABIL (0.9672) and SCBL (0.9370) then negative of HBL (-0.6088).
17. The correlation between total deposit and loan & advance of NABIL (0.9941) is higher than HBL (0.9795) & SCBL (0.9236).
18. All banks have the total deposit trend value is increasing order. NABIL is higher than SCBL & HBL in further five year trend value.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Summary

A Nepalese financial companies and financial market is developing stage. Commercials banks of course contribute a lot to the economic development of the country. Thus, to remain in the front line as contributor in the economy, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it needs to have reasonable profitability. Measurement of financial performance of an organization is very crucial because the remedial measures can be taken before the failure of a firm and new plans and policies can also be formulated and implemented according to their position and requirement.

No (doubt commercial banks play a crucial role for the economic development by contributing of capital. Scattered recourses hold no meaning unless and until they are mobilized and utilized efficiently in some productive sectors. Commercial banks contribute to the process of capital formation by converting dispersed saving into meaningful capital investment in order to aid industry, trade, commerce and agriculture for the economic development of a nation. It should not be forgotten that a country could hardly achieve its growth of economic development without a strong capital base. Commercial banks play a vital role in performing such base for financial and economic development by mobilizing deposit. It is quite true that a strong financial institution is of great need in a developing country like Nepal. Because all the economic conditions are based on the financial institution and the development of a country depend upon the active participation of the banks in the different activities in the economy.

5.2 Conclusion

The financial performance of all the selected banks were strong and enough to meet their immediate needs of cash and short-term obligations. NABIL, SCBNL and HBL had been found to hold short liquidity than other banks in the whole industry. However, HBL held excess amount of liquidity in assets than other similar banks in the commercial banking sector.

Despite having the highest deposit mobilization ratios, the credit of HBL comprised of a heavy portion of bad and non-performing credit. It indicates that meant the quality of the credit extended by HBL was comparatively bad among the three sampled banks. However, the deposit and the assets of HBL were found slightly underutilized. The deposit mobilization of SCBNL was too low than the amount of deposit collection. Out of the total funds obtained from deposit collection and its mobilization in credit extension to the parties, the quality of the loan extended by NABIL and HBL was found the best among the sampled banks.

The profitability ratios of HBL were low. The profitability position of NABIL and SCBNL were strong. However, SCBNL had the highest profitability ratios. It can be regarded that the deposits and assets of SCBNL were utilized effectively the lower amount of non-performing credit. The overall profitability of HBL and NABIL were also positive but quite low.

The total capital of the shareholders of HBL was in critical condition. That meant, the shareholders of HBL were in total threat. The shareholders' rates of earnings in rest of two banks were sound. Though the return generated by the utilization of the total assets and mobilization of the deposits in lending sector was quite low in the selected banks, the shareholders of the banks were getting fair return due to capital gearing (especially due to excessive use of short-term leverage).

The net worth per share of this SCBNL was also the highest. It means that the image of this bank in the general public was also high. Share price of NABIL occupied the highest position in the market. However, HBL's share price in the market was found decreasing constantly at a higher rate for the first three years. That means the investors' perception of HBL's performance and price was bad. Due to the adverse image of the performance, the general investors' rating of the HBL's share price was too low, and the owners of the shares of HBL were found willing to sell.

5.3 Recommendations

Based on the above analysis and major findings deduced from the study of financial performance of three joint venture commercial banks, the following suggestions can be made to the sampled banks:-

- NABIL, SCBNL and HBL should minimize their existing level of excess liquidity by investing in more profitable sectors. Idle assets of theirs in form of excess cash or equivalents should be diverted in various investment opportunities available in the market. Those less risky investment sectors should be identified.
- NABIL, SCBNL and HBL need to bring in newer schemes to mobilize their higher amount of deposits in extending credit.
- All the banks should have to make effort in order to minimize their non-performing credits. HBL especially, must be more conscious on this part. Making credit policy more transparent, standard and less risky should increase the quality of the credit.
- All the banks should try to increase their profitability by investing in more profitable sectors, and by increasing the quality of their extended credits. They should have to investigate thoroughly the wide range of investment opportunities in the market in order to improve their profitability situation. Especially, HBL should immediately be more conscious on this part as it is having continuous less profit over the years.

- As formation of price is a very complex process, some extremely outstanding sectors such as management efficiency, profitability status, future perspective, bank's investment strategy, etc should be improved. HBL must have to follow this scheme immediately.
- Further studies can be conducted by increasing sample size by using other statistical and financial tools by increasing study period other industries.

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ANNEX 1

Cash and Bank Balance to Total Deposit Ratio

NABIL

Years	Cash and Bank Balance	Total Deposit	Ratio
2005/06	630238588	19347399440	3.26%
2006/07	1399825851	23342285327	6.00%
2007/08	2671141055	31915047467	8.37%
2008/09	3372512571	37348255840	9.03%
2009/10	1400097804	46410700628	3.02%

SCBL

Years	Cash and Bank Balance	Total Deposit	Ratio
2005/06	1276241423	23061032081	5.53%
2006/07	2021021068	24647020755	8.20%
2007/08	2050243214	29743998794	6.89%
2008/09	3137163535	35350823711	8.87%
2009/10	1929306520	35182721454	5.48%

HBL

Years	Cash and Bank Balance	Total Deposit	Ratio
2005/06	1717352336	26490851640	6.48%
2006/07	1757341252	30048417757	5.85%
2007/08	1448142890	31842789356	4.55%
2008/09	3048526788	34681345179	8.79%
2009/10	3866491000	37611202000	10.28%

ANNEX 2

Cash and Bank Balance to Current Assets

NABIL

Years	Cash and Bank Balance	Current Assets	Ratio
2005/06	630238588	1228642189	51.30%
2006/07	1399825851	3576868753	39.14%
2007/08	2671141055	4276894329	62.46%
2008/09	3372512571	3925400868	85.92%
2009/10	1400097804	4518241804	30.99%

SCBL

Years	Cash and Bank Balance	Current Assets	Ratio
2005/06	1276241423	2103512423	60.67%
2006/07	2021021068	3782172568	53.44%
2007/08	2050243214	4247780814	48.27%
2008/09	3137163535	5192712535	60.41%
2009/10	1929306520	3598766520	53.61%

HBL

Years	Cash and Bank Balance	Current Assets	Ratio
2005/06	1717352336	1718357616	99.94%
2006/07	1757341252	1759051276	99.90%
2007/08	1448142890	1448661420	99.96%
2008/09	3048526788	3049696982	99.96%
2009/10	3866491000	3866799840	99.99%

Annex 3

Cash and Bank Balance to Total Assets Ratio

NABIL

Years	Cash and Bank Balance	Total Assets	Ratio
2005/06	630238588	22329971078	2.82%
2006/07	1399825851	27253393008	5.14%
2007/08	2671141055	37132759149	7.19%
2008/09	3372512571	43867397504	7.69%
2009/10	1400097804	52079725697	2.69%

SCBL

Years	Cash and Bank Balance	Total Assets	Ratio
2005/06	1276241423	25776332320	4.95%
2006/07	2021021068	28596689451	7.07%
2007/08	2050243214	33335788326	6.15%
2008/09	463345996	40066570593	1.16%
2009/10	509031174	40213319926	1.27%

HBL

Years	Cash and Bank Balance	Total Assets	Ratio
2005/06	1717352336	30579808000	5.62%
2006/07	1757341252	34314868000	5.12%
2007/08	1448142890	36857624000	3.93%
2008/09	3048526788	40046686000	7.61%
2009/10	3866491000	43860251000	8.82%

Annex 4

Credit and Advance to Total Assets

NABIL

Years	Credit and Advance	Total Assets	Ratio
2005/06	12922543153	22329971078	57.87%
2006/07	15545778730	27253393008	57.04%
2007/08	21365053318	37132759149	57.54%
2008/09	27589933041	43867397504	62.89%
2009/10	32268873283	52079725697	61.96%

SCBL

Years	Credit and Advance	Total Assets	Ratio
2005/06	8935417810	25776332320	34.67%
2006/07	10502637135	28596689451	36.73%
2007/08	13718597132	33335788326	41.15%
2008/09	13679756990	40066570593	34.14%
2009/10	15956955268	40213319926	39.68%

HBL

Years	Credit and Advance	Total Assets	Ratio
2005/06	15761977000	30579808000	51.54%
2006/07	17792724000	34314868000	51.85%
2007/08	20179613000	36857624000	54.75%
2008/09	25519519000	40046686000	63.72%
2009/10	29123755000	43860251000	66.40%

ANNEX 5

Return on Fixed assets

NABIL

Years	Net Income	Fixed Assets	Ratio (%)
2005/06	33438017	319086147	10.48%
2006/07	113381555	286895224	39.52%
2007/08	746468394	598038998	124.82%
2008/09	1031053098	660988986	155.99%
2009/10	1,138,570,802	781480397	145.69%

SCBL

Years	Net Income	Fixed Assets	Ratio (%)
2005/06	658755881	101301932	650.29%
2006/07	691668064	125590978	550.73%
2007/08	818921008	117272258	698.31%
2008/09	1025114536	137292540	746.66%
2009/10	1085871694	118539974	916.04%

HBL

Years	Net Income	Fixed Assets	Ratio (%)
2005/06	457458000	540825000	84.59%
2006/07	491823000	574060430	85.67%
2007/08	635868519	795309700	79.95%
2008/09	752834735	952196395	79.06%
2009/10	508798000	1061871000	47.92%

ANNEX 6

Calculation of Correlation Coefficient of Total Deposit and Total Investment of NABIL

Years	Total deposit(X)	Total Investment(Y)	X*Y	X^2	Y^2
2005/06	19347399440	6178533108	1.19539E+20	3.74322E+20	3.81743E+19
2006/07	23342285327	8945310567	2.08804E+20	5.44862E+20	8.00186E+19
2007/08	31915047467	9939771428	3.17228E+20	1.01857E+21	9.87991E+19
2008/09	37348255840	10826379001	4.04346E+20	1.39489E+21	1.1721E+20
2009/10	46410700628	13600916613	6.31228E+20	2.15395E+21	1.84985E+20
	X = 1.58364E+11	Y = 49490910717	XY =1.68115E+21	X^2 = 5.4866E+21	Y^2 = 5.19187E+20

N=5

$$\mathbf{r} = \frac{n \quad xy\,Z \quad x \quad Y}{\sqrt{n \quad x^2 \; Z(\quad x)^2}\;\sqrt{n \quad y^2 \; Z(\quad Y)^2}}$$

$$= \frac{(5 \mid 1.68115E\,\Gamma 21)\,Z(1.58364E\,\Gamma 11 \mid 49490910717)}{\sqrt{(5 \mid 5.4866E\,\Gamma 21)\,Z(1.58364E\,\Gamma 11)^2}\;\sqrt{(5 \mid 5.19187E\,\Gamma 20\,Z(49490910717)^2}}$$

$$= 0.9672$$

Calculation of Correlation Coefficient of Total Deposit and Total Investment of SCBL

Years	Total Deposit (X)	Total Investment (Y)	X*Y	X^2	Y^2
2005/06	23061032081	12,847,535,692	2.96277E+20	5.31811E+20	1.65059E+20
2006/07	24647020755	13,553,233,464	3.34047E+20	6.07476E+20	1.8369E+20
2007/08	29743998794	13,902,819,011	4.13525E+20	8.84705E+20	1.93288E+20
2008/09	35350823711	20,236,121,082	7.15364E+20	1.24968E+21	4.09501E+20
2009/10	35182721454	19,847,511,025	6.98289E+20	1.23782E+21	3.93924E+20
	$\sum X$ =1.47986E+11	$\sum Y$= 80387220274	$\sum XY$= 2.4575E+21	$\sum X^2$= 4.5115E+21	$\sum Y^2$= 1.34546E+21

N=5

$$\mathbf{r} = \frac{n \quad xy\,Z \quad x \quad Y}{\sqrt{n \quad x^2 \; Z(\quad x)^2} \; \sqrt{n \quad y^2 \; Z(\quad Y)^2}}$$

$$= \frac{(5 \mid 2.4575E\,\Gamma\,21)\,Z(1.47986E\,\Gamma 11 \mid 80387220274)}{\sqrt{(5 \mid 4.5115E\,\Gamma\,21)\,Z(1.47986E\,\Gamma 11)^2} \; \sqrt{(5 \mid 1.34546E\,\Gamma\,21 Z(80387220274)^2}}$$

$$= 0.9370$$

Calculation of Correlation Coefficient of Total Deposit and Total Investment of HBL

Years	Total deposit(X)	Total Investment(Y)	X*Y	X^2	Y^2
2005/06	26490851640	10889031000	2.8846E+20	7.01765E+20	1.18571E+20
2006/07	30048417757	11822985000	3.55262E+20	9.02907E+20	1.39783E+20
2007/08	31842789356	13340177000	4.24788E+20	1.01396E+21	1.7796E+20
2008/09	34681345179	8710691000	3.02098E+20	1.2028E+21	7.58761E+19
2009/10	37611202000	8444910000	3.17623E+20	1.4146E+21	7.13165E+19
	$\sum X$ =1.60675E+11	$\sum Y$= 53207794000	$\sum XY$= 1.68823E+21	$\sum X^2$= 5.23603E+21	$\sum Y^2$= 5.83507E+20

N=5

$$\mathbf{r} = \frac{n \quad xy\,Z \quad x \quad Y}{\sqrt{n \quad x^2\ Z(\quad x)^2}\ \sqrt{n \quad y^2\ Z(\quad Y)^2}}$$

$$= \frac{(5 \mid 1.68823E+21)\,Z(1.60675E+11 \mid 53207794000)}{\sqrt{(5 \mid 5.23603E+21)\,Z(1.60675E+11)^2}\ \sqrt{(5 \mid 5.83507E+20)\,Z(53207794000)^2}}$$

$$= -0.6088$$

Correlation Co-efficient between Total Deposits and Loan and Advance of NABIL

Years	Total deposit(X)	Loan and advance(Y)	X*Y	X^2	Y^2
2005/06	19347399440	12922543153	2.50018E+20	3.74322E+20	1.66992E+20
2006/07	23342285327	15545778730	3.62874E+20	5.44862E+20	2.41671E+20
2007/08	31915047467	21365053318	6.81867E+20	1.01857E+21	4.56466E+20
2008/09	37348255840	27589933041	1.03044E+21	1.39489E+21	7.61204E+20
2009/10	46410700628	32268873283	1.49762E+21	2.15395E+21	1.04128E+21
	∑ X = **1.58364E+11**	∑Y= **1.09692E+11**	∑XY= **3.82282E+21**	$\sum X^2$= **5.4866E+21**	$\sum Y^2$= **2.66761E+21**

N=5

$$\mathbf{r} = \frac{n \quad xy\,Z \quad x \quad Y}{\sqrt{n \quad x^2 \; Z(\quad x)^2} \; \sqrt{n \quad y^2 \; Z(\quad Y)^2}}$$

$$= \frac{(5 \mid 1.68115E\,\Gamma\,21)\,Z(1.58364E\,\Gamma 11 \mid 1.09692E\,\Gamma 11)}{\sqrt{(5 \mid 5.4866E\,\Gamma\,21)\,Z(1.58364E\,\Gamma 11)^2} \; \sqrt{(5 \mid 2.66761E\,\Gamma\,21 Z(1.09692E\,\Gamma 11)^2}}$$

$$= 0.9941$$

Correlation Co-efficient between Total Deposits and Loan and Advance of SCBL

Years	Total Deposit (X)	Loan and advance (Y)	X*Y	X^2	Y^2
2005/06	23061032081	8935417810	2.0606E+20	5.31811E+20	7.98417E+19
2006/07	24647020755	10502637135	2.58859E+20	6.07476E+20	1.10305E+20
2007/08	29743998794	13718597132	4.08046E+20	8.84705E+20	1.882E+20
2008/09	35350823711	13679756990	4.83591E+20	1.24968E+21	1.87136E+20
2009/10	35182721454	15956955268	5.61409E+20	1.23782E+21	2.54624E+20
	∑ X = **1.47986E+11**	∑Y= **62793364335**	∑XY= **1.91796E+21**	$\sum X^2$= **4.5115E+21**	$\sum Y^2$= **8.20107E+20**

N=5

$$\mathbf{r} = \frac{n \quad xy\,Z \quad x \quad Y}{\sqrt{n \quad x^2 \; Z(\quad x)^2} \; \sqrt{n \quad y^2 \; Z(\quad Y)^2}}$$

$$= \frac{(5 \mid 1.91796E\,\Gamma\,21)\,Z(1.47986E\,\Gamma\,11 \mid 62793364335)}{\sqrt{(5 \mid 4.5115E\,\Gamma\,21)\,Z(1.47986E\,\Gamma\,11)^2} \; \sqrt{(5 \mid 8.20107E\,\Gamma\,20\,Z(62793364335)^2}}$$

$$= 0.9236$$

Correlation Co-efficient between Total Deposits and Loan and Advance of HBL

Years	Total deposit(X)	Loan and advance (Y)	X*Y	X^2	Y^2
2005/06	26490851640	15761977000	4.17548E+20	7.01765E+20	2.4844E+20
2006/07	30048417757	17792724000	5.34643E+20	9.02907E+20	3.16581E+20
2007/08	31842789356	20179613000	6.42575E+20	1.01396E+21	4.07217E+20
2008/09	34681345179	25519519000	8.85051E+20	1.2028E+21	6.51246E+20
2009/10	37611202000	29123755000	1.09538E+21	1.4146E+21	8.48193E+20
	1.60675E+11	1.08378E+11	3.5752E+21	5.23603E+21	2.47168E+21

N=5

$$\mathbf{r} = \frac{n \quad xy\,Z \quad x \quad Y}{\sqrt{n \quad x^2 \; Z(\quad x)^2}\;\sqrt{n \quad y^2 \; Z(\quad Y)^2}}$$

$$= \frac{(5 \mid 4.66056E\,\Gamma 18)\,Z(4.88648E\,\Gamma 11 \mid 56455226)}{\sqrt{(5 \mid 1.37473E\,\Gamma 23)\,Z(4.88648E\,\Gamma 11)^2}\;\sqrt{(5 \mid 6.48901E\,\Gamma 14)\,Z(56455226)^2}}$$

$$= -0.8449$$

ANNEX 7

Trend Analysis of Total Deposits of NABIL Bank Ltd.

Years	Total Deposits (Y)	X = t -2007	X^2	XY	Yc = a + bx
2005/06	19347399440	-2	4	-38694798880	18046223162
2006/07	23342285327	-1	1	-23342285327	24859480451
2007/08	31915047467	0	0	0	31672737740
2008/09	37348255840	1	1	37348255840	38485995029
2009/10	46410700628	2	4	92821401256	45299252318
	1.58364E+11	0	10	68132572889	

Where,

$$a = \frac{Y}{N} = \frac{1.58364E\,\Gamma 11}{5} = 31672737740$$

$$b = \frac{XY}{X^2} = \frac{68132572889}{10} = 6813257289$$

And Yc = a + b X

Projected Trend of Total Deposits

Years	X = t -2007	X^2	Total Deposits Yc = a + bx
2010	3	9	52112509607
2011	4	16	58925766896
2012	5	25	65739024185
2013	6	36	72552281474
2014	7	49	79365538763

Trend Analysis of Total Deposits of SCBL Bank Ltd.

Years	Total Deposits (Y)	X = t -2007	X^2	XY	Yc = a + bx
2005/06	23061032081	-2	4	-46122064162	22607683019
2006/07	24647020755	-1	1	-24647020755	26102401189
2007/08	29743998794	0	0	0	29597119359
2008/09	35350823711	1	1	35350823711	33091837529
2009/10	35182721454	2	4	70365442908	36586555699
	1.48E+11	0	10	34947181702	

Where,

$a = \frac{Y}{N} = \frac{1.47986E\ \Gamma 11}{5} = 29597119359$

$b = \frac{XY}{X^2} = \frac{68132572889}{10} = 3494718170$

And Yc = a + b X

Projected Trend of Total Deposits

Years	X = t -2007	X^2	Total Deposits Yc = a + bx
2010	3	9	40081273870
2011	4	16	43575992040
2012	5	25	47070710210
2013	6	36	50565428380
2014	7	49	54060146550

Trend Analysis of Total Deposits of HBL Bank Ltd.

Years	Total Deposits (Y)	X = t -2007	X^2	XY	Yc = a + bx
2005/06	26490851640	-2	4	-52981703280	26760195558
2006/07	30048417757	-1	1	-30048417757	29447558372
2007/08	31842789356	0	0	0	32134921186
2008/09	34681345179	1	1	34681345179	34822284001
2009/10	37611202000	2	4	75222404000	37509646815
	1.60675E+11	0	10	26873628142	

Where,

$$a = \frac{Y}{N} = \frac{1.60675E+11}{5} = 32134921186$$

$$b = \frac{XY}{X^2} = \frac{26873628142}{10} = 2687362814$$

And Yc = a + b X

Projected Trend of Total Deposits

Years	X = t -2007	X^2	Total Deposits Yc = a + bx
2010	3	9	40197009629
2011	4	16	42884372443
2012	5	25	45571735257
2013	6	36	48259098072
2014	7	49	50946460886