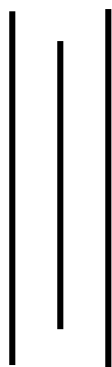


**FINANCIAL PERFORMANCE ANALYSIS OF
COMMERCIAL BANKS
(WITH REFERENCE TO EBL, SBL, BOK & NIC)**

**By:
UMESH KUMAR YADAV
Shanker Dev Campus
Campus Roll No: 520/062
T.U. Registration No: 7-1-12-284-97**

**A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University**



*In partial fulfillment of the requirement for the Degree of
Master of Business Studies (MBS)*

**Kathmandu, Nepal
September, 2010**

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

UMESH KUMAR YADAV

Entitled:

**FINANCIAL PERFORMANCE ANALYSIS OF
COMMERCIAL BANKS
(WITH REFERENCE TO EBL, SBL, BOK & NIC)**

*has been prepared as approved by this Department in the prescribed format of the
Faculty of Management. This thesis is forwarded for examination.*

.....
Joginder Goet
(Thesis Supervisor)

.....
Prof. Bisheshwor Man Shrestha
(Head of Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by

UMESH KUMAR YADAV

Entitled:

**FINANCIAL PERFORMANCE ANALYSIS OF
COMMERCIAL BANKS
(WITH REFERENCE TO EBL, SBL, BOK & NIC)**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master Degree of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “**FINANCIAL PERFORMANCE ANALYSIS OF COMMERCIAL BANKS (WITH REFERENCE TO EBL, SBL, BOK & NIC)**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master Degree in Business Studies (MBS) under the supervision of **Joginder Goet** of Shanker Dev Campus.

.....

UMESH KUMAR YADAV

Researcher

Campus Roll No.: 520/062

T.U. Regd. No.: 7-1-12-284-97

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Umesh Kumar Yadav
Researcher

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ABBREVIATIONS

BOK	:	Bank of Kathmandu Limited
C.V.	:	Coefficient of Variation
CA	:	Current Assets
CIH	:	Cash in Hand
CIH/TD	:	Cash in Hand to Total Deposit
CL	:	Current Liabilities
CR	:	Current Ratio
D/E	:	Debt-Equity
DPR	:	Dividend Payout Ratio
DPS	:	Dividend Per Share
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
FD	:	Fixed Deposit
FD/TD	:	Fixed Deposit to Total Deposit
IED	:	Interest Expenses on Deposit
IED/Dep.	:	Interest Expenses on Deposit to Total Deposit
II	:	Interest Income
IP	:	Interest Paid
IP/II	:	Interest Paid to Interest Income
LA	:	Loan and Advances
NIC	:	Nepal Industrial and Commercial Bank Limited
NP	:	Net Profit
ROA	:	Return on Assets
ROD	:	Return on Deposit
ROSE	:	Return on Shareholders' Equity
S.D.	:	Standard Deviation
SBL	:	Siddhartha Bank Limited
SE	:	Shareholders' Equity
TA	:	Total Assets

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Banking sector plays a vital role for the country's economic development. Bank is a resource mobilizing institution which accept deposit from various sources and invest such accumulated resources in the field of agriculture trade, commerce, industry, tourism etc.

The banking sector is mainly responsible for collecting household savings in term of different types of deposit and regulating them in the society by lending in different sector of economy. The sector has now reached to the remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in small-scale industries under intensive banking program has enabled the bank to share in the economy growth of the economy.

There are various types of banking institution which are performing different function in the context of Nepal which can be divided into three parts; the Central Bank (Nepal Rastra Bank), the commercial banks and the other financial institutions, which are also known as financial intermediaries.

A central bank called as Nepal Rastra Bank is an autonomous and corporate body having perpetual succession. The central bank is situated in Kathmandu. The Nepal Rastra bank controls the entire currency and credit of the country. It is one of the bodies of government that undertakes the major financial operation of the government. Some of the main functions of Nepal Rastra Bank are to issue and regulate Nepalese currency, to render advice to the Government of Nepal on financial matters, to prepare and regulate policy regarding foreign currency, to determine the rate of interest to be charged or paid by a commercial bank or financial institution on loan and deposits, to prescribe the liquid assets proportion to their deposits to the commercial bank, to grant

permission to access deposit and supply loan to the commercial bank and to extend the banking facilities within the whole part of the country.

Whereas, the main function of commercial bank is to accept deposits and advance loan. However, today commercial banks are concentrated in their activities of fulfilling the financial needs of their customers. the nature of the commercial bank is distinguishes by different set up like Merchant Banks etc. Commercial Banks are the heart of people, government and business units and make fund available through their lending and inversing activities to individuals, business firm and government.

The history of organized modern banking system begins in Nepal only after the establishment of a commercial bank namely Nepal bank Ltd. in 1937 with an authorized capital of Rs. 10 million and paid up capital Rs. 842 thousand. On 1956, Nepal Rastra Bank was established as the central bank of Nepal under the Nepal Rastra Bank Act, 1955 as a non-profit organization fully subscribed by the government. It undertakes the major financial operation of the government and which by its conduct of these operations and by other mean influences the behavior of financial institutions to support the economy policy of the government. About three decades later in 1966, Rastriya Banijya Bank was established as second commercial bank in Nepal. It has been playing an important role in the economy of Nepal. It has also gained confidence of the general public and has wide range of branches through out the country. The other indigenious subsidized bank is the Agriculture Development Bank, who also has a wide range of network through out country was established in 1968.

The third bank was Nepal Arab Bank Limited as a joint venture with a foreign bank established in 1984. It is the first joint venture bank in Nepal. It commenced its operation on July 12, 1984 with Rs. 100 million as authorized capital, Rs. 50 million as issued capital and Rs. 30 million as paid-up capital. This marks the beginning of operation in Nepal by foreign bank. 50 percent of share was hold by Dubai Bank Ltd. 20 percent by Nepalese financial institutions and remaining 30 percent by general

public. Today the number of joint venture bank is increasing with the developing banking system. the number of bank is increasing in Nepal can play effective role in mobilizing the major saving scattered in different part of the counting and putting the in productive channel.

Presently Nepal's financial system consists of Commercial Banks, Development Banks, Rural Development Banks, Financial Companies, Co-operatives, lending NGOs, Employee's Provident Fund, and some insurance companies.

1.2 Statement of Problem

Though banks could maintain their positions in the banking industry, it cannot be predicted that the banks would continue to maintain its profitability and stability of earnings because of the tough competition in this sector. This study attempts to evaluate the financial performance of selected commercial banks of Nepal by using various measuring financial and statistical tools such as financial ratios, and other necessary analysis. The major problems raised for the study are;

- a. How these banks have been managing its position in relation to the liquidity, efficiency, leverage, and profitability?
- b. How far commercial banks have been able to accumulate deposits and utilize deposits so accumulated?
- c. Are the banks really adopting the directives of NRB, like in cash reserve ratio, and capital adequacy ratio?
- d. How magnanimous is the bank in distributing dividend?

1.3 Objectives of the Study

The main objective of this study is to study on financial analysis of Nepalese commercial banks, especially Everest Bank Limited, Siddhartha Bank Limited, Bank of Kathmandu Limited, and Nepal Industrial and Commercial Bank Limited. The specific objectives of the study as follows:

- a. To make the comparison of the banks in terms of liquidity, leverage, efficiency and profitability.

- b. To measure the capital adequacy and cash reserve ratios maintained by the banks.
- c. To evaluate the mobilization of deposits in loan and advances, and the credit risk of the banks.
- d. To examine the generosity of the banks in distributing dividend.

1.4 Significance of the Study

The main purpose of the study is to compare the financial performance of the commercial banks, by the means of various ratio analyses. More precisely, the analytical tools used in this study would be instrumental in assessing the strengths and weaknesses, and opportunities and threats - in relation with financing aspect - for the newly established as well as historically operating organizations in the country.

The present study is expected to provide with necessary operating corrective measures to EBL, SBL, BOK and NIC, so as to improve their financial strategies more successfully. Besides these, the present work would contribute significantly to the upcoming generation in better understanding of theoretical and practical implications of various financial tools and techniques to make effective financial decisions.

1.5 Limitations of the Study

The major limitations of the study are;

- a. The study is concentrated to financial performance of the banks, and thus does not cover other financial aspects
- b. The study considers only past five years secondary data, i.e. from the fiscal year 2004/05 to 2008/09.
- c. The study took into account only four commercial banks, i.e. EBL, SBL, BOK and NIC, which may not reflect the whole population.
- d. The analysis was based on secondary data mainly the major (key) ratios published by the commercial banks. Hence the accuracy of results depends on the reliability of secondary data.

1.6 Organization of the Study

The present research has been organized in the following chapters.

Chapter I: Introduction

This chapter introduces the subject matter of the research and includes background, statement of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter II: Review of Literature

This chapter reviews the existing literature on the concept of banking, concept of commercial bank, development of banking system in Nepal, and reviews of earlier studies on the financial performance of banks.

Chapter III: Research Methodology

This chapter introduces the research methodology used in the present research and explains the research design, population and sample, sources of data, and data analysis tools.

Chapter IV: Presentation and Analysis of Data

This is the main part of the research and in this part data have been systematically presented, analyzed, and interpreted. Various financial and statistical tools and techniques have been used to analyze and interpret data.

Chapter V: Summary, Conclusion and Recommendations

This is the final chapter of the present study that summarizes and concludes the research and offers necessary recommendations for future improvement of the financial performance of Everest Bank Limited, Siddhartha Bank Limited, Bank of Kathmandu Limited and Nepal Industrial and Commercial Bank Limited.

At the end of the study, bibliography and appendices have also been presented.

CHAPTER – II

REVIEW OF LITERATURE

The review of literature is a crucial aspect of planning of the study. The chapter highlights the concept and review of existing literature that is available and related with these particular topics. Several books, journals and articles, and theses have been reviewed for the study.

2.1 Conceptual Review

Before presenting further performance highlights of the banks, it would be pertinent to have an overview on the general concept and banking scenario of the country and analytical techniques used to present and analysis of data.

2.1.1 Concept of Banking

“In the past bank used just to accept deposit from the savers of money (surplus units of the society) and give loans to the users of money (deficit unit of the society). Savers of money are those units whose earning exceeds expenditure on real assets (land, building, cloth, food etc) and users of money are those units whose expenditure on real assets exceeds their earning. In such a situation, deficit unit sell their securities IOUs (I Owe You) to surplus units. These securities are financial assets. If entire income of a unit matches with investment on real no financial asset are created.”
(Dahal & Dahal; 2002:1)

“The evolution of Banking can be traced back to the era when the use of metallic coins as media of exchange of goods and services began. Storage of metallic coins was a serious problem for the common people because of the danger of theft and robbery, people started leaving gold and silver and metallic coins in the custody of some reputed persons a wealthy merchant or a money changers. The custodian had a strong box, and other means of safe keeping. He offered their service as a favor for his friends or made a charge for it. The depositor had to go personally to custodian for his withdrawal of his money.” *(Khubchandani; 2002: 92)*

2.1.2 Origin and Growth of Banks in Nepal

“The growth of banking in Nepal is not so long in comparison with others developing and developed country. The institutional development in Banking system of Nepal is far behind. Nepal had to wait for a long to come to the present Banking position. The stepwise development of banking in Nepal can be narrated as follows:” (*Bhandari; 2003:15-18*)

Nepal Bank Ltd.

Nepal Bank Ltd (1994, 30th Kartik) was established under the Nepal Bank Act 1994 B.S. its authorized capital was 10 million and issued capital was 25 million and paid up capital was 0.842 million.

Nepal Rastra Bank

Nepal Rastra Bank was established in 2013 B.S. with an authorized capital of Rs.10 million, subscribed by the government under Nepal Rastra Bank Act 20120 B.S.

Rastriya Banijya Bank

Rastriya Banijya Bank was another important Bank established in Nepal. The Bank was established in the government sector in 2028 B. S. After enacting the Commercial Bank Act 2031 B.S., both the Banijya Bank Act 2020 and the Rastriya Banijya Bank Act 2021 was replaced.

Agricultural Development Bank

Under the agricultural development bank act 2024 B.S. the agriculture Development Bank was established on 2024 B.S. prior to the establishment of ADB a cooperative Bank was established to meet requirement of fund in the agricultural sectors.

Modern Phase of Banking Development

“The process of the development of banking system in Nepal was not satisfied up to 2040 B.S. No bank was opened during this period except expanding the branches and sub branches of the Banks, which were established in the earlier period. Nepal was observing the event that was taking places in the world also. Nepal was searching

what sorts of programs; policies, law and regulation should be brought into the practice. The country can't change its status by using only its own capital in that country without importing the new technology from foreign country. Law and policy have been enacted by the state to encourage the foreign investment on banking sector. As a result of it, the development of the banking system started in Nepal. In 2041 B.S. Nepal Arab Bank Ltd. Was established. This is the first modern bank with latest banking technology.” (K.C.; 1994: 23) Now there are 28 commercial Banks operating in Nepal. Among them, some banks have been opened by private sector in joint venture with foreign banks.

2.1.3 Legal Provision Regarding the Foreign Banks Nepal Rastra Bank Act, 2002

“As the economic advisor of the government Nepal Rastra Bank regularly monitors the macroeconomic situation of Nepal and provides suggestions to the government on this matter. This Nepal Rastra Bank Act 2002 has stated, the objectives of the bank as to formulate necessary monetary and foreign exchange policies in order to maintain the stability of price and balance of payments for sustainable development of economy and manage it, promote stability and liquidity required in banking and financial sector, develop a secure, healthy and efficient system of payment, regular, inspect, supervise and monitor the banking and financial system. This act has given full authority to Nepal Rastra Bank regarding regulation, inspection and supervision of banks and financial institutions.” (Pant; 2006: 24-25)

Banks and Financial Institutions Ordinance 2062

“This ordinance governs all the functional aspects of banks and financial institutions. The act regarding agricultural Development Bank Act 1967, Commercial Bank Act 1974, Finance Company Act 1986, Nepal Industrial Development Corporation Act, 1990 and the Development Bank Act, 1996, have been replaced with the promulgation of this ordinance. The article 34 of this ordinance has made special arrangement regarding the establishment of foreign banks and financial institutions. Foreign Banks or financial institutions desiring to open their office in Nepal must submit the application to Nepal Rastra bank in the prescribed form along with the fees and

particulars as prescribed by the bank. The bank may issue license to the foreign banks or financial institutions to open offices and conduct financial transaction looking the situation of competition existing in the banking sector and the contributions that the institutions may provide in the Nepalese banking sector and also look at the reputation of such financial institutions. While providing the license, NRB may also specify the necessary terms and conditions and the foreign banks and financial institutions should comply such terms and conditions. The foreign banks or financial institutions also should comply all the provisions motioned in the ordinance regarding the financial transactions. But in the case of transaction of the representative officer or agency officer of the foreign bank or financial institutions will be as prescribed by NRB.”
(*Thapa; 2004:468*)

2.1.4 Concept of Commercial Bank

“Commercial banks are those financial institutions that deal in accepting deposits of person and institution and give loan against securities. They meet working capital need of trade and industry and even of agriculture sector. It also provides technical and administrative assistance to industries, trade and business. "Bank of England" is the first commercial bank in the world established in 1664 A.D. as a Central Bank of Britain.” (*Gupta; 1999:62*)

“Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing action to borrowers, individuals, business firms and services; from the producers to consumers and for the government too. These facts show that the commercial banking system of the nation is important to the functioning of the economy.” (*Reed, Cotter, Gills & Smith; 1976:62*)

“The commercial bank has its own role and contribution in the economic development. It is a source for economic development; it maintains economic confidence to various segments and extends credit to people.” (*Grywinski; 1991:51*)

Nepal commercial Bank Act 2031 B.S. defines, A Commercial Bank is one which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co- operations, agriculture, industries or for such specific purpose.

Central Bank's main task is to monitor, direct and control the lending activities in the country. In Nepal, commercial banks perform their function under the rules and regulations of the Nepal Rastra Bank as the Central Bank of Nepal.

To sum up, “a commercial bank is that financial institution which collects scattered saving of the people and provides loans against proper securities for their productive purpose. Moreover they also provide technical help and suggestions, administrative suggestions, safe keeping of valuables, collection of bills, cheques, and overdraft facilities and provide modern banking facilities to industries and commerce.” (*Bedi and Mardikar; 1993: 45*)

2.1.4.1 Functions of Commercial Banks

“Banks accept the deposits from unproductive sectors and utilize them in the productive sectors. This is the basic function of banks. By this they earn profit as interest by advancing the funds as loan at the interest rate higher than its cost. At the same time, bank generates capital for economic development of a country. In the past, banks used to be just an intermediary between the savers and users of fund. They used to collect deposits from savers and provider loans to the businessmen and others. Now, the services provide by bank have been expanded to many areas as human wants and development of technology.” (*Singh; 2005: 15*) General commercial banks offer the following services to customers.

A Accepting Deposit

“The Primary function of bank is to accept deposits from savers. Banks accepts deposits from those who can save money, but cannot utilize then in profitable sectors.

People consider it more rational to deposit their savings in a bank because, by doing so, they earn interest. At the same time, they avoid the danger of theft, because of bank guarantees the safe custody of deposits. To attract saving the banks provide different types of account facilities. Among them the major accounts are as follows:”
(*Bhandari; 2003: 22*)

a. Current Account: “Especially businessmen open the current account, which have to make a number of payments every day. Money from these accounts can be withdrawn, as many times as desired by the depositors, there is no limit on the amount of cheque in this account. Generally, no interest is paid on this account. Rather, the depositors have to pay certain incidental charges such as interest on bank overdraft, guarantee charge etc.” (*Bhandari; 2003: 23*)

b. Fixed Account: “When account holders want to deposit their fund for certain time period, they have to open fixed account in banks. Money in these accounts is deposited for fixed period of time. It may range from one month, three months, six months, one year and up to five years. The money deposited into fixed account cannot be withdrawn before the expiry of that period. So the rate of interest on this account is higher than that on other types of accounts.”
(*Bhandari; 2003: 23*)

c. Saving Account: “Saving account facility is provided especially for general public, who have saving out of their income and expenditure. The main objective of this account is to encourage and mobilize small savings of the public. Certain restrictions are imposed on the account holders regarding the number of withdrawals and the amount to be withdrawn in a given period. Rate of interest paid on this account is low as compared to that on fixed account.” (*Bhandari; 2003: 24*)

d. Home Saving Account: “Account holders are provided the facility to deposit their saving in their own homes in this account. For this purpose, safe boxes lacked by

banks, are supplied to all account holders to keep them at homes and to put their small savings in them. Periodically, the boxes are taken to the bank where the amount of safe box taken out and credited to their account. Especially children and housewives are targeted under this account. Banks provide some interest as well as safe custody on this deposit.” (*Bhandari; 2003: 24*)

e. Recurring Deposit Account: “Account holders have to pay in the installment deposit regularly in recurring deposit account. Generally, money in these accounts is deposited in monthly installments for a fixed period and is repaid to the depository along with interest on maturity.” (*Bhandari; 2003: 24*)

B) Advancing of Loan

“Commercial bank is a profit oriented business organization. So banks have to advance loans to public and generate interest from them as profit. After keeping certain cash reserves, bank provide short, medium and long- term loan to needy borrowers. For security, banks generally provide loan on mortgage. General loans for individual are provided on the mortgage of gold, silver, fixed deposit receipts, treasury bills, development bonds etc whereas business loan are advanced on the mortgage of negotiable instrument such as land, buildings, store room etc. According to the needs of the borrowers, banks provide different types of loan for different time period as given below:” (*Dahal; 2004: 31*)

a. Term Loans: “Banks provides medium- term and long- term loans on the basis of loan proposal. The maturity period of such loan is more than one year. Generally, the amount sanctioned is credited to the account of the borrowers. However, banks pay the amount in cash to the borrowers in some case.” (*Dahal; 2004: 32*)

b. Cash Credit: “Banks advance loan as cash credit to businessmen against certain pacified securities. The amount of the loan is credited to the current account of the borrowers. The borrowers can withdraw money through cheque according to his

requirement. Interest is charged only on the amount actually withdrawn from the account.” (*Dahal; 2004: 32*)

c. Overdraft: “Generally, businessman and organization open current account in bank. They deposit all receipts in the account and pay all dues through cheque. Bank provides overdraft facilities to such account holder. Overdraft facility allows the customer to withdraw more than their deposits. The account holders have to in a special contract with bank to get such facility.” (*Dahal; 2004: 32*)

d. Money at call: “It is a very short-term loan provided by bank at a very short notice. Generally, loan under money at call has time duration of only one day to fourteen days. After that period, the money should be refunded. Such loan is useful especially for other financial institutions and traders.” (*Dahal; 2004: 33*)

C) Discounting of Bill of Exchange

“Bills of exchanges is a negotiable instrument, which is accepted by the debtor, drawn upon him/her by the creditor (drawer) and agrees to pay the amount mentioned on maturity. Discounting bill of exchange is another important function of modern banks. Under this, function, banks purchase bill of exchange. Bank purchases it from holders in discount after making some managerial deduction in the form of commission. The banks pay the deducted value to the holder when traders discount it into bank. The percentage of discount is determined by mutual agreement between bank and traders, which is affected by duration of expiry and goodwill of drawer of bill of exchange.” (*Natarajan; 2001: 87*)

D) Payment of Cheque

“Banks provide cheque pads to the account holders. Account holders can draw cheque upon bank to pay money. Banks pay for cheque of customers after formal verification and official procedures. Providing the cheque payment functions, a bank renders a very useful medium of exchange in the form of cheque.” (*Natarajan; 2001: 88*)

E) Collection and Payment of Credit Instruments

“These days business uses different types of credit instrument such a bill of exchange, promissory notes, cheque etc. Banks deal with such instruments. Banks collects and pays various credit instruments as the representatives of the customers. The remittance service of banks has benefited both the business and personal customer.” (*Mishra; 2003: 31*)

F) Remittance

“It is a system through which cash fund is transferred from one place to another. Banks provide the facilities of remittance to the customers and earn some service charge. Generally, a bank provides such facilities through cheque, bank drafts, letters of credit etc. Remittance plays an important role in national and international trade.” (*Mishra; 2003: 32*)

G) Exchange Foreign Currencies

“As the requirement of customers, banks exchange foreign currencies with local currency, which is essential to settle down the dues in the international trade.” (*Mishra; 2003: 32*)

H) Consultancy

“Banks expand their function to consultancy business too. They hire financial, legal and market experts, who provide advices to customers in regarding investment, industry, trade etc.” (*Mishra; 2003: 33*)

I) Bank Guarantee

“Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit certain fund in government offices or courts for specific purpose such as legal case, bank can present itself as the guarantee for the customers, instead of depositing fund by customers. Bank provides such facility only when the customers have sufficient fund in their account.” (*Ivamy; 1993: 213*)

J) Agency Functions

As an agent banks perform different types of functions such as:

- a. Period collection:** “On behalf of customers, bank collects income of customers such as dividends of shares, interest on debenture and fixed deposit etc.
- b. Period payment:** Bank can execute the standing order or instruction of customers for making periodic payment on behalf of their customers. Under this function, banks pay subscription, income tax, rents etc. for their respective customers and earn appropriate service charge.
- c. Purchase and Sale of Securities:** Banks undertake purchase and sale of various securities like share, stocks, bonds, debentures etc. They perform the function of a broker only to purchase and sell the securities.
- d. Representative:** Banks can act as representative of their customers. They can proceed for passports, travelers’ tickets, book, vehicles, plots of lands etc for their customers.
- e. Trustee or Executor:** When customers want to transfer their property to specific person after demise, they can make a legal document about them and handover it to the banks or trustee or executor. Banks preserve such document to customers’ will and execute their will after demise.” (*Ivamy; 1993: 217-221*)

K) Others

Besides these main functions, the banks perform several other functions such as providing security to valuable goods and property, issuing travelers' cheque, issuing credit card, underwriting securities and many more.

2.1.5 Market Capitalization

“Market capitalization is the market value of the entire share issued by the companies in the market. It is the tool which measures how much is the market value of the shares of the company. If the market value per share of the company is higher, the company is considered as a better company otherwise not.” (*Mishra; 2003: 38*)

Market capitalization = No. of Shares Issue x Market value per share

2.1.6 Comparative Performance Analysis

Management performance can be evaluated through comparative performance analysis. The purpose of bank performance analysis is to evaluate progress towards meeting the goals and objectives set forth by the management and to compare the performance among the similar banks. Comparative performance analysis can be evaluated through financial statement analysis. It should be evaluated from the prospectus of liquidity, profitability, stability, activity and possibility. Management itself can use these parameters to improve the organizations performance in near future. Comparative performance analysis basically covers the financial analysis.

“Company efficiency is measured by liquidity position in term of solvency profitability from operation in terms of earning power and cash flow generation ability, capital structure position, judgments ability to meet fixed obligations, activity in terms of turnover of assets and overall market value maximization determined by the company's track record of dividend paying ability, retained earnings for reinvestment and growth etc. Among various financial tools, the commonly used tool is ratios that have predictive value to project the success or failure of company by taking the combined effects of rations.” (*Shrestha; 2004: 53*)

“Management is required to evaluate their performance compared to different periods of its own enterprise or with industry average or with same business nature of other enterprises. Management is interested to know and review about the productivity, profitability, activity, stability, and growth possibility of its own enterprises that can

help management to decide the course of action to be taken in future.” (*Dangol & Dangol; 2004: 62*)

Performance measure is analyzed in three groups:

- a. Profitability ratios measure managements effectiveness by the returns generated on sales revenues and investment.
- b. Growth ratios measure the firm's ability to maintain its economic position in the growth of the economy and the industries or product market in which it operates.
- c. Valuation measures the ability of management to achieve market values in excess of cost outlays.

2.1.7 Financial Statement Analysis

Financial analysis is the process of identifying the financial strength and weakness of the concern. It is the process of critically examining in detail accounting information given in the financial statement by evaluating the relationship between component part of financial statement to gain better understanding of the firm’s financial position and performance. It is performed to determine the liquidity, solvency, efficiency, and profitability position of an organization. It gratifies the different needs of the concern parties like the potential investor, shareholders, government, general public, short-term as well as long-term creditors and management itself about their vested interest by providing them with adequate information. The function of finance can be broken down into three major decisions: investment, financing and dividend decision. An optimum combination of these decisions will maximize the value of the firm.

“The financial statement provides a summarized view of the financial operation of the firm. Therefore, much can be learnt about a firm and careful examination of its financial statement as invaluable documents. The analysis of financial statement is thus important aid to financial analysis. He also mentioned that the ration analysis is one of the major tools of financial statement analysis.” (*Pandey; 1992: 109*)

“Ratio analysis is the systematic use of ratio to interpret the financial performance so that the strength and weakness of a firm as well as its historical performance and current financial condition can be obtained.” (*Khan and Jain; 1997: 123*)

“Financial ratio can be derived from the balance sheet and income statement. They must be analyzed on a comparative basis. A comparison of ration of the same firm over time uncovers leading clues in evaluating changes and trend in the firm's financial conditions and profitability. Ratio may also be judged in compression with these of similar firms in the same line of business and when appropriate, with an industry average and we can look to further progress in this regard.” (*Van Horne; 2000: 712*)

The analysis of financial performance consists of a study of relationship and trend to determine whether the financial position and result operation and financial progress of the company are satisfactory or not. The financial statement provided a summarized view of the financial operation of the firm. There are so many parties concerned with the bank (i.e. short-term and long-term creditors, shareholders, potential investor, and management government general public) and analysis depends upon the specific interest of the party.

2.2 Review of Journals and Articles

Shrestha (1990), in his article, “*Commercial Banks Comparative Performance Evaluation*”, has revealed the financial performance of the commercial banks of Nepal. He concluded that Joint Venture Banks are new, operationally more efficient and having superior performance while comparing with local banks. Better performance of JVB is due to their sophisticated technology, modern banking method and skill. Their better performance is also due to burden the local banks are facing due to government banking policy in rural areas and financing public enterprises. Local banks are efficient and have expertise in rural sector. But having a number of deficiencies, local bank have to face growing constraint of socio-economic and political system on one spectrum and that of issues and challenges of JVB

commanding significant banking business on the other spectrum. He has further said that the government liberalization policy also encourages the traditionally run domestic banks to enhance their efficiency and competitiveness through modernization, mechanization via computerization and prompt customer service by setting them to the exposure of JVB.

Dhungana (2004), in his article, “*Financial Sector Reform (FSR) Program in Nepal*”, has revealed that Nepalese financial sector is being strengthened under the financial reform program. The expediting of the liberalization and privatization processes within the financial reform programs has succeeded to place the private sector rather than the government in charge of determining who gets credit and at what price. The FSR has also been able to established the system of prudential regulation and supervision design to restrain the private sectors so that we can be reasonably sure that their decisions will also broadly in the general social interest. Many Acts are being promulgated to obtain and maintain a strong legal environment required for the system. It is also equally important that the enforcement aspect in all respects plays a vital role, which is continuously improving, within this reform program the two largest commercial banks NBL and RBB are being restructured institutional building program are being launched, greater autonomy and responsibility have been provided to the central bank, entry and exit norms are being prepared, laws are being prepared for the banking sector. These all are positive aspects to boost up the system. The government has launched this program to eliminate financial problems. Except some aspects, the progress made within the FSRP seems are satisfactory.

Aryal (2004), in his article, “*All Banks in Profit*”, has revealed in general all banks for the fiscal year 2003/04 are bullish in their performance. During the year all the banks were in profit but in the previous year two commercial banks. NBL and RBB were in a loss of 252 million and 3246 million respectively. NBL., RBB, Siddhartha Bank, Laxmi Bank, Kumari Bank, and Machhapuchre Bank have increased their operating profit in substantial amount. Also the old banks with huge losses in the previous years have succeeded to improve their performance.

2.3 Review of Thesis

Udas (2001), has conducted a study on, “*A Comparative Appraisal on Financial Performance of Nepal Bangladesh Bank and Bank of Kathmandu.*” The main objective of the study is to show the causes of changes in cash position of the two banks. The other objectives are;

- a. To evaluate the liquidity position of NBB and BOK.
- b. To analyze the profitability ratios of NBB and BOK.
- c. To examine the marketability position of NBB and BOK.

The major findings of the study are;

- a. NBB is more efficient than BOK in all respect and the study found the current ration of NBBL was high.
- b. NBBL is utilizing its deposits more effectively than BOK, all the profitability rates were found to be higher in case of NBBL than BOK.
- c. Since BOK is suffering losses in three fiscal years, thus showing its operational deficiencies in mobilizing the resources in production sectors. On the other hand, NBBL has always been increasing its profit from the outset.
- d. On average, BOK was generating more cash from financial activity than NBBL. However, the contribution of financial activity in the final cash and bank balance of the bank was not as significant that of operating activities.

Chhetri (2002), has conducted a study on, “*Comparative study of Financial Performance Between Everest Bank Limited and Bank of Kathmandu Limited.*” The main objective of the study is to make a comparative financial analysis between EBL and BOK. The other specific objectives are;

- a. To compare the liquidity position of EBL and BOK.
- b. To examine the efficiency of EBL and BOK.
- c. To analyze the solvency of EBL and BOK
- d. To trace out the financial strength and weakness

The major findings of the study are;

- a. The current ratio of both banks is not satisfactory. Cash and bank balance to total deposits of EBL and BOK do not go outward equally. EBL has more secured credit position than BOK.
- b. Loans and advances to total deposit ratio of BOK is better than EBL. But the ratio implies that EBL is utilizing its fixed deposit in loans and advance more efficiently.
- c. Net profit to working fund ratios on both banks is in poor condition but in latest years, it seems in positive way. Both banks have been improving or overcoming from the weak condition.
- d. Average earning per share of EBL is seen well rather than BOK but both of them are not running in favor of investors. Market value per share of EBL is increasing slowly while in case of BOK, it has zero value in initial three years.
- e. To sum up, it can be said that EBL has performed better than BOK during the study period. It seems that EBL will perform better than BOK in future too.

Ghimire (2003), has made a study on, “*Financial Performance of Commercial Banks: A comparative Case Study of Nepal Bangladesh Bank Ltd. Himalayan Bank Ltd. and Everest Bank Ltd.*” The main objective of study is to reveal the comparative financial performance of NBBL, HBL and EBL. The other specific objectives are;

- a. To analysis and compare the liquidity, portability, stability and market value positions among three commercial banks.
- b. To analyze and compare solvency ratio such as total capital fund.
- c. To analyze the financial strength and weakness of these banks.

The major findings of the study are;

- a. The saving deposit to total deposit ratio of NBBL has been recorded the lowest of all. It indicates the better liquidity position of the bank to meet short-term obligation.
- b. Analysis of activities ratio reveals that all the banks have been able to utilize the resources satisfactorily.

- c. Total debt to equity ratio of all banks reveals that the claims of the outsiders exceed far more than those of the owners over the banks assets.
- d. Comparatively Himalayan Bank has more levered capital structure. Profitability ratio indicates the degree of success in achieving desired profit level.
- e. All the banks need lot of exercise in more credit creation and reducing the interest rate for loan and advance. This helps them to remain more competitive.

Joshi (2004), has made a study on, “*Financial Analysis of Nepalese Commercial Banks.*” The main objective of the study is to find the comparative financial strength and weakness of various commercial banks. The other specific objectives are;

- a. To trace out the credit position of the commercial banks.
- b. To analyze the earning capacity of the banks.
- c. To measure the investors' degree of satisfaction on the banks.

The major findings of the study are;

- a. The lending condition of commercial banks is in decreasing trend. However, the outstanding loan is in increasing trend.
- b. Strong banks are holding good customers and discouraging low rated and less amounted loans. Instead of that they are initiated towards remittance, bank guarantees and other commission generating activities.
- c. Many banks are showing aggressive and are spontaneously increasing loan loss provision. Deposit in the banks is also decreasing while some banks are holding enough funds.
- d. The earning capacity of SCBNL and NABIL is comparatively higher than that of other banks. Also, the dividend payout ratio of these banks is higher than other banks.

Basnet (2005), has made a study on, “*A Comparative Study on Financial Performance Between the Commercial Banks.*” The main objective of the study is to

examine the financial performance of SBI bank and NBBL bank. The other objective are;

- a. To study the liquidity position of both the banks.
- b. To analyze the lending position of both the banks.
- c. To examine marketability position and the efficiency ratio of SBI and NBBL.

The major findings of the study are;

- a. The analysis of liquidity position of these commercial banks shows different position. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities, i.e. it indicates the availability of current assets in rupees for every one rupee of current assets than current liabilities. The average current ratio of SBI (1.05) is greater than that of NBBL (0.98). Therefore, the liquidity position of SBI bank is in normal standard and NBBL is also trying to gain that position.
- b. From the analysis of turnover of these two banks, NBBL has better different. The overall calculation seems to be better for NBBL. Though certain ratio like dividend per share, dividend payout ratio etc better for SBI Bank. The writer has also conducted that earning per share of NBBL is better than that of SBI bank.

Kasaju (2006), has conducted a study on, “*A Comparative Study on Performance Analysis of Top Five Commercial Banks of Nepal.*” The main objective of the study is to analyze and compare liquidity, profitability, stability and market value position among the top five commercial banks. The other specific objectives are;

- a. To trace out the trend of loan and advances.
- b. To find out the relationship between deposits and loan & advance, and deposits and net profit.
- c. To analyze the trend of profit and dividend distribution.

The major findings of the study are;

- a. EBL and NIBL have been getting lower net profit out of total income with comparison to all the banks.
- b. EBL comparatively fails to maintain operating ratio on total assets whereas NIBL did best. HBL, EBL and NIBL have been suffering from ineffectively using the total fund. So, they are getting lower return than SCBNL and NABIL.
- c. All top five commercial banks have been earning sufficient interest income on loan and advances. It means they have high utilizing the loan and advances.
- d. NABIL has been providing comparatively greater cash dividend on share capital in a consistency manner too. SCBNL and NIBL have been providing lower cash dividend in inconsistency manner. SCBNL has been providing dividend on share capital comparatively greater than other banks in a consistency manner.
- e. NABIL has also been providing better dividend in a consistency manner to some extent too. As a lower average, NIBL has not provided dividend on share capital. NABIL shows greater inconsistency too.

Paudel (2006), has conducted a study on, “*A Comparative Study on Financial Performance of NABIL Bank Ltd. and Nepal Bangladesh Bank Ltd.*” The main objective of the study is to know the financial condition, financial performance and financial growth of NABIL and NBL. The other specific objectives are;

- a. To examine the EPS and DPS of NABIL and NBL.
- b. To analyze the efficiency of NABIL and NBL in utilizing the assets.
- c. To evaluate the trend of net profit of the concerned banks

The major findings of the study are;

- a. The overall liquidity position of NBBL was Stronger than that of NABIL. Analyzing the activity or turnover of both banks, NBBL mobilized its deposits more on loan and advances whereas NABIL mobilized its deposits more prudently and efficiently in generating income.
- b. Similarly, capital adequacy position of NABIL was found to be better than that of NBBL. Regarding the capital structure of the banks, NBBL was found to

have adopted high risk, high return strategy as suggested by its highly leveraged i.e. debt dominated.

- c. According to profitability analysis, NABIL was found sound profitability due to its higher ratio. Also, other indicators as EPS, DPS, TPS were found sharply higher in NABIL, which implies positive attitude of stakeholders toward NABIL.
- d. NBBL should keep only the reasonable amount of liquidity, which will save the bank from creating low return; NBBL should improve its capital adequacy by investing the assets and deposits in highly returnable sector; NABIL should invest its deposit in profit generating sectors.

2.4 Research Gap

Though there are several researches performed under the topic *Financial Performance Analysis of Commercial Banks*, those analyses excludes the directives of NRB, like in cash reserve ratio, capital adequacy ratio and so on. Also the studies do not measure the credit risk of the bank by analyzing the non performing loan. To obliterate such gaps, the present study has been conducted with the analysis of all the aforementioned items, along with the other liquidity, solvency, efficiency and profitability ratios.

CHAPTER - III

RESEARCH METHODOLOGY

The prime objective of this study is to evaluate the financial performance of the four commercial banks i.e. EBL, SBL, BOK and NIC. In order to realize the objectives, an appropriate research methodology has to be designed to carry out research. Research methodology refers to the various sequential steps to be adopted by a reporter in studying a problem with certain objective in view. It is a way to solve the research problem systematically. Here, focus is made on research design, population and sample, source and types of data and data analysis tools.

3.1 Research Design

This research work tried to analyze the comparative performance of commercial banks in the present generation. The present study consists of analytical as well as descriptive design. The study is based on secondary data of only four commercial banks are taken into account, which represents almost same strategic groups. Financial as well as statistical tools are used to analyze and interpret.

3.2 Population and Sample

In the present context, there are 28 commercial banks operating in Nepal. The study of these banks within this research is almost impossible. Hence, considering these numbers of banks as total population, four banks with in from these total population has been taken as sample and tried to achieve the objective set out by analyzing the data. Thus, the sample taken represents approximately 14% of the total population.

3.3 Sources of Data

The study is based on secondary data, and the data are collected from various sources. The secondary data was collected by reviewing the annual reports, brochures, prospectus of the concerned banks.

3.4 Data Analysis Tools

Financial performance is analyzed with two important tools. The first most important tool is the financial tool, which includes ratio analysis and another is a statistical tools.

3.4.1 Financial Tools

Under this, mainly the ratio analysis has been used. The ratio analysis is the powerful tool of financial analysis, which helps in identifying the strength and weakness of an organization or business concern about the financial performance. The technique of ratio analysis is the part of the whole process of the analysis of financial statement of any business or industrial concern, especially to take output and credit decision. In the financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of the firm. The following ratios are going to be analyzed under the financial performance analysis of selected six commercial banks.

A) Liquidity Ratio

Liquidity ratio is a rigorous measure of a firm's ability to serve its short-term obligation. It reflects the short-term financial solvency of a firm as a whole or it is employed as a measurement of a company's liquid position. The firm should remain an appropriate liquidity neither excess nor less to meet its short-term obligation when they become due. Inadequate liquidity can lead to unexpected cash dearth. A very high degree of liquidity is also not good as ideal assets earn nothing, leading to fewer assets yield and contributing to poor earning performance. Important liquidity ratios that have been used in the study are listed below:

a. Current Ratio

The current ratio is the ratio of total current assets to total current liabilities. Current ratio measure the short-term solvency, i.e. its ability to meet short-term obligation or as a measure of creditors verses current assets. The current ratio is calculated by dividing current assets by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

b. Cash in Hand to Total Deposits Ratio

Cash in Hand to total deposits ratio measures the capacity of bank to meet unexpected demand made by depositors, i.e. current account holders, saving depositors, call and other depositors. This ratio is computed by using the following formula.

$$\text{Cash in Hand to Total Deposit Ratio} = \frac{\text{Cash in Hand}}{\text{Total Deposit}}$$

c. Fixed Deposit Total Deposit Ratio

Fixed deposit is a long-term and high interest bearing deposit. More Fixed deposit may be an advantage if it can be invested in long-term credit. This ratio is calculated in order to find out the proposition of fixed deposit in total deposit. Fixed deposits are long-term deposit and banks can mobilize them on investment, loan and advances. Fixed deposit to total deposit ratio can be cash by dividing the amount of fixed deposit by amount of total deposit.

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

d. Cash Reserve Ratio

Each bank has to keep the cash reserve ratio as directed by the NRB. The CRR ratio as per the NRB should be 5% from the fiscal year 2004/05 to 2007/08 and 5.5% in the fiscal year 2008/09. The cash reserve ratio is calculated by using the following formula.

$$\text{CRR} = \frac{\text{Cash and Bank Balance}}{\text{Total Local Deposit}}$$

B) Efficiency Ratio

Efficiency Ratio or activity ratio or utilization ratio is concerned with measuring the efficiency in its assets management. This ratio measures the degree of effective use of resources of a firm. It indicates how quickly certain current assets are converted into cash. Higher the rate means more efficient in management on the utilization of its resources and vice-versa. Following Ratios are used under efficiency ratio;

a. Interest Expenses on Deposit to Total Deposit Ratio

Commercial banks not only make profit from the deposit but also pay interest to the deposit holders. This ratio measures the amount of interest paid on accepting deposit by the banks to its account holders. Lower the ratio is considered better and vice versa.

$$\text{Interest Expenses to Total Deposit Ratio} = \frac{\text{Interest Expenses on Deposit}}{\text{Total Deposit}}$$

b. Loans and Advance to Total Deposit Ratio

This Ratio measures the bank's ability to mobilize the depositors fund to earn profit by providing loans and advances. It also measures the extent to which the banks are successful in mobilizing deposits for the fur pose of profit generating. The ratio is calculated by dividing loans and advances by total deposits.

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

c. Non Performing Loan to Total Loan

The non performing loan to total loan measures the risk on the total loan and thus represents the quality of the assets the bank is carrying on. Higher the ratio indicates higher risk on the assets and vice-versa.

$$\text{NPL to Total Loan} = \frac{\text{Non Performing Loan}}{\text{Total Loan}}$$

C) Leverage Ratio

Leverage ratio, also known as capital structure ratio, indicates the proportionate relationship between debt and equity. Leverage ratios are concerned with the long term solvency of the bank and show the proportion of outsiders fund and shareholder's fund of the bank.

a. Debt-Equity Ratio

The appropriate ratio of debt to equity varies according to the nature of the business and the volatility of cash flows. This ratio brings out the relation between total debts and equity funds. It is determined to measure the firm's obligations to total creditors in relation to the funds invested by the owners. Total debt to equity ratio can be computed by using the following formula:

$$\text{Debt - Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

b. Debt Assets Ratio

Debt to total assets ratio reflects the financial contribution of outsiders and owners on total assets of the firm. It also measures the financial security to the outsiders. Generally creditors prefer a low debt ratio and owners prefer a high debt ratio in order to magnify their earnings on the one hand and to maintain their concentrated control over the firm on the others.

$$\text{Debt Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

c. Capital Adequacy Ratio

Commercial banks are required to maintain adequate capital. Holding too much capital may result in lower return from their investment and holding too little capital though result in higher return yet may not comply with the rules of central bank. Banks have been directed to meet any short fall in capital adequacy ratio by transferring part of profit to general reserve and there by increasing equity fund. Capital adequacy ratio is calculated by dividing the capital fund by total deposit of the firm.

$$\text{Capital Adequacy Ratio} = \frac{\text{Capital Fund}}{\text{Total Deposits}}$$

D) Profitability Ratio

Profit is the ultimate output of a company and its existence is not justified if it fails to make sufficient profit. Therefore the company should continuously evaluate the efficiency of the company in terms of profit. The profitability ratios are calculated to measure the operating efficiency of the company.

a. Return on Shareholders' Equity

Return on shareholders' equity reflects how well the firm has used the capital of the owner's. The earning of satisfactory return is the most desirable objective of business as common or ordinary shareholders are entitled to the residual profits. It is calculated by dividing profit after tax by shareholders' equity.

$$\text{ROSE} = \frac{\text{Net Profit after Tax}}{\text{Shareholders' Equity}}$$

b. Return on Total Asset Ratio

Return on total assets explains the contribution of assets to generating net profit. This ratio indicates efficiency towards of assets mobilization. In other words return on total assets ratio is an overall profitability rate, which measure earning power and overall operation efficiency of a firm. This ratio helps the management in identifying the factors that have a bearing on overall performance of the firm.

$$\text{Return on Total Assets} = \frac{\text{NPAT}}{\text{Total Assets}}$$

c. Return on Total Deposit Ratio

Return on total deposit ratio measure how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits. It explains the ability of management in efficient mobilization of deposit in earning profit. The ratio is calculated as:

$$\text{Return on Total Deposits Ratio} = \frac{\text{NPAT}}{\text{Total Deposits}}$$

E) Miscellaneous Ratio

In addition to the above ratios, there are other widely used ratios related to the financial aspects of the company, some of which have been discussed here in this section to supplement the analysis.

a. Interest paid to Interest Income Ratio

Interest paid to interest income ratio reveals the proportionate relationship between interest paid on different liabilities and interest income from different source. Higher ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income and vice versa.

$$\text{Interest Paid to Interest Income Ratio} = \frac{\text{Total Interest Expenses}}{\text{Total Interest Income}}$$

b. Earnings Per Share

The profitability of the common shareholder's investment can also be measured in term of earning per share. The earning per share is calculated by dividing the profit after tax by total number of common share outstanding.

$$\text{Earning Per Share} = \frac{\text{NPAT}}{\text{No. of Common Shares}}$$

c. Dividend Per Share

The net profit after tax belongs to shareholders. But the income, which they really receive, is the amount of earning distributed as dividends. Therefore, a large number of present and potential investors may be interested in dividend per share rather than earning per share. DPS is the earnings distributed to ordinary shareholders divided by the number of ordinary shares outstanding.

$$\text{Dividend Per Share} = \frac{\text{Dividend Paid}}{\text{No. of Common Shares}}$$

d. Dividend Payout Ratio

Dividend payout ratio indicates the percentage amount of dividend paid to shareholders out of earning per share, i.e. this ratio reflects at what percentage of net

profit is to be distributed in terms of dividend and what percentage is to be retained in company as retained earning.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

3.4.2 Statistical Tools

a. Arithmetic Mean

Arithmetic mean of a given set of observations is the sum of th observation divided by the number of observations. In such a case all the items are equally important. Simple arithmetic means is used in this study as per necessary for analysis.

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n}$$

Where, $\sum X$ = Sum of all values of the observations

n = Number of observation

x = Value of variable

b. Standard Deviation

The standard deviation is usually denoted by the letter (σ). Karl person suggested it as a widely used measure of dispersion and defined as the given observations from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation, in this study has been used to measure the degree of fluctuation of interest of the analysis.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

c. Coefficient of variation

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 times coefficient of standard deviation is called coefficient of variation. It is denoted by C.V. Thus,

$$C.V. = \frac{\sigma}{\bar{X}} \times 100$$

Where, σ = Standard Deviation

\bar{X} = Mean value of variables

The distribution having less C.V is said to be less variable or more consistent. A distribution having greater C.V is said to be more variable or less consistent.

CHAPTER - IV DATA PRESENTATION AND ANALYSIS

4.1 Data Analysis

Under this section, the secondary data collected through the annual reports of the observed banks have been analyzed to measure the financial performance within the last five consecutive fiscal years.

4.1.1 Liquidity Ratio

A bank needs to have sound management of liquidity, otherwise it may turn to bankruptcy if it could not meet the immediate cash requirement or it may pass through predicament for profit if it keeps unnecessary idle cash. So neither high liquidity nor low liquidity is desirable for the bank.

4.1.1.1 Current Ratio

A bank needs to have maintained sufficient current assets to meet its current obligations. Generally, 2:1 current ratio is considered better, but for banking purpose 1:1 current ratio could be sufficient.

Table: 4.1
Current Ratio

(Ratio in Times)

FY	EBL	SBL	BOK	NIC
2004/05	1.09	1.22	1.07	1.17
2005/06	1.08	1.19	1.14	1.15
2006/07	1.07	1.17	1.13	1.13
2007/08	1.07	1.12	1.08	1.12
2008/09	1.07	1.10	1.09	1.14
Mean	1.08	1.16	1.10	1.14
S.D.	0.01	0.04	0.03	0.02
C.V.%	0.88	3.76	2.50	1.47

(Source: Appendix-I)

The current asset maintained by EBL is just above the current liabilities. The bank has its highest current ratio, 1.09 times, in the fiscal year 2004/05, which has decreased to 1.07 times at the lowest. In last three fiscal years, the bank has kept its current ratio stable, i.e. 1.07 times. In average, the current asset of the bank is just 1.08 times greater than the current liabilities, which is quite satisfactory but not sufficient. It would be laudable if the bank increases its current ratio to the appropriate level for having sound liquidity management.

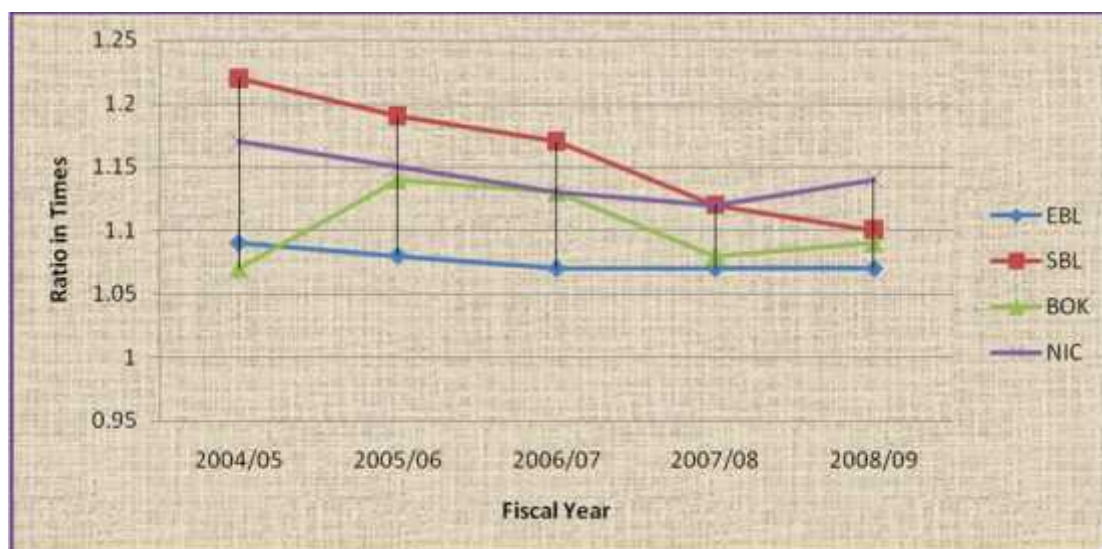
Astonishingly the SBL bank has decided to decrease the current ratio, and thus the ratio has gradually declined from 1.22 times in the fiscal year 2004/05 to 1.10 times in the fiscal year 2008/09. In average, the bank has maintained current ratio 1.16 times, and the variation in the ratio is only 3.76 times, indicating high consistency.

In contrast to SBL, BOK has shown eccentric behavior in maintaining the current ratio. The current ratio of the bank has increased for the first three fiscal years, i.e. from 1.07 times in the fiscal year 2004/05 to 1.13 times in the fiscal year 2006/07, and then it has decreased in the last two fiscal years, and finally reached to 1.09 times. Nonetheless, the current ratio of the bank has remained 1.10 times in average, and the ratio has fluctuated by 2.50%.

Precisely opposite situation has been observed in NIC in comparison to BOK. The current ratio of NIC has decreased for the first four fiscal years, i.e. from 1.17 times in the fiscal year 2004/05 to 1.12 times in the fiscal year 2007/08, and then it has finally increased to 1.14 times in the fiscal year 2008/09. In average, the current ratio of the bank is 1.14 times with 1.47 times fluctuation.

On the ground of the current ratio, it can be concluded that SBL has given predilection to the liquidity management and thus it has kept highest current ratio to meet the immediate cash requirement.

Figure: 4.1
Current Ratio



4.1.1.2 Cash in Hand to Total Deposit Ratio

Cash in hand to total deposit ratio measures the capacity of the bank in immediate payment to the depositors. Higher the ratio indicates higher liquidity in bank in satisfying the payment requirement. However the bank should maintain appropriate ratio that is obligatory.

Table: 4.2
Cash in Hand to Total Deposit Ratio

(Ratio in %)

FY	EBL	SBL	BOK	NIC
2004/05	1.91	1.36	1.81	1.12
2005/06	1.88	1.66	1.76	1.59
2006/07	2.94	1.97	1.77	1.80
2007/08	3.43	1.46	3.39	1.80
2008/09	2.83	1.71	3.12	2.17
Mean	2.60	1.63	2.37	1.69
S.D.	0.61	0.21	0.73	0.34
C.V.%	23.50	12.96	30.84	20.24

(Source: Appendix-I)

Rather fluctuating trend in cash in hand to total deposit ratio in EBL has been observed within the five year periods. The ratio in the bank is 1.91% at the onset of the five consecutive fiscal years, which has been reduced to 1.88% in the fiscal year 2005/06, and reached to 3.43% at highest in the fiscal year 2007/08, and finally it has decreased to 2.83%. In average, EBL has the capacity to pay 2.60% of the total deposit as immediate payment. However, the ratio has fluctuated by 23.50% in these periods. This fluctuating trend obliges the bank to have sound liquidity policy.

Moreover, the ratio in SBL has been ascertained to have increased for the first three fiscal years, i.e. from 1.36% in the fiscal year 2004/05 to 1.97% in the fiscal year 2006/07, and then it has decreased to 1.46% in the fiscal year 2007/08, and finally it has increased to 1.71% in the fiscal year 2008/09. In average, SBL has earmarked 1.63% of the total deposit in hand for immediate cash payment, and the variation in the ratio is 12.96%.

Precisely opposite situation has been observed in BOK as compared to SBL in term of cash at vault to total deposit ratio. The ratio in BOK has decreased for the first three fiscal years, and then it has increased in fourth fiscal year, when the ratio is highest, 3.39%, and it has finally decreased to 3.12%. In average, BOK has remained able to pay 2.37% of the total deposit, and the capacity in meeting the cash demand has varied by 30.84%, indicating inconsistency.

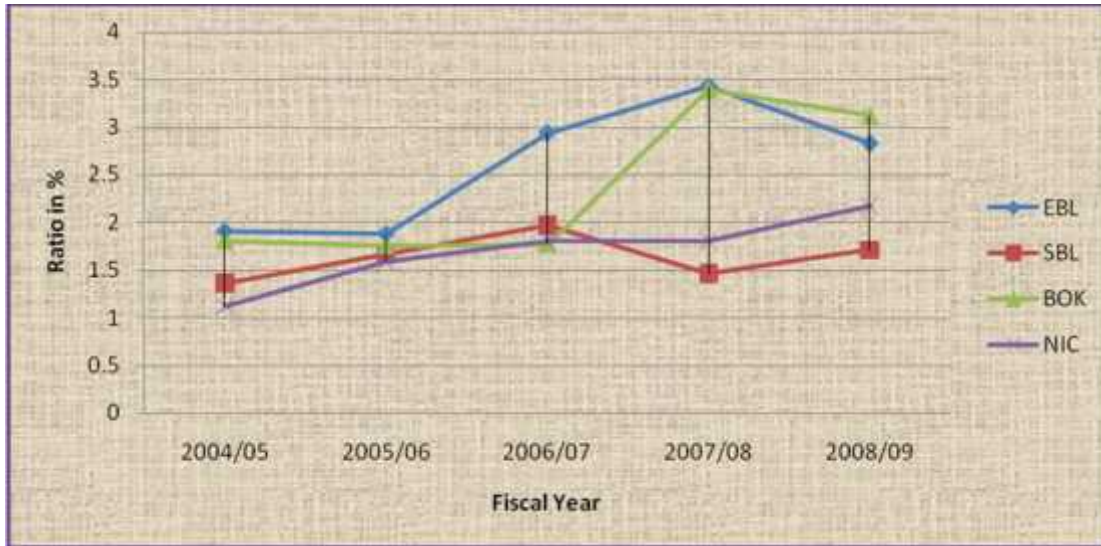
While making quest on the liquidity position of NIC, it has been found that the cash in hand to total deposit ratio of the bank is almost in increasing trend, except in the fiscal year 2007/08, when the ratio has remained unchanged. At the beginning the ratio is 1.12% which has been progressed to 2.17% by the end of the fiscal year 2008/09. In average, NIC bank has kept 1.69% of the total deposit as cash in hand and the fluctuation rate in the ratio is 20.24%.

Undoubtedly the liquidity position on the ground of cash in hand to total deposit ratio is superb in EBL as compared to that of other banks. However, it should be noted that

NIC bank has also paid concern to the ratio and thus the ratio is in increasing trend. Really the attempt of NIC in increasing the ratio is landmark to other banks to pay concern on the onus of the bank toward the customers.

Figure: 4.2

Cash in hand to Total Deposit Ratio



4.1.1.3 Fixed Deposit to Total Deposit Ratio

Deposit is the main source of funds in banks. Under fixed deposit account, the bank does not have to make immediate payment and thus the deposited amount is good tools for liquidity management. Higher the fixed deposit to total deposit ratio, higher will be the liquidity in the bank.

Table: 4.3

Fixed Deposit to Total Deposit Ratio

(Ratio in %)

FY	EBL	SBL	BOK	NIC
2004/05	33.71	48.60	32.19	46.95
2005/06	30.74	41.66	25.84	46.37
2006/07	30.94	45.62	24.52	40.47
2007/08	26.89	44.77	23.39	44.91
2008/09	21.16	45.15	24.74	48.65

Mean	28.69	45.16	26.14	45.47
S.D.	4.35	2.21	3.13	2.77
C.V.%	15.15	4.90	11.96	6.10

(Source: Appendix-I)

The table enlightens that the preponderance of fixed deposit on total deposits of EBL has continuously decreased during the five consecutive fiscal years. This indicates that either bank has diverted its collection toward other types of deposits or remained failure to collect more fixed deposits. The ratio is highest, 33.71%, in the fiscal year 2004/05 and lowest, 21.16%, in the fiscal year 2008/09. In average, 28.69% of the total deposit has been represented by fixed deposit amount.

Similarly, the fixed deposit to total deposit of SBL is highest, 48.60%, in the fiscal year 2004/05 but in the meantime it has been decreased to 45.15% at the end of the fiscal year 2008/09. In average, 45.16% of the total deposit has been collected from fixed deposit account, which indicates greater liquidity in the bank. Also the ratio has remained much consistent, 4.90%, during the entire periods.

Further, the ratio in BOK has decreased in the first four fiscal years, i.e. from 32.19% in the fiscal year 2004/05 to 23.39% in the fiscal year 2007/08, and then it has increased to 24.74% in the fiscal year 2008/09. Alike other banks, BOK also could not increased the fixed deposit in proportion to other deposits. In average, the bank has collected 26.14% of the total deposit through fixed account.

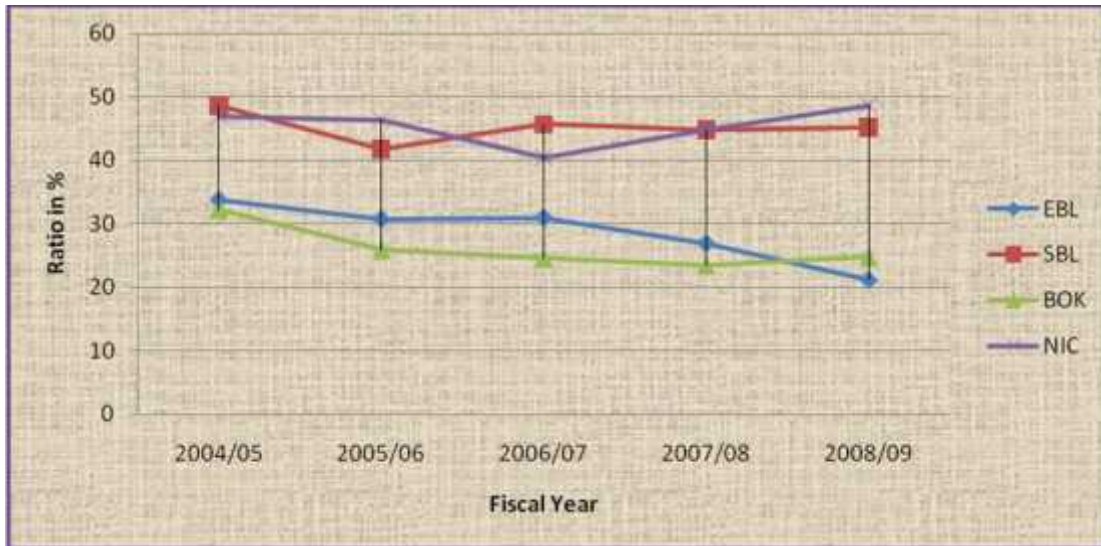
In contrast, the ratio of fixed deposit to total deposit of the bank has decreased for the first three years, i.e. from 46.95% in the fiscal year 2004/05 to 40.47% in the fiscal year 2008/09, and then it has increased in the last two fiscal years, and it has finally reached to 48.65% by the end of the fiscal year 2008/09. In average, the fixed deposit has represented 45.47% of the total deposit account.

Comparing the four banks, it can be considered that NIC bank is most efficient in managing the liquidity in term of fixed deposit to total deposit ratio. However, the

effort of SBL is also equally satisfactory, as the average ratio of SBL is slightly lower than that of NIC.

Figure: 4.3

Fixed Deposit to Total Deposit Ratio



4.1.1.4 Cash Reserve Ratio

Cash reserve ratio is the most crucial tool for measuring the liquidity of the bank. NRB has directed 5% CRR till fiscal year 2008/09, however, effective from the fiscal year 2008/09 the ratio has increased to 5.5%. The cash reserve ratio maintained by the observed commercial banks is presented in the below table.

Table: 4.4

Cash Reserve Ratio

(Ratio in %)

FY	NRB's Req.	EBL	SBL	BOK	NIC
2004/05	5	1.90	5.21	7.56	11.07
2005/06	5	1.90	5.03	7.64	6.10
2006/07	5	2.90	5.07	8.02	5.02
2007/08	5	4.56	5.11	7.57	5.09
2008/09	5.5	14.26	6.36	7.58	6.50
Mean		5.10	5.36	7.67	6.76
S.D.		4.68	0.07	0.18	2.49

C.V.%		91.69	1.25	2.28	36.87
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(Source: Appendix-VI)

Categorically the cash reserve ratio is the major equipment in measuring the liquidity of the bank. The table shows that that EBL has not met the specified minimum CRR of NRB in four fiscal year periods, while the maintained CRR of EBL in the fiscal year 2008/09 is more than double of the specified CRR, which indicates excess liquidity in that period and ultimately might have affected the profitability of the bank in such fiscal year. The lowest CRR of EBL is 1.90% in the fiscal year 2004/05 and in the fiscal year 2005/06, and the highest CRR is 14.26%. Clearly EBL has not sound liquidity managing policy. In average, EBL has maintained 5.10% CRR, while the variability in CRR within the five fiscal year periods is 91.69%.

In contrast to EBL, SBL has maintained the liquidity cautiously. The CRR of SBL in each fiscal year is just above the minimum rate directed by NRB. This indicates that SBL has given predilection while maintaining the CRR. Though the CRR of SBL has followed fluctuating trend, it cannot be ignored that such CRR has met the NRB's minimum rate. Nonetheless, the CRR of SBL has ranged from 5.03% in the fiscal year 2005/06 to 6.36% in the fiscal year 2008/09. In average, the CRR of the bank is 5.36% and the coefficient of variation is only 1.25%, which indicates high uniformity in the ratio.

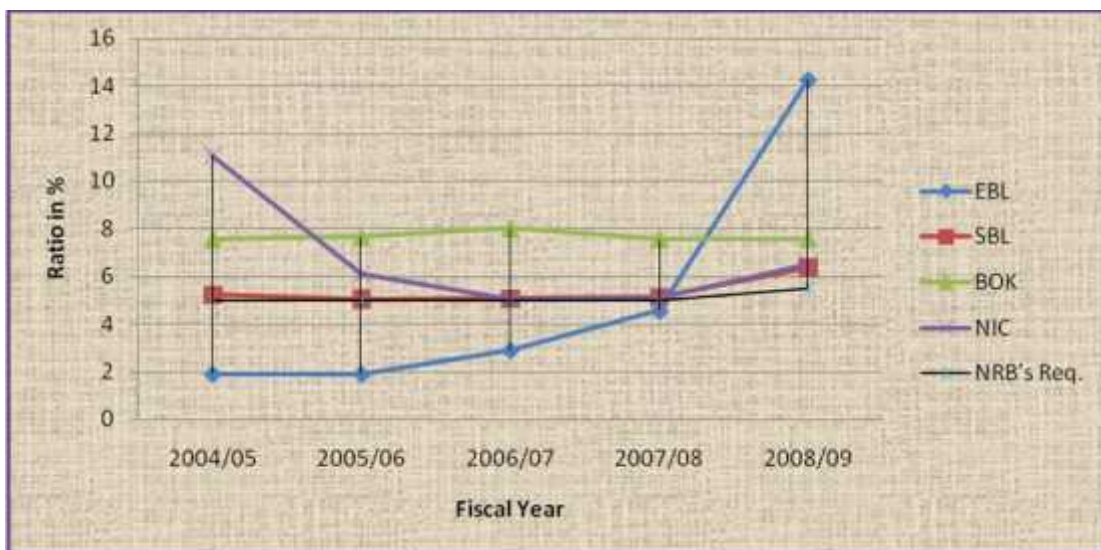
Alike SBL, BOK has also maintained its CRR above the minimum rate specified by NRB in each fiscal year. However, the CRR rate of BOK is comparatively than that of SBL in each fiscal year. The CRR of BOK has increased for the first three fiscal years, i.e. from 7.56% to 8.02%, and then it has decreased to 7.57% in the fourth fiscal year, and finally it has increased to 7.58% in the fiscal year 2008/09. In average, the bank has maintained 7.67% CRR and the coefficient of variation in such ratio is 2.28%, which indicates greater uniformity.

Further, the CRR of NIC is also satisfactory, as the CRR has met the benchmark set by NRB in each fiscal year. The CRR of NIC has decreased for the first three fiscal

years, i.e. from 11.07% in the fiscal year 2004/05 to 5.02% in the fiscal year 2006/07, and then it has increased in the last two years, reaching to 6.50% in the fiscal year 2008/09. Moreover, the average CRR of the bank is 6.76% and the coefficient of variation in the ratio is 36.87%, indicating inconsistency.

Definitely the CRR of BOK is tremendously higher than that of other banks. However, maintaining unnecessarily high liquidity does not guarantee the increase in profit, which is the goal of every organization, rather it debilitates the profitability of the bank. The bank should neither keep high liquidity nor keep low liquidity, because both the situation jeopardizes the credibility and sustainability of the bank. Thus, it can be concluded that SBL is most successful in having sound liquidity, as the CRR of SBL is neither too high nor too low, and is most uniform than that of other banks.

Figure: 4.4
Cash Reserve Ratio



4.1.2 Efficiency Ratio

Efficiency ratio is concerned with measuring the efficiency in its assets management. This ratio measures the degree of effective use of resources of a firm. It indicates how quickly certain current assets are converted into cash.

4.1.2.1 Interest Expenses on Deposit to Total Deposit Ratio

Commercial banks not only make profit from the deposit but also pay interest to the deposit holders. This ratio measures the amount of interest paid on accepting deposit by the banks to its accountholders. Lower the ratio is considered better and vice versa.

Table: 4.5
Interest Expenses on Deposit to Total Deposit Ratio

(Ratio in %)

FY	EBL	SBL	BOK	NIC
2004/05	2.92	3.54	2.60	3.32
2005/06	2.78	3.65	2.81	3.77
2006/07	2.74	3.97	2.58	3.95
2007/08	2.54	3.84	2.45	3.64
2008/09	2.96	4.67	2.92	4.59
Mean	2.79	3.94	2.67	3.85
S.D.	0.15	0.40	0.17	0.42
C.V.%	5.37	10.10	6.31	10.93

(Source: Appendix-II)

The table delineates that EBL has remained quite success to decrease its interest expenses on total deposit and increase its total deposit amount for the first four fiscal years. The ratio of interest expenses on total deposit to total deposit of the bank has decreased from 2.92% in the fiscal year 2004/05 to 2.54% in the fiscal year 2007/08, and then it has finally increased to 2.96% in the fiscal year 2008/09, in which the banks of the nation has faced global economic crisis as a result all the banks of the country has increased its interest rate to encourage the customers for savings. In average, the bank has paid 2.79% of the total deposit as interest to its depositors, and the variation on such payment is just 5.37%, indicating quite consistency.

In contrast to EBL, SBL has remained quite inefficient in reducing the interest expenses by collecting more deposit on non interest bearing account. The ratio has

almost followed increasing trend, except in the fiscal year 2007/08. The ratio has ranged from 3.54% in the fiscal year 2004/05 to 4.67% in the fiscal year 2008/09. In average, the bank has paid 3.94% of the total deposit as interest to depositors, and the variation in the rate is 10.10%.

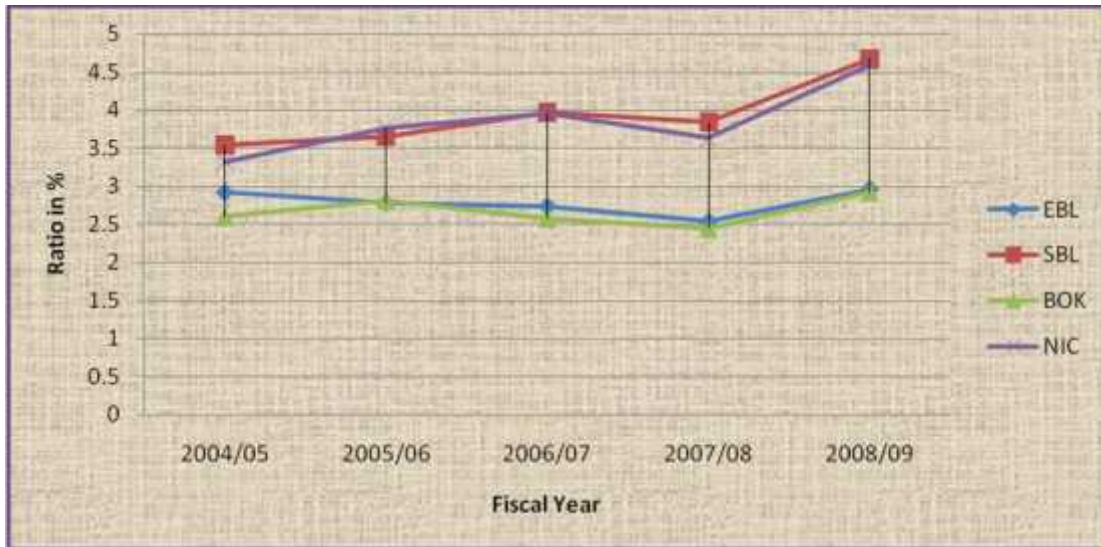
However, the ratio in BOK has fluctuated during the observed periods, which signals inefficiency of the bank in controlling interest expenses. The ratio is lowest, 2.45%, in the fiscal year 2007/08 and highest, 2.92%, in the fiscal year 2008/09. The bank has paid 2.67% of the total deposit collection as interest to its depositors, and the coefficient of variation in the ratio is 6.31%.

Alike SBL, NIC has also remained inefficient in controlling the interest expenses. The interest expense on deposit to total deposit is almost in increasing trend, except in the fiscal year 2007/08. The ratio is 3.32% in the fiscal year 2004/05 and then it has finally increased to 4.59% in the fiscal year 2008/09. In average, the bank has paid 3.85% of the total deposits as interest to its depositors, while such payment has varied by 10.93%.

Comparing the banks on the basis of low interest rate, it can be stated that BOK is most efficient in collecting deposits at lowest interest. In addition, the attempt of EBL in decreasing interest along with increasing deposit is certainly laudable.

Figure: 4.5

Interest Expenses on Deposit to Total Deposit Ratio



4.1.2.2 Loan and Advance to Total Deposit Ratio

The banks have to mobilize the collected deposit in productive sector to gain profit and eventually to sustain in the long run. Loan and advances is the major uses of collected fund in bank. The loan and advances to total deposit measures how efficiently and to what extent the deposit has been mobilized in disbursing loan.

Table: 4.6

Loan and Advance to Total Deposit Ratio

(Ratio in %)

FY	EBL	SBL	BOK	NIC
2004/05	78.20	104.42	77.61	78.66
2005/06	73.40	98.75	68.87	78.54
2006/07	77.40	95.39	71.42	90.67
2007/08	78.60	93.03	78.25	87.62
2008/09	73.43	85.18	80.51	89.32

Mean	76.21	95.35	75.33	84.96
S.D.	2.31	6.37	4.42	5.28
C.V.%	3.03	6.68	5.86	6.22

(Source: Appendix-II)

The mobilization rate of total deposits on loan and advances has varied in the observed periods in EBL. The ratio has rather followed fluctuating trend and thus it has ranged from 73.40% in the fiscal year 2005/06 to 78.60% in the fiscal year 2007/08. In average, the bank has mobilized 76.21% of its total deposit in loan and advances, and the variation in such rate is just 3.03%, indicating quite consistency policy in the bank.

SBL has been observed to have followed quite aggressive policy in mobilizing the total deposit on loan and advances. The bank has mobilized all the deposits amount in addition with the other collected fund in loan and advances in the fiscal year 2004/05, as a result the mobilization rate of the bank is 104.42%. Sooner, the bank has to decide the mobilization rate and gradually it has decreased such rate and finally it has kept such rate limited to 85.18% in the fiscal year 2008/09. Nonetheless, the bank has mobilized 95.35% of the total deposit in loan and advances, and the variation rate in the rate is just 6.68%.

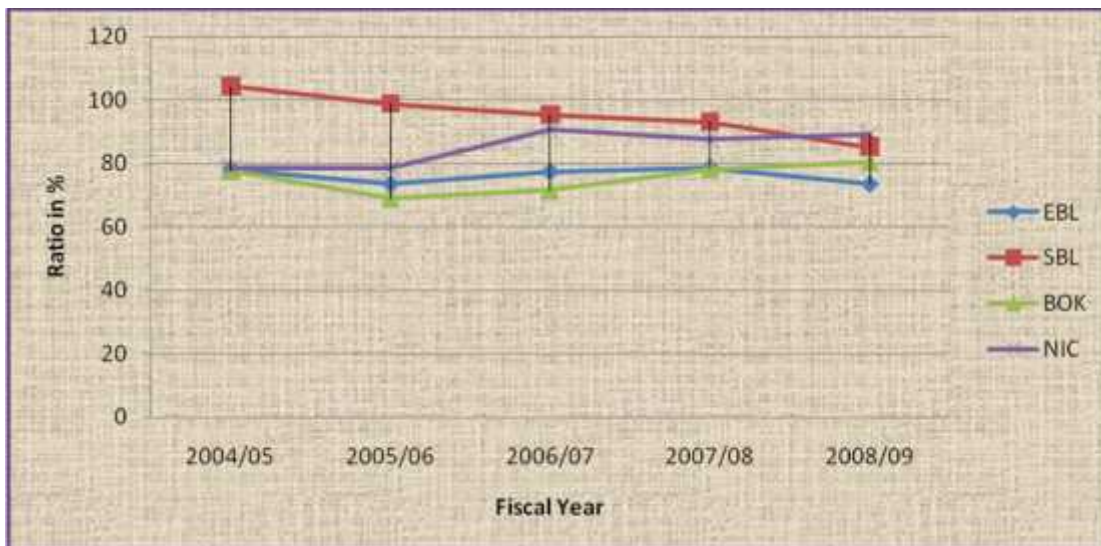
In BOK, the mobilization rate of total deposit on loan and advances has decreased to 68.87% in the fiscal year 2005/06 from 77.61% in the fiscal year 2004/05. Since 2005/06 the rate has inclined gradually and then it has been finally reached to 80.51% by the end of the fiscal year 2008/09. In average, the bank utilized 75.33% of the total deposit in granting loan and advances, with the consistency of 5.86% on such mobilization rate.

Moreover, the mobilization rate on loan disbursement has fluctuated throughout the observed periods in NIC. The ratio has ranged from 78.54% in the fiscal year 2005/06 to 90.67% in the fiscal year 2008/09. In average, the bank has provided 84.96% of its deposit collection in providing loan and advances, and the variation in rate is 6.22%.

Considering the average rate and the rate in each year, it can be said that the bank is more aggressive in providing loan and advances through deposit amount.

Summarizing the analysis, it can be concluded that loan and advances is the major uses of fund in each bank. Among the four commercial banks, SBL has taken more aggressive policy in mobilizing the total deposits in disbursing loan and advances.

Figure: 4.6
Loan and Advance to Total Deposit Ratio



4.1.2.3 Non Performing Loan to Total Loan

Non performing loan is palpable in loan management. However, the bank is considered efficient if it controls the preponderance of non performing loan on total loan and advances. Lower the ratio of non performing loan on total loan is considered better.

Table: 4.7
Non Performing Loan to Total Loan

(Ratio in times)

FY	EBL	SBL	BOK	NIC
2004/05	1.63	2.58	4.99	3.78
2005/06	1.27	0.87	2.72	2.60
2006/07	0.80	0.34	2.51	1.11
2007/08	0.68	0.69	1.86	0.86
2008/09	0.48	0.45	1.27	0.93
Mean	0.97	0.99	2.67	1.86
S.D.	0.42	0.82	1.27	1.15
C.V.%	43.13	82.97	47.45	62.19

(Source: Appendix-VI)

The table reveals that the performance of EBL in managing non performing loan in proportion to total granted loan and advances is quite satisfactory. The bank is quite efficient in deducting the ratio in each fiscal year. The ratio is 1.63% on the onset and it has gradually decreased to 0.48% by the end of the fiscal year 2008/09. In average, only 0.97% of the total loan and advances is in credit risk, and the variation in the ratio is 43.13% indicating inconsistency.

Similarly the preponderance of non performing loan on total loan and advances of SBL is greatest, 2.58%, in the base year 2004/05, which has declined for the next two years, and thus it has reached to 0.34% at its nadir in the fiscal year 2006/07. Again it has increased to 0.69% in the fiscal year 2007/08 and finally it has decreased to 0.45% by the end of the fiscal year 2008/09. In average, 0.99% of the total loan and advances of the bank is in credit risk.

The loan and advances of BOK is most risky than that of others, as the non performing loan to total loan and advances of the bank is higher than that of other banks in each fiscal year. However, the bank has remained quite efficient in

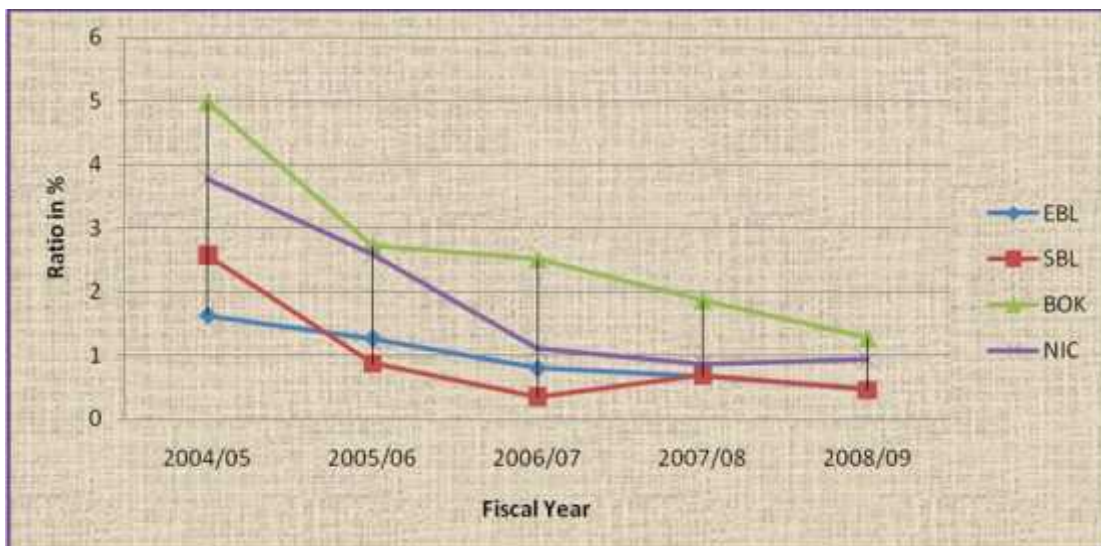
preventing the credit risk, and thus it has drastically reduced the ratio from 4.99% in the fiscal year 2004/05 to 1.27% in the fiscal year 2008/09. In average the loan and advances of the bank depicts 2.67% credit risk, while the fluctuation in the ratio is 47.45%.

NIC has also given predilection in decreasing the credit risk, as a result the non performing loan to total loan and advances of the bank has decreased in each fiscal year. The ratio has been decreased gradually from 3.78% in the fiscal year to 0.93% in the fiscal year 2008/09. In average, the non performing loan represents 1.86% of the total loan and advances disbursed.

Comparing the banks on the basis of the non performing loan to total loan and advances, it can be avowed that EBL is most efficient to keep the non performing loan's presentation lowest in comparison to loan and advances. However, the performance of NIC and BOK in drastically decreasing the ratio is also equally praiseworthy.

Figure: 4.7

Non Performing Loan to Total Loan



4.1.3 Leverage Ratio

Leverage ratio, also known as capital structure ratio, indicates the proportionate relationship between debt and equity. Leverage ratios are concerned with the long-

term solvency of the bank and show the proportion of outsiders fund and shareholder's fund of the bank.

4.1.3.1 Debt-Equity Ratio

The bank finances its total assets either through equity capital and debt capital. The bank using higher debt capital is considered to have followed aggressive policy, since debt capital carries risk. The debt-equity ratio of the bank of the observed banks within the five fiscal years is presented in the table below.

Table: 4.8
Debt-Equity Ratio

(Ratio in times)

FY	EBL	SBL	BOK	NIC
2004/05	13.09	6.97	12.68	9.98
2005/06	15.58	6.89	13.62	12.55
2006/07	16.84	9.02	13.68	11.72
2007/08	13.13	9.92	12.20	10.69
2008/09	15.75	12.98	10.77	10.29
Mean	14.88	9.16	12.59	11.05
S.D.	1.51	2.24	1.07	0.95
C.V.%	10.12	24.51	8.50	8.62

(Source: Appendix-III)

The preponderance of shareholders' equity in financing the total assets is significantly very low in EBL. This fact has been verified by the debt-equity ratio, which has increased for the first three fiscal years, i.e. from 13.09 times in the fiscal year 2004/05 to 16.84 times in the fiscal year 2006/07, and then it has decreased to 13.13 times in the fiscal year 2007/08 and finally it is 15.75 times in the fiscal year 2008/09. Nonetheless, the bank has used debt capital 14.88 times greater than the shareholders' equity to finance the total assets in average.

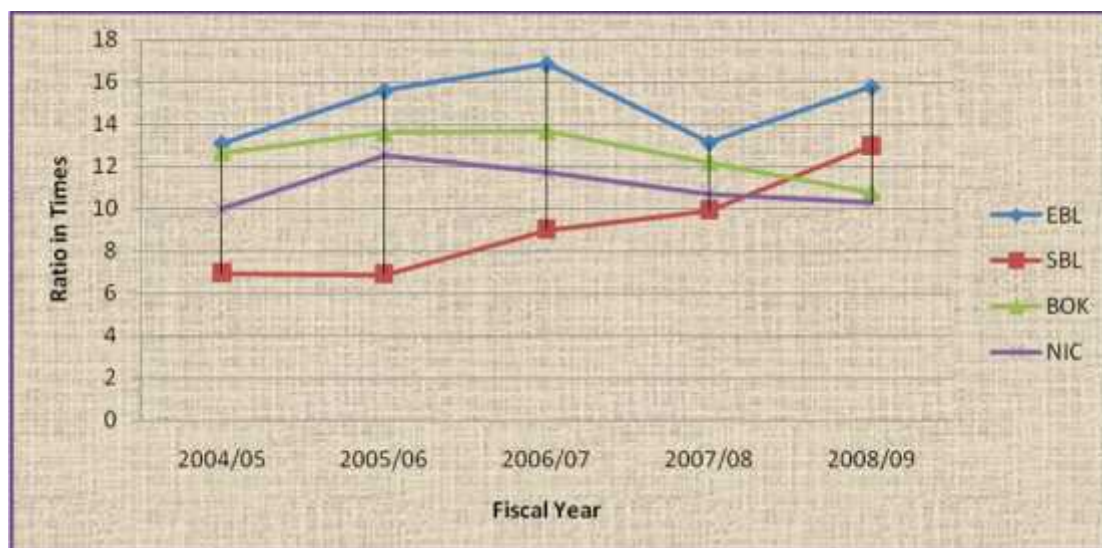
Except in the fiscal year 2005/06, the debt-equity ratio of the bank has followed increasing trend in SBL as well. The ratio has ranged from 6.89 times in the fiscal year 2005/06 to 12.98 times in the fiscal year 2008/09. In average, the bank has used the external financing more than 9.16 times the internal financing and the variation in the ratio is 24.51%, indicating inconsistency.

Similarly, the debt financing to equity financing of BOK has increased in the first three years and then it has decreased in the last two fiscal years. The ratio has ranged from 10.77 times in the fiscal year 2008/09 to 13.68 times in the fiscal year 2006/07. In average the debt financing of the bank is 12.59 times greater than the equity financing.

Alike in BOK, the ratio has increased for the first two fiscal years and it has decreased in the last three fiscal years. The ratio is highest, 12.55 times, in the fiscal year 2005/06 and it is lowest, 10.29 times, in the fiscal year 2008/09. In average, the bank has financed the total assets mostly through debt capital which is 11.05 times greater than the equity capital.

Summarizing the analysis, it can be concluded that each bank has preferred debt capital to meet its fund requirement. Among these banks, EBL is most aggressive and thus it has used highest debt-equity ratio to finance the total assets.

Figure: 4.8
Debt-Equity Ratio



4.1.3.2 Debt Assets Ratio

To measure what portion of the total assets has been financed through debt capital, the debt assets ratio is crucial. Higher ratio indicates greater risk in total asset and vice-versa. It would be optimal if the bank opt the appropriate combination of both internal and external financing to finance total assets.

Table: 4.9
Debt-Assets Ratio (Ratio in %)

FY	EBL	SBL	BOK	NIC
2004/05	92.90	87.45	92.69	90.89
2005/06	93.97	87.32	93.16	92.62
2006/07	94.39	90.02	93.19	92.14
2007/08	92.92	90.84	92.43	91.45
2008/09	94.03	92.85	91.50	91.15
Mean	93.64	89.70	92.59	91.65

S.D.	0.61	2.10	0.62	0.64
C.V.%	0.66	2.34	0.67	0.70

(Source: Appendix-III)

For the first three fiscal years the preponderance of debt capital on total assets of EBL is in increasing trend, i.e. from 92.90% in the fiscal year 2004/05 to 94.39% in the fiscal year 2006/07, and then the ratio has slightly decreased to 92.92% in the fiscal year 2007/08, and finally it has increased to 94.03% in the fiscal year 2008/09. This seems that the bank is the risk taker and thus it has extensively used outside funding to finance its total assets. In average, the bank has financed 93.64% of the total assets through debt capital, and the coefficient of variation in such financing is just 0.66%, indicating high consistency.

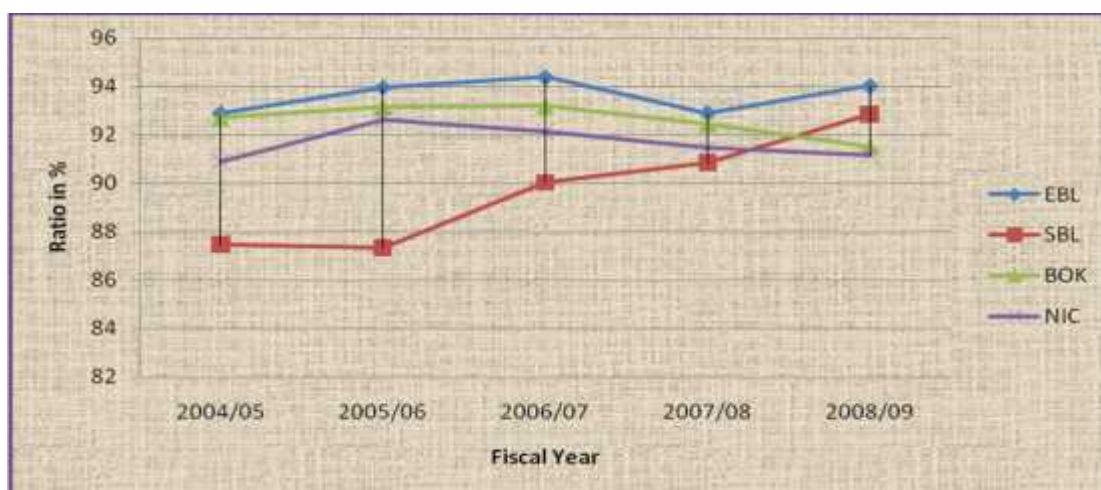
In SBL as well, the proportion of debt capital in total assets is almost in increasing trend. The ratio has ranged from 87.32% in the fiscal year 2005/06 to 92.85% in the fiscal year 2008/09. In average, the bank has financed 89.70% of the total assets through debt capital, and the consistency in the ratio is 2.34%.

Alike in EBL, the proportion of debt capital in total assets has increased for the first three years, and then it has decreased in the last two fiscal years. The ratio is highest, 93.19% in the fiscal year 2006/07 and lowest, 91.50%, in the fiscal year 2008/09. In average, the debt capital of the bank represents 92.59% of the total assets, and the variation in the ratio is just 0.67%, indicating high consistency.

In contrast, the use of debt capital in total assets has been gradually reduced by NIC bank within the last four fiscal years. This indicates the increasing interest of the bank in reducing the risk in total assets by increasing the preponderance of equity capital. The ratio has gradually decreased from 92.62% in the fiscal year 2005/06 to 91.15% in the fiscal year 2008/09, and the ratio is lowest, 90.89%, in the fiscal year 2004/05. In average, the bank has financed 91.65% of the total assets through debt capital.

Comparing the banks on the basis of debt to total assets ratio, it can be concluded that the total assets of EBL is most risky than that of other banks, since the bank has most extensively used the debt capital, which may be pernicious to the banks' assets, than other banks do.

Figure: 4.9
Debt-Assets Ratio



4.1.3.3 Capital Adequacy Ratio

The bank has to face various risks in smooth operation. To obliterate such risk the BASEL committee has directed to maintain 8% capital adequacy ratio. However, in the context of Nepal, NRB has directed 12% till 2007/08, and effective from the fiscal year 2008/09, the ratio is decreased to 10%.

Table: 4.10

Capital Adequacy Ratio (Ratio in %)

FY	NRB's Min. Req.	EBL	SBL	BOK	NIC
2004/05	12	13.57	13.64	11.02	13.29
2005/06	12	12.32	14.16	14.52	13.54
2006/07	12	11.20	11.84	12.62	12.20
2007/08	12	11.44	11.24	11.93	13.11
2008/09	10	10.55	10.69	11.68	12.42
Mean		11.82	12.31	12.35	12.91
S.D.		1.04	1.21	1.20	0.51

C.V.%		8.84	9.85	9.70	3.92
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(Source: Appendix-VI)

Ubiquitously, the accuracy of the bank in confronting the risk associated with banking transactions, such as credit risk, liquidity risk, operating risk, and other, is somewhat measured from CAR perspective. The table depicts that the CAR of EBL is higher than the specified ratio in first three fiscal years and lower than the minimum rate in two fiscal years, i.e. 11.20% in the fiscal year 2006/07 and 11.44% in the fiscal year 2007/08. The CAR of EBL has ranged from 10.55% in the fiscal year 2008/09 to 13.57% in the fiscal year 2004/05. In average, the CAR of EBL in five fiscal years is 11.82% and the fluctuation in the ratio is 8.84%.

Resemblance to EBL, the CAR in SBL is also low than the specified ratio in the fiscal year 2006/07 and 2007/08. The CAR maintained by SBL has followed fluctuating trend and thus has ranged from 10.69% in the fiscal year 2008/09 to 14.16% in the fiscal year 2005/06. The low CAR maintained in two fiscal years signals that the bank has not truly adopted the NRB's directives and has paid less concern to the banking risk. Nonetheless, the attempt of the bank in satisfying the minimum CAR in other fiscal years is praiseworthy. In average, the CAR in SBL is 12.31%, which has varied by 9.85%, indicating quite consistency.

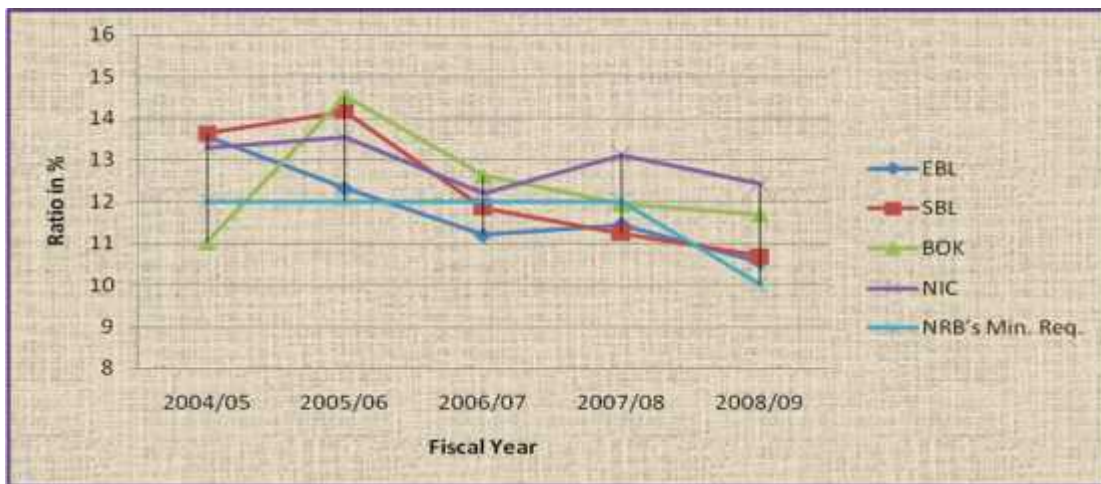
Alike in aforementioned two banks, i.e. EBL & SBL, precise situation has existed in BOK. BOK has also remained unsuccessful to keep the CAR just above the NRB's minimum requirement in each fiscal year. The CAR of BOK is more than the specified rate in three fiscal years and less than the specified rate in two fiscal years. The CAR has ranged from 11.02% in the fiscal year 2004/05 to 14.52% in the fiscal year 2008/09. In average, the bank has maintained 12.35% and the ratio has fluctuated by 9.70%.

In contrast to other banks, NIC has the buttress capital foundation, as the CAR of NIC is above the minimum ratio directed by NRB in each fiscal year. The ratio has ranged from 12.20% in the fiscal year 2006/07 to 13.54% in the fiscal year 2005/06. In

average, the CAR of NIC is 12.91%, and the variation in the ratio is 3.92%, indicating uniformity in the ratio.

On the ground of capital adequacy ratio directed by NRB and maintained by the banks, it can be considered that the capital of NIC is strongest than that of other banks in confronting the corresponding banking risks. Further, there is most consistency in the CAR ratio maintained by NIC bank.

Figure: 4.10
Capital Adequacy Ratio



4.1.4 Profitability Ratio

The main goal of most of the organization is to earn profit. Among them, the bank also craves for profit along with providing services. The profitability ratio measures the efficiency of the bank in mobilizing the resources to earn profit.

4.1.4.1 Return on Shareholders' Equity

Shareholders' equity has major role in meeting the required fund. Ubiquitously, high return on shareholders' equity is desirable in each bank, which will explicit the better utilization of the equity capital.

Table: 4.11
Return on Shareholders' Equity

(Ratio in %)

FY	EBL	SBL	BOK	NIC
2004/05	20.20	18.12	19.36	16.63
2005/06	24.65	10.82	24.11	12.60
2006/07	24.67	12.01	26.42	17.25
2007/08	23.49	13.40	26.94	18.65
2008/09	28.99	17.04	26.51	19.12
Mean	24.40	14.28	24.67	16.85
S.D.	2.81	2.84	2.83	2.31
C.V.%	11.54	19.88	11.48	13.70

(Source: Appendix-IV)

The capability of EBL in turning shareholders' equity to net profit has ascertained to be almost in increasing trend. This has been verified by the increasing trend of return of shareholders' equity in the first three fiscal years and final year. Thus, the ROSE has ranged from 20.20% in the fiscal year 2004/05 to 28.99% in the fiscal year 2008/09. In average EBL has generated Rs. 24.40 from mobilizing Rs. 100 of the shareholders' equity, while the variation in ROSE is 11.54%.

Similarly, the ROSE in SBL is greatest, 18.12%, in the fiscal year 2004/05 and immediately it has decreased to 10.82% in the fiscal year 2005/06. Since then, the ROSE has gradually increased in the last three fiscal years, but the bank has remained unsuccessful to achieve the ROSE equivalent to or greater than the ROSE it has in the fiscal year 2004/05. At the end of the fiscal year 2008/09, the ROSE of the bank has reached to 17.04%, and in average the bank has generated Rs. 14.28 from Rs. 100 investment of shareholders' equity. However, such generation rate has fluctuated by 19.88% during the five year periods.

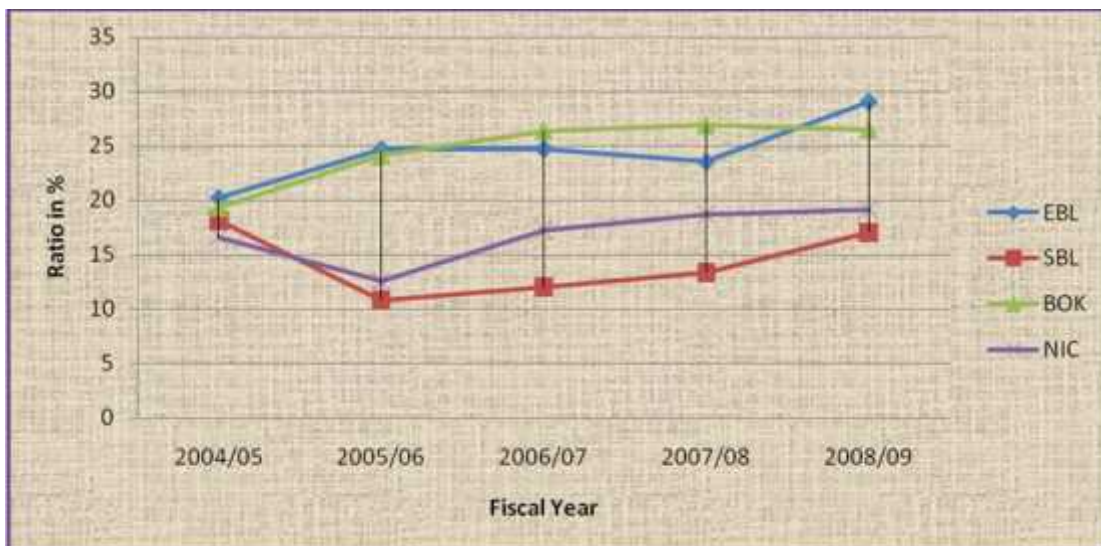
In contrast to the above mentioned banks, the ROSE in BOK has followed increasing trend for the first four fiscal year periods, and then it has slightly declined in the final

year. The ROSE of the bank is 19.36% at its nadir and 26.94% at its zenith, and 26.51% in the fiscal year 2008/09. In average the bank has converted 24.67% of the total shareholders' equity in net profit. Moreover, the conversion rate of the bank has fluctuated by 11.48% during the observe periods.

Alike in SBL, the ROSE in NIC has decreased in the fiscal year 2005/06 in comparison to that in the previous year, and since then the ratio has followed increasing trend. In the five year periods, the ROSE of the bank has ranged from 12.60% in the fiscal year 2005/06 to 19.12% in the fiscal year 2008/09. In average, the bank has generated Rs. 16.85 net profit from Rs. 100 investment of shareholders' equity, while such generation rate has fluctuated by 13.70%.

Comparing the banks on the basis of ROSE, it can be stated that BOK is most efficient in mobilizing the shareholders' equity to achieve greatest profit percentage. Next to this bank, the struggle of EBL in having greater ROSE is also quite praiseworthy.

Figure: 4.11
Return on Shareholders' Equity



4.1.4.2 Return on Total Assets

To measure how efficient the total asset of the bank has been mobilized to generate the profit, the return on total assets is the best tool. The return on total asset of the bank for the five year periods is presented in the table below.

Table: 4.12
Return on Total Assets

(Ratio in %)

FY	EBL	SBL	BOK	NIC
2004/05	1.43	2.27	1.42	1.51
2005/06	1.49	1.37	1.65	0.93
2006/07	1.38	1.20	1.80	1.36
2007/08	1.66	1.23	2.04	1.60
2008/09	1.73	1.22	2.25	1.69
Mean	1.54	1.46	1.83	1.42
S.D.	0.13	0.41	0.29	0.27
C.V.%	8.71	28.30	15.98	18.87

(Source: Appendix-IV)

While analyzing the return on total assets, it has been found that the ROA of EBL is almost in increasing, except in the fiscal year 2006/07. The ROA of the bank at the beginning of the observed periods is just 1.43%, which has been raised to 1.73% by the end of the fiscal year 2008/09. In average, the ROA of the bank is 1.54%, which indicates that EBL has generated Rs. 1.54 net profit from mobilizing assets worth Rs. 100. Meanwhile, the coefficient of variation in the return on assets is 8.71%, indicating quite consistency.

Unlike in EBL, the ROA in SBL has been found to be in decreasing path for the first three years, i.e. from 2.27% in the fiscal year 2004/05 to 1.20% in the fiscal year 2006/07, and then it has increased to 1.23% in the fiscal year 2007/08, and finally it has decreased to 1.22% in the fiscal year 2008/09. Thus the figure of ROA emblazons that there is uncertainty in the trend, and thus it has varied by 28.30% during the five

year periods. In average, the bank has earned Rs. 1.46 from Rs. 100 mobilization of total assets.

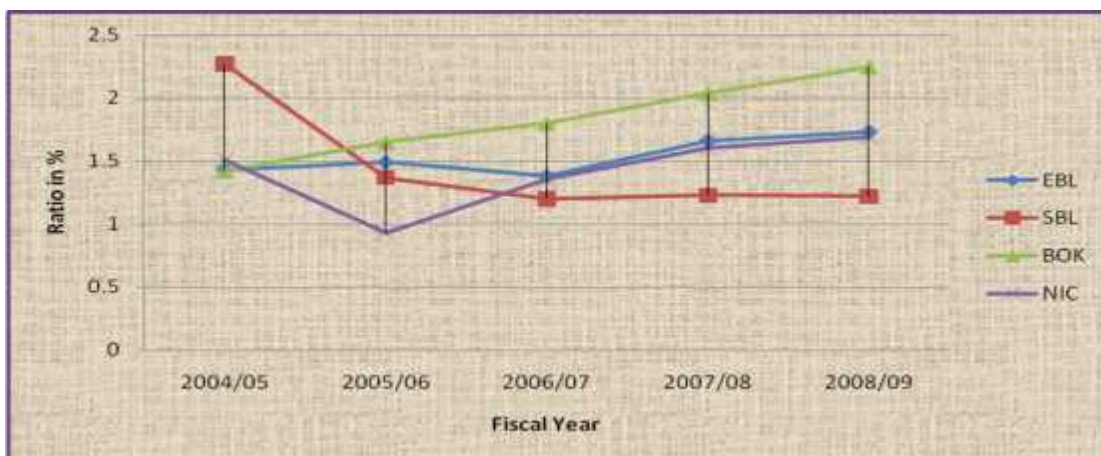
However, the progress on return on asset of BOK could be the landmark for other banks. The ROA of the bank has increased in each fiscal year, and thus it has ranged from 1.42% in the fiscal year 2004/05 to 2.25% in the fiscal year 2008/09. In average, BOK has generated Rs. 1.83 net profit from Rs. 100 mobilization of total assets. Moreover, the ROA has fluctuated by 15.98% during the five fiscal years.

Alike in most of the banks, the ROA of NIC has also fluctuated during the periods. However, it seems that the bank has paid more concern for the enhancement of asset mobilization since the fiscal year 2006/07, as a result the ROA has been to have increased in each fiscal year from then. The ROA of the bank has ranged from 0.93% in the fiscal year 2005/06 to 1.69% in the fiscal year 2008/09. In average, the bank has earned 1.42% of the total assets, and the variation in such earning is 18.87%.

Comparing the banks on the basis of ROA, it can be avowed that BOK is most efficient in mobilizing the total assets in most profitable sector, as a result the profit earning per rupee of assets is highest in comparison to that of others’.

Figure: 4.12

Return on Total Assets



4.1.4.3 Return on Total Deposit

Return on total deposit ratio measures how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits and explains the ability of management in efficient utilization of deposits.

Table: 4.13

Return on Total Deposit (Ratio in %)

FY	EBL	SBL	BOK	NIC
2004/05	1.67	2.85	1.56	1.82
2005/06	1.72	1.67	1.93	1.10
2006/07	1.63	1.44	2.12	1.57
2007/08	1.88	1.40	2.28	1.86
2008/09	1.92	1.37	2.55	2.04
Mean	1.76	1.75	2.09	1.68
S.D.	0.12	0.56	0.33	0.32
C.V.%	6.56	32.21	16.00	19.30

(Source: Appendix-IV)

Except in the fiscal year 2006/07, the trend of return of total deposit of EBL is quite enticing, as the ratio has increased in the remaining fiscal year periods. This increment in return has tacitly revealed the better utilization of deposit in productive sectors. At the beginning the ratio is 1.67%, which has finally been raised to 1.92. In average, the bank has earned Rs. 1.76 from Rs. 100 mobilization of total deposit. Meanwhile, the variation in the return on total deposit is just 6.56%, indicating quite consistency.

Rather disappointing situation has existed in SBL within these five fiscal years, since the return on total deposit of the bank has decreased in each year. The ratio has been highest, 2.85%, which has gradually been decreased to 1.37% by the end of the fiscal year 2008/09. In average, the bank has earned 1.75% net profit of the total deposit collected, and the variation in the ratio is 32.21%. It would be highly appreciated if the bank quests for better productive sector to invest its collected deposit and eventually to increase its profitability percentage.

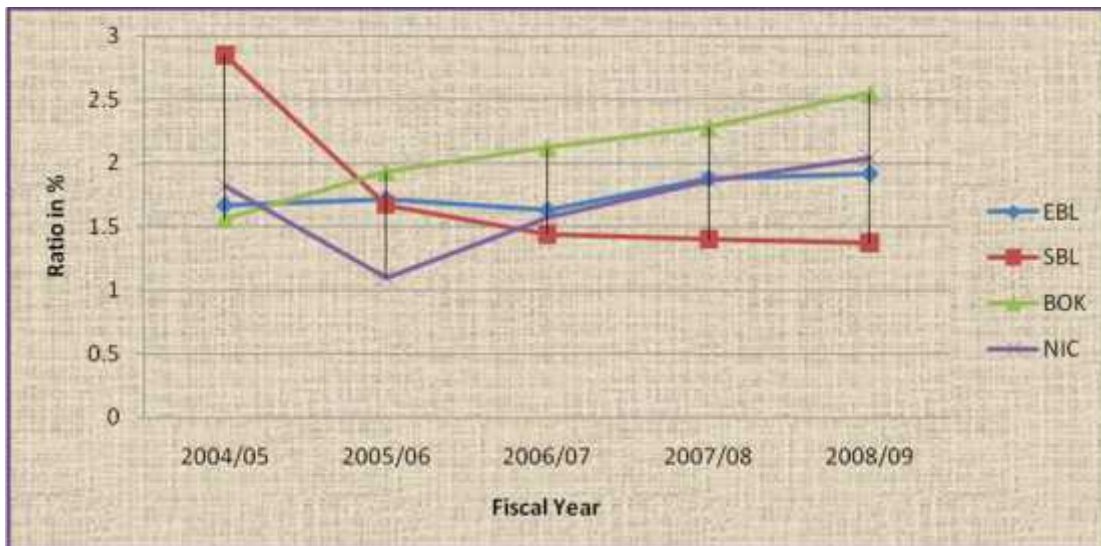
Precisely opposite situation of SBL has been observed in BOK, as the return of deposit has been found to have increased in each fiscal year. The ratio is just 1.56% in the fiscal year 2004/05, and it has gradually increased and finally it has reached to 2.55% in the fiscal year 2008/09. Consequently the average return on deposit of the bank is 2.09% and the variation in the ratio is 16% only.

However, the return on total deposit of NIC has remained fluctuating during the five observed fiscal years. The ratio is highest, 2.04%, in the fiscal year 2008/09 and lowest, 1.10%, in the fiscal year 2005/06, while at the beginning the ratio is 1.82%. In average, the bank has gained Rs. 1.68 net profit from Rs. 100 investment of the collected deposit, and the variation in the ratio is 19.30%.

Eventually, it can be stated that BOK has the greatest capacity of turning total collected deposit in yielding highest profit percentage. The other bank should take BOK as milestone for efficiently mobilizing the deposits to yield better profit.

Figure: 4.13

Return on Total Deposit



4.1.5 Miscellaneous Ratio

In addition to the above ratios, there are other widely used ratios related to the financial aspects of the company, some of which have been discussed here in this section to supplement the analysis.

4.1.5.1 Interest Paid to Interest Income

This ratio measures the relationship between the interest payment and interest income of the bank. Higher ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income and vice versa.

Table: 4.14
Interest Paid to Interest Income

(Ratio in %)

FY	EBL	SBL	BOK	NIC
2004/05	41.65	46.41	39.80	49.38
2005/06	44.43	50.30	42.91	58.66
2006/07	45.19	56.43	41.41	58.05
2007/08	40.85	55.93	40.37	54.33
2008/09	46.32	64.29	41.78	59.77
Mean	43.69	54.67	41.26	56.04
S.D.	2.10	6.07	1.09	3.80
C.V.%	4.80	11.11	2.64	6.78

(Source: Appendix-V)

Unfortunately EBL has remained unable to control the interest expenses. Although both the interest expenses and interest income of the bank has followed increasing trend, the pace of growth in interest expenses is greater than that in interest income. The interest expense to interest income ratio of EBL has ranged from 40.85% in the fiscal year 2007/08 to 46.32% in the fiscal year 2008/09. In average, 43.69% of the interest income has been used to meet interest expenses, and there is just 4.80% variation in the rate, signaling greater uniformity in the ratio.

Alike EBL, except in the fiscal year 2007/08, SBL has also remained unsuccessful to control the growing interest expenses. The proportionate increase in interest expenses is greater than the interest income in SBL as well. During the five fiscal years, the ratio has ranged from 46.41% in the fiscal year 2004/05 to 64.29% in the fiscal year

2008/09. The average ratio in the last five consecutive fiscal years is 54.67%, which has indicated low margin between these two financial indicators. Moreover, the ratio has varied by 11.11%.

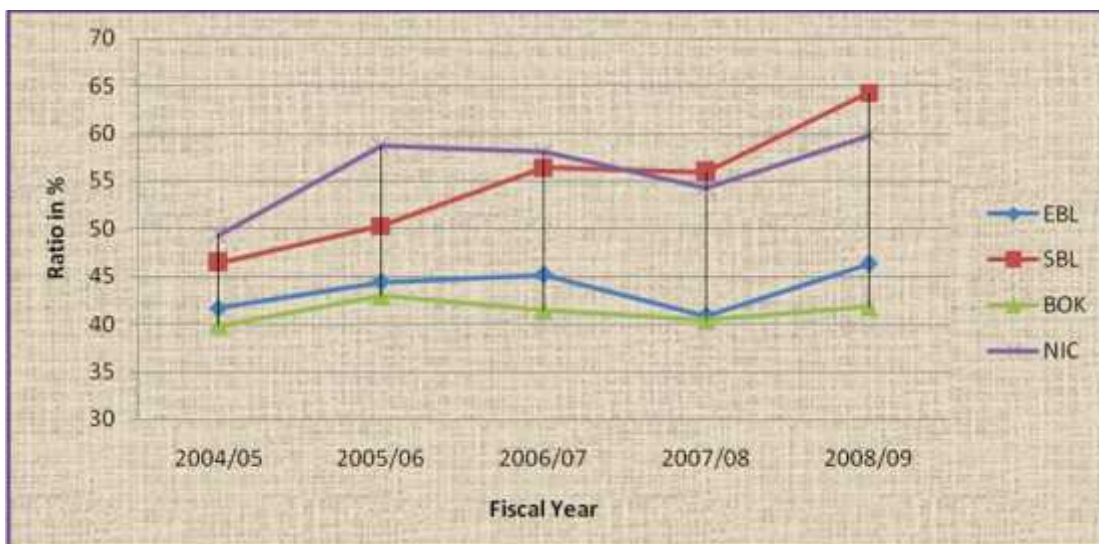
While BOK has remained somewhat successful to control the interest expenses in the fiscal year 2006/07 and 2007/08 as compared to that in the previous years. The ratio is lowest, 39.80%, in the fiscal year 2004/05 and highest, 41.78%, in the fiscal year 2008/09. In average, the bank has paid 41.26% of the total interest income as interest expenses, and the variation in the ratio is just 2.64%, indicating greater consistency in the ratio.

Resemblance to BOK, NIC has also controlled the interest expenses to interest income in the fiscal year 2006/07 and 2007/08 as compared to that in the initial periods. The ratio has ranged from 49.38% in the fiscal year 2004/05 to 59.77% in the fiscal year 2008/09. In average, the ratio is 56.04% with 6.78% variation.

Comparing the banks, it can be considered that BOK is most efficient in controlling the interest expenses in proportion to interest income. However, NIC has bared greater interest expenses to interest income. It would be worthwhile if NIC reduces the ratio, which can be appeared pernicious to the profitability of the bank.

Figure: 4.14

Interest Paid to Interest Income



4.1.5.2 Earning Per Share

Earning per Share is calculated by dividing a company's net revenues by the outstanding shares. This gives a number that can be used to compare the earnings of companies since it is unlikely any two companies will have the same number of shares outstanding.

Table: 4.15
Earning Per Share

(Unit in Rs.)

FY	EBL	SBL	BOK	NIC
2004/05	54.22	20.08	30.10	22.75
2005/06	62.78	13.05	43.67	16.10
2006/07	78.42	15.88	43.50	24.01
2007/08	91.82	17.29	59.94	25.75
2008/09	91.99	22.89	54.68	27.83
Mean	75.85	17.84	46.38	23.29
S.D.	15.24	2.54	10.33	3.65
C.V.%	20.09	14.21	22.27	15.69

(Source: Appendix-VI)

The table reveals that the EPS of EBL has followed increasing trend. At the onset, the EPS of the bank is just Rs. 54.22, which has progressively been raised out and has reached to Rs. 91.99 at the end of the fiscal year 2008/09. This indicates better utilization of available fund by the bank and increased satisfaction in shareholders with the number of shares they are holding on. The bank has earned Rs. 75.85 per share within the five consecutive fiscal years, and the variation in such earning is 20.09%.

While making comparison to the EPS of the previous year, the EPS of SBL has decreased in the fiscal year 2005/06. From then, the EPS of the bank has smoothly increased in the observed periods. The EPS of SBL has ranged from Rs. 13.05% in the fiscal year 2005/06 to Rs. 22.89 in the fiscal year 2008/09. In average, the earning of

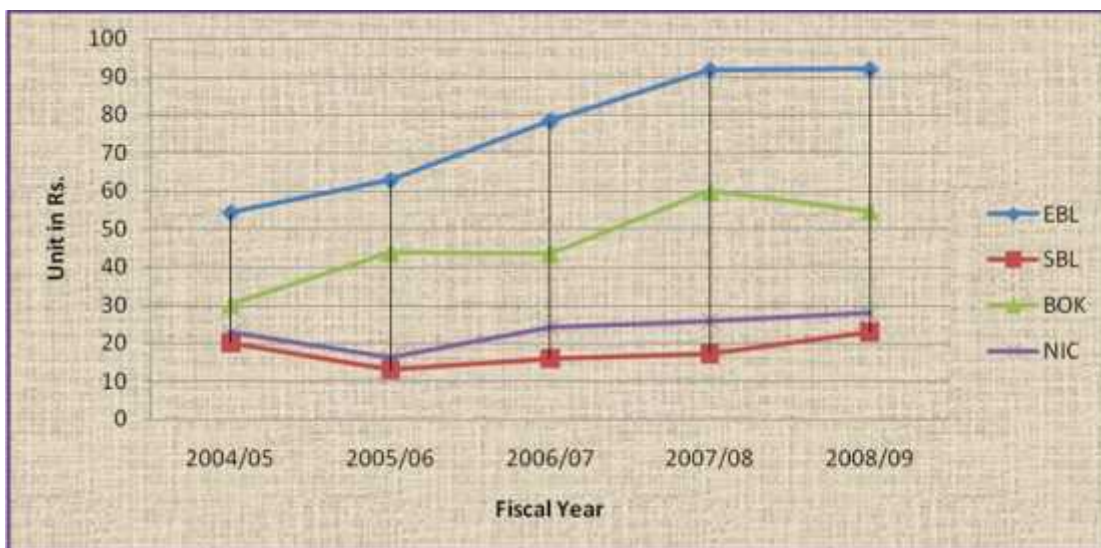
the bank in the last five fiscal years is Rs. 17.84 and the variation in the earning is 14.21%.

Unlike in other banks, the EPS in BOK has followed fluctuating trend, as a result the EPS has ranged from Rs. 30.10 in the fiscal year 2004/05 to Rs. 59.94 in the fiscal year 2007/08. Moreover, the EPS of the bank is Rs. 46.38 in average within the five fiscal year periods. Further the fluctuation in EPS of the bank is 22.27%, indicating inconsistency.

Alike in SBL, the EPS in NIC has decreased in the fiscal year 2005/06 in comparison to that in the fiscal year 2004/05. Since then the EPS of the bank has caught up the increasing trend and it has thus ranged from Rs. 16.10 in the fiscal year 2005/06 to Rs. 27.83 in the fiscal year 2008/09. Consecutively the bank has earned Rs. 23.29 per share in average, and the variation in the EPS is 15.69%.

Eventually it can be considered that EBL is much artisan in mobilizing the shareholders' equity to earn high profit per share. As a result both the existing shareholders' and the potential investors might have been fascinated toward the EBL for being part of it by buying its share.

Figure: 4.15
Earning Per Share



4.1.5.3 Dividend per Share

Each investor invests one's savings on the share of companies with the hope of return. Since dividend is one form of return that the company pays to its shareholders, the dividend policy of the bank somewhat obsesses the mind of investors in making investment.

Table: 4.16
Dividend Per Share

(Unit in Rs.)

FY	EBL	SBL	BOK	NIC
2004/05	20.00	0.00	15.00	30.00
2005/06	25.00	0.00	48.00	10.53
2006/07	40.00	15.79	20.00	21.05
2007/08	50.00	15.79	42.11	21.05
2008/09	30.00	10.53	47.37	15.79
Mean	33.00	8.42	34.50	19.68
S.D.	10.77	7.90	14.12	6.89
C.V.%	32.64	93.74	40.92	35.03

(Source: Appendix-VI)

The table reveals that the dividend policy in EBL has followed increasing trend in the first four fiscal years, i.e. from Rs. 20 in the fiscal year 2004/05 to Rs. 50 in the fiscal year 2007/08, and then it has declined to Rs. 30 in the fiscal year 2008/09. The bank has remained more generous in the matter of distributing dividend by increasing dividend amount in each first four fiscal years. In average, EBL has distributed Rs. 33 per share in the last five fiscal years.

SBL has not practiced dividend distribution in the fiscal year 2004/05 and 2005/06, while the bank has paid dividend worth Rs. 15.79 in each fiscal year 2005/06 and 2006/07, and then the bank has limited its dividend distribution to Rs. 10.53 in the fiscal year 2008/09. In aggregate the bank has paid dividend worth Rs. 8.42 per share. This seems that the bank has paid negligence toward the investor's expectation in the

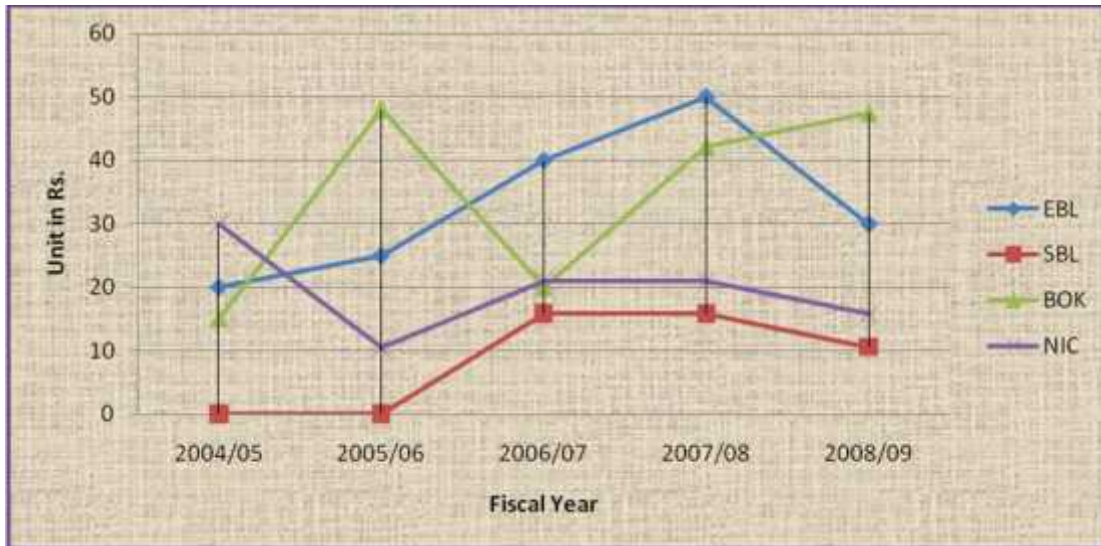
first two fiscal years and has given much predilection for retaining profit for buttressing the bank's capital.

The dividend distribution amount in BOK has increased for the first two fiscal years, then it has decreased in the fiscal year 2006/07, and further it has increased in the last two fiscal years. In this way, the dividend distribution amount of the bank has ranged from Rs. 15 in the fiscal year 2004/05 to Rs. 47.37 in the fiscal year 2008/09. In average, the bank has paid dividend worth Rs. 34.50 in the observed periods, while such dividend amount has varied by 40.92%, indicating inconsistency.

Alike in BOK, there is irregularity in the trend of dividend distribution amount in NIC. The NIC bank has paid highest dividend, Rs. 30, in the fiscal year 2004/05 and lowest dividend, Rs. 10.53, in the fiscal year 2005/06. Further, the dividend distribution amount has remained stable, Rs. 21.05, in the fiscal year 2007/08 compared to that in the fiscal year 2006/07. In average, the bank has paid Rs. 19.68 as dividend, while such dividend amount has fluctuated by 35.03%.

Comparing the banks on the basis of dividend distribution, it can be considered that BOK has shown most generosity in distributing the earning in the form of dividend. Nevertheless, the dividend distribution amount of EBL bank is also equally enticing to the new investors and existing shareholders.

Figure: 4.16
Dividend Per Share



4.1.5.4 Dividend Payout Ratio

The dividend payout ratio is the earnings paid to the equity holders from the earnings of a firm in a particular year. This ratio shows what percentage of the profit is distributed as dividend and what percentage is retained as reserve and surplus for the growth of the banks.

Table: 4.17
Dividend Payout Ratio

(Ratio in %)

FY	EBL	SBL	BOK	NIC
2004/05	36.89	0.00	49.83	131.87
2005/06	39.82	0.00	109.92	65.40
2006/07	51.01	99.43	45.98	87.67
2007/08	54.45	91.32	70.25	81.75
2008/09	32.61	46.00	86.63	56.74
Mean	42.96	47.35	72.52	84.69
S.D.	8.37	42.74	23.76	26.06

C.V.%	19.50	90.25	32.76	30.78
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(Source: Appendix-V)

The preponderance of dividend distributed amount in earnings has increased tremendously for the first four fiscal years, i.e. from 36.89% in the fiscal year 2004/05 to 54.45% in the fiscal year 2007/08, and then it has finally declined, i.e. 32.61%, in the fiscal year 2008/09 in EBL. In average the bank has distributed 42.96% of the total earnings as dividend. In addition, the fluctuation rate in dividend payout ratio is 19.50%.

Surprisingly, SBL has paid no dividend in the first two fiscal years, as a result the dividend payout ratio is nil in such fiscal years. Though the bank has paid almost all of the earnings as dividend, i.e. 99.43%, in the fiscal year 2006/07, such ratio has declined from then and finally has reached to 46% in the fiscal year 2008/09. In average, the dividend payout ratio of the bank is 47.35% and the variation in the ratio is 90.25%, signaling greater inconsistency.

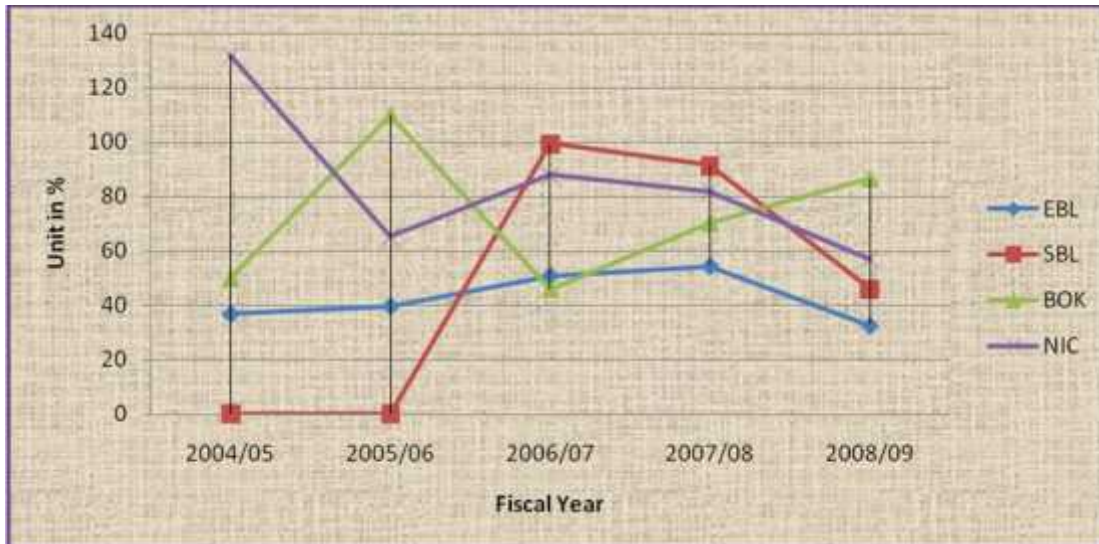
Similarly, BOK has shown eccentric behavior in dividend payout ratio. The dividend amount has crossed the earning amount in the fiscal year 2005/06, i.e. 109.92%, and it is lowest, 45.98%, in the fiscal year 2006/07. There seems lack of appropriate dividend policy in the bank. Nonetheless, the average dividend payout ratio in the last five fiscal years is 72.52% and the variation in the ratio is 32.76%.

Alike in BOK, the dividend payment amount has crossed the earning amount in the fiscal year 2004/05, i.e. 131.87%. However, such ratio has drastically reduced immediately to 65.40% in the fiscal year 2005/06. The dividend payout ratio is 56.74% at its nadir in the fiscal year 2008/09. In average, the DPR of the bank is 84.69% with 30.78% fluctuation.

Comparing the banks on the basis of dividend payout ratio, it can be avowed that NIC has shown the most generosity to its shareholders by having greatest DPR. Next to it,

BOK has also attempted to retain the existing shareholders and entice the potential investors toward it by paying greater DPR.

Figure: 4.17
Dividend Payout Ratio



4.2 Major Findings of the Study

Summarizing the analysis made above, the following major findings have been drawn;

Findings from Liquidity Ratios

- Within the five fiscal year periods, the average current ratio of SBL is highest than that of others. The average current ratio of SBL is 1.16 times, EBL is 1.08 times, BOK is 1.1 times and NIC is 1.14 times.
- The liquidity position in term cash at vault to total deposit ratio is superior in EBL as compared to that of other banks. The average cash at vault to total deposit ratio of EBL, SBL, BOK and NIC is 2.60%, 1.63%, 2.37% and 1.69% respectively.
- Similarly, NIC bank is most efficient in managing the liquidity in term of fixed deposit to total deposit ratio. While the CRR of BOK is tremendously higher than that of other banks.
- Each bank has given preference to different liquidity tools for liquidity management. It has been ascertained that EBL has preferred high cash at vault

to total deposit, SBL has preferred high current ratio, BOK has opted high CRR, and NIC has chosen high fixed deposit to total deposit to manage liquidity.

Findings from Efficiency Ratios

- BOK is most efficient in collecting deposits at lowest interest. The interest rate on deposit to total deposit of BOK is 2.67%, EBL is 2.79%, SBL is 3.94% and NIC is 3.85%.
- Among the four commercial banks, SBL has taken more aggressive policy in mobilizing the total deposits in disbursing loan and advances. The average loan and advances to total deposit of EBL, SBL, BOK and NIC is 76.21%, 95.35%, 75.33% and 84.96% respectively.
- Similarly, it can be avowed that EBL is most efficient to keep the non performing loan's presentation lowest in comparison to loan and advances than other banks do.

Findings from Leverage Ratios

- Each bank has preferred debt capital to meet its fund requirement. Among these banks, EBL is most aggressive and thus it has used highest debt-equity ratio to finance the total assets and eventually the representation of debt capital in total assets is highest in this bank.
- On the ground of capital adequacy ratio, it has been found that the capital of NIC is strongest than that of other banks in confronting the corresponding banking risks. The average CAR of EBL is 11.82%, SBL is 12.31%, BOK is 12.35% and NIC is 12.91%.

Findings from Profitability Ratios

- BOK is most efficient in mobilizing the shareholders' equity to achieve greatest profit percentage. The average ROSE of EBL, SBL, BOK and NIC is 24.40%, 14.28%, 24.67% and 16.85% respectively.

- In addition, BOK is most efficient in mobilizing the total assets and deposit in generating the profit as well. The average ROD of EBL is 1.76%, SBL is 1.75%, BOK is 2.09% and 1.68% respectively, while the average ROA of EBL, SBL, BOK and NIC is 1.54%, 1.46%, 1.83% and 1.42% respectively.

Findings from Miscellaneous Ratios

- Similarly, BOK is most efficient in controlling the interest expenses in proportion to interest income. The average interest expense to interest income of EBL is 43.69%, SBL is 54.67%, BOK is 41.26% and NIC is 56.04%.
- EBL is much artisan in mobilizing the shareholders' equity to earn high profit per share. The average EPS of EBL is Rs. 75.85, SBL is Rs. 17.84, BOK is Rs. 46.38 and NIC is Rs. 23.29.
- BOK has shown most generosity in distributing the earning in the form of dividend. The average DPS of BOK is Rs. 34.50, EBL is Rs. 33, SBL is Rs. 8.42 and NIC is Rs. 19.68.
- Finally, it has been found that that NIC has shown the most generosity to its shareholders by having greatest DPR. The average DPR of NIC is 84.69%, EBL is 42.96%, SBL is 47.35% and BOK is 72.52%.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Banks are such type of financial institutions that deal with money by accepting various types of deposits disburse loans and render other financial services. They deal with credit and credit instrument and gain confidence and trust of people to create credit. They can be defined as financial departmental store, which render a host of financial services besides taking deposits and giving loans.

Every country, either developed or underdeveloped, is in pursuit of attaining the goal of rapid economic development in the same way or other depending upon the prevailing prospectus and nature of instrument for economic growth. In this context, commercial banks play the role of financial intermediary collecting the fund from surplus unit (i.e. Investors). The structure of modern economy will be no better than ancient period of better system without financial intermediacies. Therefore, commercial banks play an important role in boosting the national economy. They play the vital role in the affairs of the economy in various ways. Their operation records the economic pulse of the economy. They have played an important role in giving a direction to economy's development over time by financing the requirement of trade and industry in the country. It should not be forgotten that the country can hardly achieve its goal of economic development without strong capital base and commercial banks have pivotal role in forming such base.

Financial performance as part of the financial management is the main indicators of the success or failure of the firm (i.e. Banks). So, the financial performance analysis can be considered as the heart of financial decision. The growth and development of the firm is directly influenced by the financial policies of the firm. There are different persons/institutions those are affected by the financial decision of the firm. Stakeholder such as owners, managers, creditors, tax authorities etc is directly interrelated in the final information analysis of the bank's position.

With establishment of the private sectors banks in the country, economic activities have made remarkable progress within these two decades. They have played significant role in economic development of the country. They have introduced new technology in the banking system and mobilized the saving of community. They have focused their services on commerce, trade and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threat to the banks. Thus, to sustain in the market one needs to have robust financial background.

Therefore, the study has been conducted to evaluate the financial performance of commercial banks to find out the strength and weakness. The financial performance has been analyzed on the ground of liquidity, leverage, efficiency and profitability ratios. To fulfill the objective, various financial and statistical tools have been adopted and analyzed to make the interpretations.

5.2 Conclusion

Analyzing the liquidity position of the bank, it has been ascertained that SBL is more concerned on keeping high current ratio to meet the immediate cash requirement. However, the liquidity position on the ground of cash in hand to total deposit ratio is superb in EBL as compared to that of other banks. Nonetheless, the attempt of NIC in increasing cash in hand to total deposit ratio is landmark to other banks to pay concern on the onus of the bank toward the customers. In term of fixed deposit to total deposit ratio, it can be considered that NIC bank is most efficient in managing the liquidity. However, the effort of SBL is also equally satisfactory, as the average ratio of SBL is slightly lower than that of NIC. Definitely the CRR of BOK is tremendously higher than that of other banks. However, maintaining unnecessarily high liquidity does not guarantee the increase in profit, which is the goal of every organization, rather it debilitates the profitability of the bank. The bank should neither keep high liquidity nor keep low liquidity, because both the situation jeopardizes the credibility and sustainability of the bank. Thus, it can be concluded that SBL is most successful in

having sound liquidity, as the CRR of SBL is neither too high nor too low, and is most uniform than that of other banks.

Analyzing the efficiency of the banks, it can be stated that BOK is most efficient in collecting deposits at lowest interest. In addition, the attempt of EBL in decreasing interest along with increasing deposit is certainly laudable. Further, it can be concluded that loan and advances is the major uses of fund in each bank. Among the four commercial banks, SBL has taken more aggressive policy in mobilizing the total deposits in disbursing loan and advances. Comparing the banks on the basis of the non performing loan to total loan and advances, it can be avowed that EBL is most efficient to keep the non performing loan's presentation lowest in comparison to loan and advances. However, the performance of NIC and BOK in drastically decreasing the ratio is also equally praiseworthy.

Analyzing the leverage ratios, it can be concluded that each bank has preferred debt capital to meet its fund requirement. Among these banks, EBL is most aggressive and thus it has used highest debt-equity ratio to finance the total assets. Comparing the banks on the basis of debt to total assets ratio, it can be concluded that the total assets of EBL is most risky than that of other banks, since the bank has most extensively used the debt capital, which may be pernicious to the banks' assets, than other banks do. Moreover, on the basis of capital adequacy ratio directed by NRB and maintained by the banks, it can be considered that the capital of NIC is strongest than that of other banks in confronting the corresponding banking risks.

Analyzing the profitability ratios, it can be stated that BOK is most efficient in mobilizing the shareholders' equity to achieve greatest profit percentage. Next to this bank, the struggle of EBL in having greater ROSE is also quite praiseworthy. In addition, it can be avowed that BOK is most efficient in mobilizing the total assets in most profitable sector, as a result the profit earning per rupee of assets is highest in comparison to that of others'. Eventually, it can be stated that BOK has the greatest capacity of turning total collected deposit in yielding highest profit percentage. The

other bank should take BOK as milestone for efficiently mobilizing the deposits to yield better profit.

Analyzing the miscellaneous ratios, it can be considered that BOK is most efficient in controlling the interest expenses in proportion to interest income. Eventually it can be considered that EBL is much artisan in mobilizing the shareholders' equity to earn high profit per share. As a result both the existing shareholders' and the potential investors might have been fascinated toward the EBL for being part of it by buying its share. On the basis of dividend distribution, it can be considered that BOK has shown most magnanimity in distributing the earning in the form of dividend. Nevertheless, the dividend distribution amount of EBL bank is also equally enticing to the new investors and existing shareholders. Further, it can be avowed that NIC has shown the most generosity to its shareholders by having greatest DPR. Next to it, BOK has also attempted to retain the existing shareholders and entice the potential investors toward it by paying greater DPR.

5.3 Recommendations

On the basis of the major findings and the conclusion drawn, the following recommendations have been drawn;

- The current ratio of EBL is lowest in comparison to that of others. It would be better if EBL evaluates the immediate cash requirement and keeps the current assets sufficient to meet such requirement.
- SBL has kept the lowest cash in hand to total deposit ratio. The bank should note that keeping low cash in hand may lose the credibility of bank on customers.
- EBL, SBL and BOK need to persuade customers for having fixed deposit, which ultimately reduces the obligation of bank in making immediate cash payment.
- EBL has neglected the directive of NRB in maintaining the cash reserve ratio. Thus, it would be worthwhile if EBL adopts the directives of NRB regarding CRR, which may strengthen the bank in confronting the liquidity risk.

- EBL should make efficient in promoting the non interest bearing account, since the interest on deposit to total deposit is highest in EBL. In addition, all the banks should need to diversify the mobilization of fund, as all the banks have heavily relied on loan and advances.
- It would be better if each bank meticulously evaluates the loan proposal to reduce the non performing loan, and ultimately to reduce the credit risk.
- The observed bank needs to augment its equity financing to decrease the interest expenses, as the debt-equity ratio shows that the bank relies on outside financing in greater extent.
- Profit is the lifeblood of any business organization. The observed banks need to recognize the unnecessary expenses and try to abate it, or should incur the expenses only if such expenses result profitability.

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