Financial Performance Analysis of Commercial Banks

(With special reference to NABIL, NIBL and SCBL)

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ABBREVIATIONS

CA	:	Current Ratio
CBB	:	Cash and Bank Balance
CL	:	Current Liabilities
CR	:	Current Assets
C.V.	:	Coefficient of Variation
D/A	:	Debt Assets Ratio
DPR	:	Dividend Payout Ratio
E	:	Equity
FD	:	Fixed Deposits
IE	:	Interest Expenses
IED	:	Interest Expenses on Deposit
II	:	Interest Income
LA	:	Loan and Advances
NABIL	:	Nepal Arab Bank Limited
NI	:	Net Income
NIBL	:	Nepal Investment Bank Limited
NRB	:	Nepal Rastra Bank
NW	:	Net Worth
SCBNL	:	Standard Chartered Bank Limited
SD	:	Saving Deposit
S.D.	:	Standard Deviations
TA	:	Total Liabilities
TD	:	Total Deposit
Ref.	:	Reference

Chapter -1

INTRODUCTION

1.1 Background of the Study

Bank is a financial institution, which plays a significance role in the development of the country. It helps the growth of agriculture, trade, commerce and industry and of the national economy.

Banking institutions are largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending them in different sectors of the economy. This sector has now reached even to the most remote areas of the country and has contributed a good deal to the growth of the economy. By lending their resources in small-scale industries under intensive banking program, the banks have contributed to the economic growth of the economy.

"Banking institutions are inevitable for the resource mobilization and the all round development of the country. They have resources for economic development, and they maintain economic condition of various segments and extend credit to people." {Grywinski, 1991:87}

"Bank is the financial institutions that offer the widest range of financial services especially credit, saving, and perform the widest range of financial functions of any business firm in the economy. This multiplicity of bank resources and functions has led to banks being labeled financial supermarkets and to familiar advertising slogans as "Your Bank – full services financial institution." {Vaidya; 1999:35}

Banking concept existed even in the ancient periods when the gold smiths and the rich people used to issue receipt to the common people against the promise to safe keeping of their valuable items on the presentation of the receipt, the depositors would get back their gold and valuable after paying a small amount for the safe-keeping and saving.

Banks are basically concerned with transcends of money: however, today's banks are established for specific purpose. Different types of banks focus different types of services to their customers although the basic principle is the same.

These banks provide different types of the services to the people. Basically banks performs various types of services like collection of deposits, granting loans to the investors in different sectors, overdrafts, guarantee against payments, letter of credit, discounting bills, promissory notes, selling of shares etc.

"The word 'bank' is said to be derived from the Italian word 'banco' a bench. The early bankers, the Jews in Lombardy, transacted their business at benches in the market-place." {Saeed and Singh; 1990:67}

Regarding to origin of modern banking "Bank DE RIALTO" is considered to be the first bank of the world, which was established in 1587 A.D. in Venice, Italy.

In Nepal the formal banking system commended with the establishment of Nepal Bank Limited as a semi-government ownership in 1937 A.D. The establishment of Nepal Rastra Bank, central bank of Nepal, in 1957 A.D. was a significance dimension in the development of banking sector. The second commercial bank with the government ownership i.e. Rastriya Bank Ltd. was established in 1966 AD. There after other banks were established gradually.

In the 1980's Nepalese government adopted open liberalized and market oriented policy and the financial reforms with a view to enhance efficiency in the financial services. The liberalization policy and the financial reforms program laid the rapid development in the domestic financial system. Major structured change happened not only in the institutional development of the financial sector but also at the policies, regulation and supervision practices of the financial sector. Nepalese government opened the door for domestic private sector to invest in the financial sector and at the same period foreigners were also allowed to invest in the financial

sector. This led development of number of the banks in Nepal. At present 32 commercial banks are there in operation.

1.2 Focus of the study

Banks provide different types of services to the people like collection of scattered small savings, granting loans to the investors and so on. As a result Nepal government adopted liberal policy to open banks in private sector and at the same time foreigners were also allowed to open banks in Nepal, this lead development of a numbers of banks in Nepal. Such situation created cut-throat competition in banking sector. Therefore, it is essential to measure their financial performance of the banks. The proposed study has been focused on to examine the short-term liquidity position, long-term liquidity position, profitability position, and market value share to SCBNL, NABIL and NIBL commercial banks.

1.3 Statements of the Problems

The proposed study has tried to evaluate the financial performance of the selected banks of Nepal by finding the answers to the following questions:

a. What are the comparative liquidity, profitability, activity, stability, solvency and capital adequacy position among selected three commercial banks?

b. Are the positions of non-performing assets of these three commercial banks in line with standard?

c. Are the trends of different ratios of these banks be satisfactory?

1.4. Objectives of the study

The basic objectives of the study are to examine the financial performance of the selected three commercial banks. The objective has been further specified in the following sub-objectives:

1. *To analyze and compare the liquidity, profitability, stability and market value positions among SCBNL, NABIL and NIBL commercial Banks.*

2. *To analyze and compare solvency ratio of selected Banks.*
3. *To analyze the financial strength and weakness of them.*

1.5 Significance of the Study

Banking sectors is one of the major contributors to national economy by providing variety of disbursement to different sectors, enabling to boost the GDP. Hence, the performance of this sector needs to be above the par to any other field. The financial performance of commercial banking sector should be very much capable in enhancing the capital market as well. It is therefore, imperative that this study bears importance to the following main people:

a. *Lenders and borrowers of these banks.*
b. *Management of these banks.*
c. *Policy makers of these banks.*
d. *Shareholders, customers and general public.*
e. *Others financial users.*

1.6 Limitations of the study

Despite the sample efforts on the part of the researcher, this study is also not free from limitations. This is mainly due to time and resource constraints on the part of the researcher. The study has the following limitations:

a. *The study focuses only on the financial performance and thus does not cover the other financial aspects*
b. *The study mainly concentrates on the financial aspects of the three banks on the basis of market capitalizations and does not cover the other commercial banks.*
c. *The study covers only 5 years of study spanning(from fiscal year 2008/09 to 2012/13)*

d. *The accuracy of the secondary data depends upon the credibility of annual reports of the selected banks, whereas the accuracy of primary data depends upon the opinions of the respondents.*

1.7 Organization of the Study

The present research has been organized into the following chapters

Chaper-1: Introduction

This chapter includes background of study, focus of the study, 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, concept of joint venture banks, development of banking system in Nepal, and brief profile of Standard Chartered Bank Nepal Ltd., Nepal Arab Bank Ltd., and Nepal Investment Bank Ltd. It also contains reviews of journals and articles, and earlier thesis related to the subject.

Chapter –III Research Methodology

This Chapter expresses the way and technique of the study applied in the research process. It includes design, population and sample, data collection procedure and processing, tools and method of analysis.

Chapter – IV: Data presentation and Analysis

In this section collected and processed data are presented and interpreted with using financial tools as well as statistical tools.

Chapter –V: Summary, Conclusion and Recommendations

In this section, summary of whole study, conclusions and recommendations are made.

At the end of the study bibliography and appendix have also been incorporated.

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 thesis have been reviewed.

2.1 Conceptual Review

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

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 earnings. 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 on financial assets are created." {Dahal & Dahal: 2002:1}

"The evolution of Banking can be traced back to the era when the use of metallic coins as the medium of exchange of goods and services began. Storage of metallic was a serious problem for the common people because of the danger of theft and robbery, **people stated leaving gold and silver and metallic coins in the custody of some reputed** person a wealth merchant or 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 positions.

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 and an authorized capital of Rs. 10 million, subscribed by the government under Nepal Rastra Bank Act 2012 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., 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. prior to the establishment ADB a cooperative Bank was established to meet requirement of fund in the agriculture 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 banks were opened during this period expanding the branches and sub branches of the Bank, 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 bought 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." {KC: 1994:23} Now there are 31 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 suggestion to the government on this matter. This Nepal Rastra Bank Act 2002 has started, 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, regulate, 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 institution." {Pant: 2006: 24-25}

Banks and Financial Institutions Ordinance

"This ordinance governs all the functional aspects of banks and financial institutions. The Acts regarding agricultural Development Bank Act 1986, Nepal Industrial Development Cooperation 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 arrangements regarding the establishment of foreign banks and financial institution. Foreign Banks or financial institutions desiring to open their office in Nepal must submit the application to Nepal Rastra Bank in the prescribed from along with the fees and particulars as prescribed by the bank. The bank offices and conduct financial transaction looking the situation of competition existing in the banking sector and the contribution 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 or financial institutions also should compulsory all the provisions motioned in the ordinance regarding the transactions. But in the case of the transaction of the representative office or agency office of the foreign bank or financial institution will be as prescribed by NRB. The foreign banks or financial institution in joint venture, which has been issued license to operate financial transaction by opening its office in Nepal," {Thapa; 2004:468}

2.1.4 Financial Performance

Every business organization is established with the view of earning profit is one of the indicators of sound performance, which indicates the result of sound business management. A bank is also established with the objective of maximizing profit. An investor always wants to invest in those sectors and organizations where profit is in maximum level. Profit is the major indicators of a good-financial performance of the company. Financial performance reflects the financial position of a firm. It is the main indicator of success and failure of a firm. Financial analysis finds out the strength and weakness of a firm by computing and comparing different ratios. The main purpose of bank performance analysis is to evaluate its progress to meet the goals and objectives set forth by management and to compare the performance of the bank relative to that of similar other banks. Effective planning and control are central to enhancing enterprises value. Financial plans may take forms, but any good plan must be related to the firms existing strength and weakness. The strengths must be understood if they are to be used to proper advantage and the weaknesses must be recognized if corrective action is to be taken. The financial manager can plan future financial requirements in accordance with the forecasting and budgeting procedures, but the plan must begin with the type of financial analysis.

A powerful and the most tested tool of financial analysis is the ratio analysis. Simply ratio refers to quantitative relationship between two items or variables. Ratio is a number expressed in terms of another. So it is a simple mathematical expression of relationship of one item with another" It defined as the systematic use of ratio to interpret the financial statement. So that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined" {Khan and Jain; 1999"5.13}

Traditional financial ratio analysis has focused on the numbers. But due to the rapid change of business environment and long run target, it is not enough to analyze operating performance. Ratio analysis is widely used but no ratio gives exact picture different sources data and lists are used for different ratio analysis.

Financial statement reports both on the firm's position at a point in time and on its operation over some past period. However, the real value of financial statement lies in the face that they can be used to help predict the firm's future earnings and dividends. From and investor's stand point, predicting the future is what financial statement analysis is useful both as a way to anticipate future conditions and more important, as a starting point of planning actions that will influence the future course event. Ratio analysis is designed to determine the relative strengths and weakness of

business operations. It also provides a framework for financial planning and control. Financial managers need the information provided by analysis both to evaluate the firm's past performance and to map future plans. Financial analysis concentrates on financial statement analysis, which highlights the key aspects of firms operation." Ratio analysis involves basic understands of comparison to useful interpretation of the financial statement. A single ratio by itself doesn't indicate favorable or unfavorable condition of a firm unless it is compared to some appropriate standard. Selection of a proper standard of comparison is most important element of a ratio analysis. Ratio analysis provides guidelines especially in spotting trends toward better or poor performance and in finding out significant deviation from any average or relatively applicable standard." {Dongol; 2052 B.S.: 370}

"If management is to maximize the value of the firm's stock price, is must analysis the weakness and strength of the firm which is possible from the ratio analysis which help to assess the financial performance in comparing with the firm and other firm. Financial statement analysis involves a comparison of firm's performance with that of other firm in the same line of business. The analysis is used to determine the firm's financial position order to find out current strengths and weakness and to suggest action that might useful to firm to take advantages to its strength and correction to its weakness" {Weston and Bringham; 1987:44}

"Financial management in broad sense and provides a conceptual and analytical framework for decision making they also covers both acquisitions of funds as well as their allocation of funds to various uses. Their major decision, are investment decisions, financial decisions and the dividend policy decision" {Khan and Jain; 1999:1.16}. A study of financial performance is a basic process which provides information, liquidity position, earning capacity, efficiency in operation, profitability, sources and uses of capital, financial achievement and status of the companies. This study mainly focused on financial performance of commercial bank, which is examined for various reasons. There are many parties concerned with the bank i.e. shareholders, creditors, investors, governments, managements, central Bank, general public etc. Short-term creditors are interested in the liquidity of the bank. They examined the ability of the bank to pay the amount of interest. Long-ter4m creditors like debenture holders, financial institutions etc. are concerned with the bank's long-term financial strength of solvency while evaluating the financial performance business concerning with resource mobilization.

2.1.5 Liquidity versus Profitability

Although present study chiefly focuses on profitability of the firm, i.e., Bank, the liquidity will be an integral part of the study. The profitability much closely related to the liquidity of the bank. The possibility of earning profit at all largely depends on the public acceptance of the bank's debts. The term liquid asset refer asset that are readily convertible into money. Money itself is the most liquid asset while other asset takes some time to convert into money. The time to be taken to convert other asset into money represents the degree of liquidity. Almost all assets have a certain degree of liquidity and can be converted into liquid asset. But the time required and the loss associated to be converted is different. Bank balance and marketable securities can be considered as most liquid asset.

Generally, liquid assets don't generate any income and it reduces profitability ratio. But at the same time inadequate liquidity position of the organization tends to lose its power in exchange for deposits. Consequently public reduce transaction with the bank which generates low profit due to low mobilization of the resource. This the remarkable transaction cycle, which defines the relationship between profitability and liquidity. Management always should try to maintain the adequate profitability and liquidity position analyzing the market.

2.1.6 Returns to Investors (Shareholders)

Return is the motivating force in the investment process, that is, it is the reward for undertaking the investment. Return in typical investment consists of two components. The first component that usually comes to mind is the periodic cash receipts (either interest or dividends). This cash receipts is also known as ordinary gain on investment. The second component is the appreciation or depreciation in the price of assets and this commonly called capital gain or loss. The capital gain or loss is the difference between the purchase price and the price at which the asset can be sold. Therefore, the total return on investment is the sum of the ordinary gain and the capital gain or loss.

Shareholders expect two forms of return the purchase of common stock:

1. *Capital gain/Return*

2. Dividend gain/return

The shareholders expect at some point as a distribution of the firms' earning in the form of dividends. From mature and Stable Corporation, most investors expect

regular dividends to be declared and paid in common stock. This expectation takes priority over the desire to retain earnings to finance expansion and growth. Shareholder's expectations can be fulfilled through either capital gain or dividends. Since, dividends would be more attractive to stock holders; one might think that there would be tendency for corporations to increase distribution of dividends. But one might equally pressures that gross dividends would be reduced somewhat, with an increase in net after tax dividends still available to stock holders, and increase in retained earnings for the corporation (Trop: 1997:90-91)

2.1.7 Securities

Securities are financial assets that form the part of an investors' wealth, common stocks, preferred stocks, bonds, convertibles, warrants, options, rights, future are examples of securities. Securities represents specific claim on a stream of income and or particular assets. Bonds and mortgage are typical debt securities, ownership securities include common stock. Preferred stock is a hybrid security that entails a mixture of both ownership and creditor ship privilege highly liquid debt securities that have short term until they mature and involve little or no risk of default are called money market securities. There are involvement of many parties in the development of securities market in Nepal like government SEBO/N, NEPSE, financial intermediaries, market makers, investors, brokers and the office of the company registrar.

2.1.8 Security Markets

Security markets are mechanisms for channeling savings from savers to the ultimate investors who invest in real assets. They bring buyers and sellers of securities together investors who invest in real assets. They bring buyers and sellers of securities together and facilitate the flow of funds in the economy. The flotation of the shares and debentures by public limited companies, trading on mutual funds by an investment company and the auction of treasury bills by governments take place in security markets.

The security markets are classified into:

i. Money market and capital market
ii. Primary market and secondary market

2.1.9 Primary and Secondary Market

The security markets consist of primary and secondary market. When firms need capital, they may sell new securities. These new securities are sold in primary markets. Investment bankers help market these new issues of stocks, bonds or other securities to the public. The issue of securities in the primary market leads to direct transfer of money from the savers to the issuer of the securities. Thus the primary market helps transfer the funds from savers to investors to make the capital available for new investments in building, equipment, stock of necessary goods. The existing securities are bought and sold in the secondary market.

2.1.10 Investment Environment

Investment environment in our country is not providing favorable condition due to non performing character of the public limited companies. However, by definition the investment environment refers to all internal & external forces affecting investment decisions of investors. It covers all kinds of marketable securities that they are bought and sold through the brokers' network and financial intermediaries. Thus, securities, security markets and financial institutions form the scope & coverage of investment environment. Existence of favorable environment is the medium which direct the pool of saving into the productive sector.

2.1.11 Expected Rate of Return

We invest today in an expectation of earning in future, that is, investment decisions that we make today are based on expectation of return in future. Expected rate of return for any asset is the weighted average rate of return using the probability of each rate of return as the weight. If investment is to be made, the expected rate of return or the expected holding period return should be equal to or greater than the required rate of return for that investment. The expected rate of return is based upon the expected cash receipt over the holding period and the expected ending or selling price. The expected rate of return is an ex-ante or unknown, future return (Cheney and Moses; 1993:34). If the investors can describe the possible variables that will influence each of the possible rates of return and assign probability to these outcomes then the expected rate of return should equal the weighted average of the various possibilities. Listing the possible investment results and assigning probabilities to each of these outcomes is the same as creating a probability distribution in statistics. Probability distributions are used to describe possible outcomes and to assign individual probabilities from zero to one, to each possible

outcome. The expected rate of return is calculated by summing the products of the rates of return and their respective probabilities.

$$E(r) = \sum_{t=1}^{n} p_t \, r_t$$

Where,

p_t = probability distributions of rates of returns

r_t= Rates of return

2.1.12 Market Efficiency

Market efficiency means that the market price of a security represents the market consensus estimate of the value of the security. If the market is efficient, it uses all information available to it in setting price. Investors who choose their information lead them to think that the security is worth at least its current market price. Those who do not purchase the stock interpret their information as a lower appraisal. An efficient financial market exist when security price reflect all available public information about the economy about financial market and about the specific involved. The implication is that the market price of individual security adjusts very rapidly to new information. As a result security price are said to fluctuate randomly about their intrinsic value.

A market is efficient with respect to a particular set of information if it is impossible to make abnormal profit by using this set of information to formulate buying & selling decision. That is in an efficient market investors should expect to make only normal profits and earn a normal rate of return on their investment. Test of efficiency are essential test of whether the three general type of information, past price, other public information and inside information can be used to make above average profit on investment. A market would be described as having weak form efficiency if it is impossible to make abnormal profit by using past price.

This is taken as the oldest statement of the hypothesis. It holds that present stock market price reflect all information with respect to past stock price trends and volume. Thus it asserts that past data can't be used to predict future stock price. Weak form hypothesis approximate a random walk of the stock price, since the walk is random a knowledge of past price change does nothing to inform the analyst

about whether the price in future will be higher or lower. The semi strong hypothesis centers on how rapidly and effectively market price adjusts to new publicity available information. If the efficiency is semi strong, one cannot outperform the market by using the available information. Different financial reports and audited financial information filed with the security exchange are readily available to the investor.

This background information about corporation provides the perspective needed to evaluate new information. Financial newspapers and news service compete to deliver new information as quickly as possible so that investor can obtain information so that they can obtain the latest news quickly at minimal cost when affect the value of security it causes reevaluation and security trading that begins immediately and affect price at once.

The strong from hypothesis is concentrated with whether or not certain individual or group posses inside information that can be used to make above average profit. It holds that stock price react very quickly to all public and inside information. One obvious to check the validity of the strongly efficiently market hypothesis is to examine the profitability of the trades in security made by insiders to see if the insiders access to valuable information allow them to earn statistically significant trading profit.

Since strongly efficient market hypothesis suggest that all information, public or not fully reflect in the security price. This idealistic economy situation result in a perfectly efficient market where price & value are always equal as they fluctuate randomly together in response to the arrival of new information.

2.1.13 Valuation

Various mathematical models have been developed to include variable that determines value which over simply the valuation process. In reality many factors determine the market price of a common stock. These factors may change and the relationship between these factors may change no models can consider the complexities of the real world process. These models however can provide a useful framework for the analysis.

Mathematical models imply precision and accuracy and it is essentially a quantitative procedure. However common stock valuation is an out. Models are useful to analyst but are not the substitute for judgment and common sense. Models can be used in making accurate forecast. Therefore models should be viewed as tools for decision

making. Finance theory indicates that the value of common stock is essentially a fraction of future income the stock can provide and the riskiness of the income stream.

V_n= f (income, risk)

Where, V_n= intrinsic value of the common stock in period n.

Equity management assumes that all historical and current information is not fully and correctly reflected in the current price of every stock. Hence, there exist stocks that are undervalued and overvalued.

2.1.14 Investment Strategies

In an extremely competitive market, exceptional performance of one investor comes at the expense of other investors. In a competitive market security price are likely to accurately reflect available information and responses very rapidly to available information, as degree of efficiency is the crucial matter of concern, which has to be addressed while going for an investment strategy. If the market is less than perfectly efficient some strategies may result in risk adjusted excess return. The degree of market efficiency has been the subject of considerable debate. The debate has resulted into two strategies:

- Passive Strategies
- Active Strategies

A passive strategy leads to earn what just the market determined, it does not try to outperform the market or earn risk adjusted excess return. Investors select stocks for investment randomly since in a perfectly efficient market the selected stock would be correctly valued. Portfolio investment could be done to reduce any uncertain risk. Investment horizon would be long term. Passive investment strategy incurs low transactional cost. The cost of trading or for acquiring and analyzing information is avoided.

An active investment strategy is pursued on the ground that market inefficiency exists. It assumes that some investors have an advantage over other. Following three advantages are possible:

- Timing: Use of accurate time is the basic to gain extra return. Investors who can accurately predict movement in individual security or the market can achieve superior return.
- Selection: Inefficiency leads to the existence of undervalued and overvalued stocks in the market.
- Investment Philosophy: investment philosophy requires a commitment to a specific area of investment approach.

An individual has large advantage over institution and professional investors including following.

- Individual have the flexibility to invest in small companies.
- If they wish individual investors can put all or most of their eggs in one basket.
- Individual have the flexibility to use short sale and margin trading.

2.2 Reviews from Thesis

Richa Neupane, made research entitled "A study of Financial Performance Analysis of Himalayan Bank Limited" and her main research objectives were as follows:

- To make evaluation of the financial performance of HBL in terms of liquidity, efficiency of asset and cost management.
- To make evaluation of earning generating capacity.
- To provide suggestions and recommendations that will help management to improve the performance of bank.

In her research work, she has made ratio analysis, return to investors and correlation analysis. Her important research findings were as follows:

- HBL bank is strong enough to maintain the liquidity position to meet the cash requirement of clients.
- The operating efficiency of the bank is decreasing every year and bank is not able to mobilize its deposit.
- The debt management ratio of the bank is very high which is not preferable.
- The correlation coefficient of deposit and loan and advances, deposit and investment and total assets and net profit is found to be positive indicating the positive relationship between the respective variable.

Reena Shrestha, made research entitled "A study on financial performance Analysis of NABIL Bank Limited" and her research objectives were as follows:

- To analyze the liquidity, profitability, capital structure and ownership ratios of NABIL bank.
- To provide information and major points that will help management to improve performance of the bank.
- To measure the ability of bank to meet its short term obligation and draw the problem of financial management.
- To evaluate the soundness of profitability and operating efficiency of NABIL bank limited.

In her research work, she has made ratio analysis, return to investors analysis and simple statistically analysis. His important research findings were as follows:

- The liquidity position of NABIL bank is strong and the basic earning power of bank is also good. It had utilized its deposit properly with increment in net income every year and on the basis of EPS also profit is increasing in every year.
- It is able to meet short term obligation and maintain the cash reserve ratio. The bank has high debt ratio indicating more investment of the creditors and the role of creditors is higher than investors.
- DPS of the bank is lower and dividend payout ratio is irregular also. Shareholders are being compensated slowly.

Suman Prakash Sharma, made a research entitled "To Evaluate the Financial Performance of Commercial Bank: Nepal SBI Bank Limited, Nepal Bangladesh Bank Limited and Everest Bank Limited" and his main research objectives were as follows:

- To evaluate the liquidity position of Nepal SBI Bank Limited, Nepal Bangladesh Bank Limited and Everest Bank Limited.
- To evaluate the profitability position of the banks.
- To evaluate the efficiency of assets management of the bank.
- To compare the overall financial performance of the banks.

In his research work, he has made ratio analysis, return to investors analysis and simple statistical analysis. And his important research findings were as follows:

- The debt assets ratio of the sample bank shows the aggressive use of debt capital by the banks. Such debt should be invested in profitable sectors.
- The total investment to total deposit ratio of the NSBIBL is comparatively lower. So, it should utilize its total deposit for investment purpose more efficiently.
- Interest expenses to total expenses ratio of EBL shows a large portion of the expense has been incurred in other expenses in comparison to other listed banks. It will be better for EBL to decrease other expenses.
- NSBIBL has been yielding lower return to shareholder equity. So it should utilize the shareholders' equity more efficiently.
- Profitability ratios of NBBL show that the profit of the bank is in decreasing trend. So it will be better for NBBL to focus to increase the profitability position of the bank.

2.3 Research Gap

.Commercial banks invest it deposit in different profitable sector according to the direction and circular of Nepal Rastra Bank and guidelines and policy of their own bank. Financial analysis statement has to be prepared according to the direction of NRB. Nepal Rastra Bank's policy is changing time to time. So the updated study over the change of time frame is major concern for the researcher one of the most critical of all banking problems in recent years' centers on raising and maintaining sufficient capital. Bank capital is the first hand fund that initiates to operate the whole banking functions and its adequacy is always playing a catalytic role in the uplift of the banking system, the amount of capital one which assures the creditors especially the largest depositors. It assists to acquire public confidence.

Many studies have been conducted about the performance analysis of banks incorporating two banks. There have been found few studies regarding on the performance analysis of more than two financial institutions. Some comparative studies are previously done with regards to the financial analysis of banks but in depth study about the bank is not found. To fulfill the need of financial analysis of banks, the researcher has put its efforts in this study. This study put its effort to analyze the main indicators of financial performance with financial and statistical tools for banks. Hence, this study fulfills the research gap about the "Performance of Banks and returns to Investors" (A study of listed commercial banks in Nepal stock exchange).

CHAPTER-III

RESEARCH METHODOLOGY

The prime objectives of this study are to evaluate the financial performance of the three commercial banks i.e. standard Chartered Bank Nepal Ltd., Nepal Arab Bank Ltd., and Nepal Investment Bank Ltd. In order to realize the objectives, an appropriate research methodology has to be designed to carry out research of analytical as well as descriptive design. The study was based both on primary data and secondary data. Only three commercial banks were taken into account, which represent almost same strategic groups. Financial as well as statistical tools were used to analyze and interpret. Research methodology refers to the various sequential steps to be adopted by a reported in studying a problem with certain objective in view. It is away to solve the research problem systematically. Here, focus is made on research design, sample size, source and types of data gathering instruments and procedures, data tabulating and processing, study limitation and method of analysis.

3.1 Research Design

The 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 was based both on primary data and secondary data. Only three commercial banks were taken into account, which represent almost same strategic groups. Financial as well as statistical tools were used to analyze and interpret.

3.2 Population Sample

In the present context, there are 32 commercial banks operating in Nepal. The study of all these banks within this research was almost impossible. Hence, considering these numbers of banks as total population, three banks within from

these total population has been as sample and tried to achieve the objectives set out by analyzing the data. Thus the sample taken represents 10% of the total population.

3.3 Source and type of data

Since the study will be based on the primary as well as secondary data, the data were collected from various sources. Mainly the secondary data was collected by reviewing the annual reports, brochures, prospects of the concerned banks and the primary data was collected by making the questionnaire and selected the staff of the concerned banks as respondents.

3.4 Data processing and Presentation Procedure

The information or data obtained from the different sources in raw form. From that information, direct presentation was not possible so it was necessary to process data and converts it into required form. Only after then the data were presented for this study. For presentation different tables were used. Similarly in same case graphical presentation were also made. So far as the computation was concerned it has been done with the help of using Microsoft Excel.

3.5 Data Analysis Tools

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

3.5.1 Ratio Analysis

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 term ratio refers on arithmetical relationship between two items, to make rational decision of financial variability of the company. This relationship can be expressed in term of percentage, fraction or proportion. To achieve an effective result, ratio must be analyzed in comparative basis. “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 credit decision." (Kothari: 1989:47)

The following ratios are going to be analyzed under the financial performance analysis of selected three commercial banks.

- *Liquidity Ratio*
- *Efficiency Ratio*
- *Profitability Ratio*
- *Leverage Ratio*
- *Miscellaneous Ratio*

3.5.1.1 Liquidity Ratio

Liquidity ratio is 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 liquidity 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 short falls. A very high degree of liquidity is also not good as ideal assets earn nothing, leading to fewer assets yield and contributing to poor earnings 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 current liabilities. Current ratio measures the short-term solvency, i.e. its ability to meet short-term obligation or as a measure of creditors versus current assets. The current ratio is calculated by dividing current assets by current liabilities.

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

b. Cash and Bank Balance to Total Deposits Ratio

Cash and bank balance 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 depositor. This ratio is computed by using the following formula:

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

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 proportion 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 deposit ratio can be calculated by dividing the amount of fixed deposit by the amount of total deposit.

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

d. Saving Deposit to Total Deposit Ratio

Saving deposit is short-term interest bearing deposit and it has medium rate of interest. Saving deposit is generally regarded as short-term obligation as it can be withdrawn without prior notice or with short notice. This ratio shows the proportion of saving deposits by the amount of total deposits. Saving deposit to total deposit ratio can be calculated by dividing the amount of saving deposits by the amount of total deposits.

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

3.5.1.2. 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 ratio are used under efficiency ratio.

a. Interest Expenses 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. The ratio is calculated by:

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

b. Loans and Advance to Total Deposit Ratio

The ratio measures the banks' 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 purpose of profit generating. The ratio is calculated by diving loans and advances by total deposits.

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

c. Loans and Advance to Fixed Deposit Ratio

This ratio indicates, how much of loans and advance has been granted against fixed deposit. Fixed deposit is the higher interest rate payable deposit and is payable only after certain data. Hence the bank must utilize the fixed deposit properly. Loans

and advance to fixed deposit ratio indicates how properly the fixed deposit has been utilized. The ratio is calculated by dividing loan and advances by fixed deposit.

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

d. Loans and Advance to Total Assets Ratio

Loan and Advances to total assets ratio reflects the extent to which the bank is successful in mobilizing in mobilizing its total assets on loan and advance for the purpose of income generating. It is calculated by dividing by dividing loan and advances by total assets.

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

3.5.1.3 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 outsides fund and shareholders' 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 creditors in relation to the funds invested by the owners. Total debt to equity ratio can be computed by using the following formula:

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

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 order to magnify their earnings on the one hand and to maintain their concentrated control over the firm on the others.

The ratio shows what portion of the capital assets in financed by outside fund: a high debt ratio implies a banks success in exploiting debt to be more profitable and it also implies riskier capital structure.

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

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 thereby increase equity found. Capital adequacy ratio is calculated by dividing the capital fund by total deposit of the firm.

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

d. Net Worth to Total Assets Ratio

Net worth to total assets ratio reflects the sufficiency of shareholders' fund against the total assets. This ratio is calculated by dividing net worth by total assets.

$$Net\ Worth\ to\ Total\ Assets\ Ratio = \frac{\text{Net Worth}}{\text{Total Assets}}$$

3.5.1.4. 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 ratio is calculated to measures the operating efficiency of the company. Generally, two major types of profitability ratios are calculated:

- Profitability in relation to sales
- Profitability in relation to investment

a. Net Profit Margin

Net profit margin indicates margin of compensation left to the owner for providing their capital, after all expenses have met. It helps in determining the efficiency with which the affairs of the business are being managed. A net profit margin would enable the firm to withstand adverse economic conditions and low margin will have opposite implications.

$$Net\ Profit\ Margin = \frac{\text{NPAT}}{\text{Interest Income}}$$

b. Return on net worth

Return on net worth reflects how well the firm has used the resource on the owners. 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 net worth.

$$Return\ on\ Equity = \frac{\text{NPAT}}{\text{Net Worth}}$$

c. Return on Total Assets Ratio (ROA)

Return on total assets explains the contribution of assets to generating net profit. This ratio indicates efficiency towards of assets mobilization. In order words return on total assets ratio is an overall profitability rate, which measures 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.

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

d. Return on Total Deposit Ratio

Return on total deposit ratio measures how efficiency the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits. It's an explanation of the ability of management in efficient utilization of deposits. The ratio is calculated as:

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

e. Interest Earned to Total Assets Ratio

Interest earned to total assets ratio shows how much interest has been generated by mobilizing the assets in the bank. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest and vice-versa. The following formula is used to calculate this ratio.

$$Interest\ Earned\ to\ Total\ Assets\ Ratio = \frac{\text{Interest Income}}{\text{Total Assets}}$$

3.5.1.5 Miscellaneous Ratio

In addition to the above ratios, these are other widely used ratios related to the financial aspects of the company, some of which have 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 sources. Higher ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income and vice-versa.

$$Interest\ paid\ to\ interest\ income\ Ratio = \frac{\text{Total Interest Expenses}}{\text{Total Interest Income}}$$

b. Earnings per Share

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

$$Earning\ per\ Share = \frac{\text{NPAT}}{\text{No.of common Share}}$$

c. Divided per Share

The net profit after taxes 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 earning distributed to ordinary shareholders divided by the number of ordinary shares outstanding.

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

d. Dividend payout Ratio

Dividend payout ratio indicates the percentage amount of dividend paid to shareholders out of earnings 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 earnings. This ratio is calculated by dividing the dividend per share earnings per share.

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

3.5.2 Statistical Tools

a. Arithmetic Mean

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

We have,

Mean $\bar{x} = \frac{\sum x}{n}$

Where $\sum x$ = sum of all values of the observations

n = Number of observation

x = value of variables

b. Standard Deviation

"The standard deviation usually denoted by the letters (σ). Karl Pearson suggested it as a widely used measure of dispersion and defined as the given observation from their arithmetic mean of a set of values. 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 rate and that of other variables as per the necessity of the analysis." (Gupta: 2002;238)

We have,

Standard Deviation = $\sqrt{\frac{\sum(x-\bar{x})}{n}}$

c. Coefficient of Variation (C.V.)

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 Secondary Data Analysis

In this section, the financial data obtained from secondary source of SCBNL, NABIL and NIBL are analyzed to measure the financial performance.

4.1.1 Liquidity Ratio

Commercial banks need liquidity to meet loan demand and deposit withdrawals. Liquidity is also needed for the purpose of meeting cash reserve ratio (CRR) requirements prescribed by NRB. The commercial banks should ensure that they do not suffer from the liquidity problem and should ensure that it does not have excess liquidity as well. The failure of the bank to meet this obligation will result bad credit image and loss of creditors confidence.

4.1.1.1 Current Ratio

The current ratio is a measure of the firm's short-term solvency. Current ratio of 2:1 or more is generally considered satisfactory, which is not a strict rule. This conventional rule is based on the assumption that even if the current assets are decreased by half, the firm can easily meet its current obligation.

Table: 4.1

Current Ratios

(Ratio in Times)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	1.06	1.07	1.09
2009/10	1.07	1.08	1.10
2010/11	1.07	1.08	1.10
2011/12	1.07	1.07	1.09
2012/13	1.08	1.06	1.09
Mean	**1.07**	**1.07**	**1.09**
S.D.	**0.0063**	**0.0075**	**0.0049**
C.V.%	**0.59**	**.70**	**0.45**

The table 4.1 shows the current ratios of sampled banks, viz, SCBNL, NABIL and NIBL. The table shows that the current ratios of sampled banks in none of the years taken

for research have met the benchmark of 2:1. The current ratio in SCBNL ranged from 1.06:1 in the fiscal year 2008/09 to 1.08:1 in the fiscal year 2012/13. In average, the ratio was 1.07:1 and the standard deviation and coefficient of variation on such ratio were 1.07:1 and 0.59% respectively.

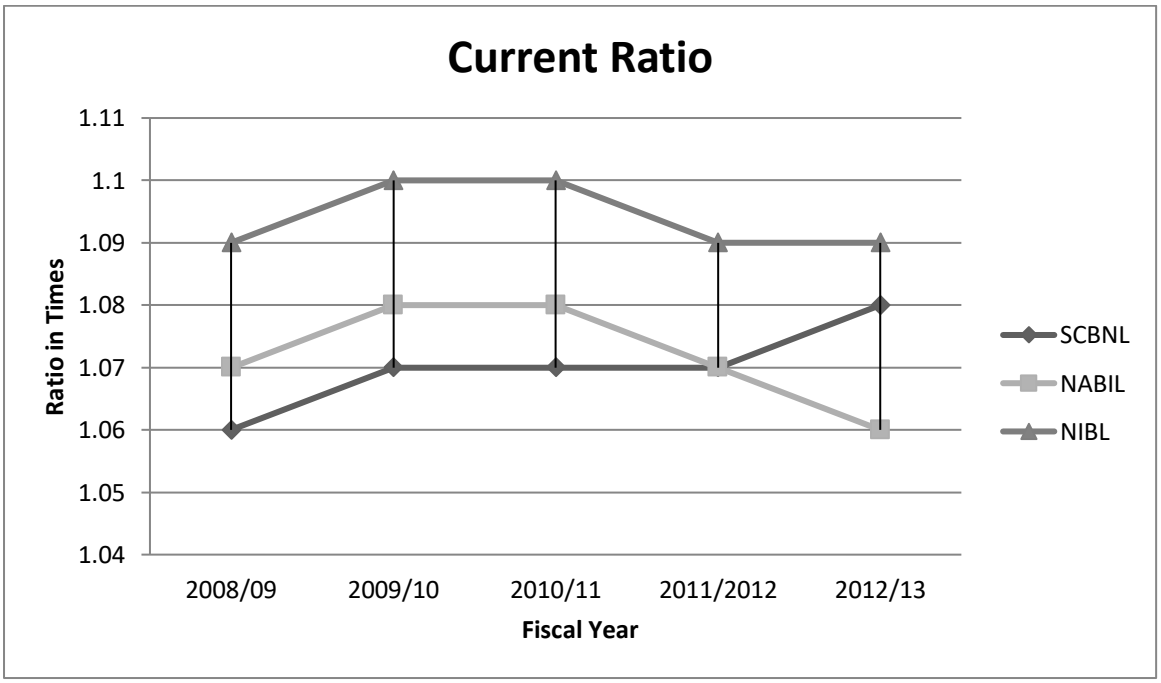
Similarly the current ratio of NIBL ranged from 1.07:1 in the fiscal year 2008/09 to 1.06:1 in the fiscal year 2012/13. In average NABIL maintained 1.07:1 as a current ratio in five years period.

Likewise the current ratio of NIBL ranged from 1.09:1 in the three fiscal years 2008/09; 2011/12 and 2012/13. In average NIBL maintained 1.09:1as current ratio in the five years period.

Comparing three sampled banks on the basis of current ratio, it can be concluded that the liquidity position on NIBL was much better that that of SCBNL and NABIL, as the current ratio of NIBL was highest (1.09:1) than that of SCBNL (1.07:1) and NABIL (1.07:1). However, none of the banks have met the benchmark of 2:1 and thus, all the banks might have faced problem while paying the debt.

Figure: 4.1

Current Ratio



4.1.1.2 Cash and Bank Balance to Total Deposits Ratio (CRR)

Adequate liquidity is also must in the banking sector in order to protect its solvency and to honor its short-term obligations and liabilities. Failing to do so, banks might have gone for liquidation and hence to protect the creditor's interest. Central bank (NRB) has directed all the banks to maintain the adequate CRR by the provisioning of 2% of total deposits.

Table: 4.2

Cash and Bank Balance to Total Deposit Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	9.56	6.87	10.65
2009/10	5.74	3.83	9.40
2010/11	5.53	3.26	12.34
2011/12	8.20	6.00	9.97
2012/13	6.89	8.37	10.90
Mean	**7.18**	**5.67**	**10.65**
S.D.	**1.52**	**1.90**	**0.99**
C.V.%	**21.19**	**33.52**	**9.33**

The table 4.2 showed the cash and bank balance to total deposit ratio of three sampled banks. The table showed that the ratio in SCBNL fluctuated during the five years period. The ratio was 9.56% in the fiscal year 2008/09, which decreased to 5.74% in the fiscal year 2009/10 and to 5.53% in the fiscal year 2010/11, then increased to 8.20% in the fiscal year 2011/12 and finally decreased to 6.89% in the fiscal year 2012/13. In average, the cash and bank balance occupied 7.18% of the total deposit collected by the bank.

Similarly, 6.87%, 3.83%, 3.26%, 6.00% and 8.37% of the total deposit collection of NABIL remained immobilized as cash reserve in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. In average, NABIL kept 5.67% of the total deposit as cash reserve to meet the daily obligation. Further, the coefficient of variation of 33.52% on such ratio indicated higher inconsistency in the ratio.

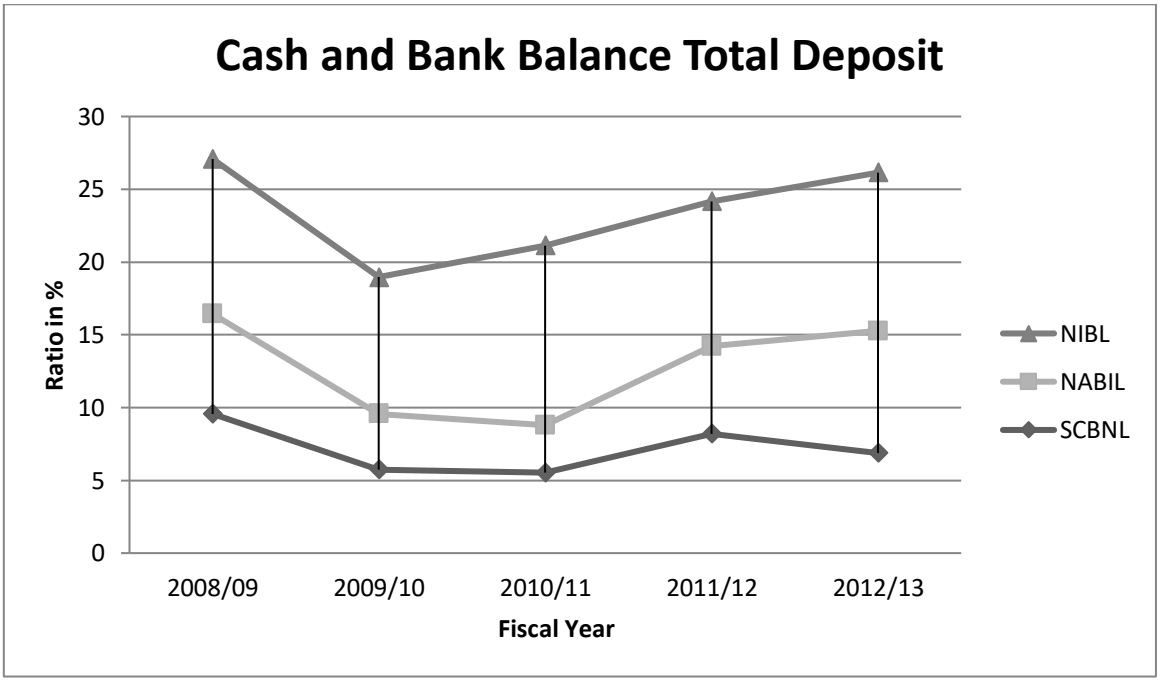
Likewise, the cash and bank balance to total deposit ratio of NIBL followed fluctuating trend in the five years period taken for research. Initially the ratio was 10.65% in the fiscal year 2008/09, which ranged from 9.40% in the fiscal year

2009/10 to 12.34% in the fiscal year 2009/10 and 9.97% and 10.90% in fiscal year 2011/12 and 2012/13. In average, NIBL kept 10.65% of the total deposit as cash.

Comparing three banks on the basis of cash and bank balance to total deposit ratio, it can be considered that NABIL has the policy of keeping lowest cash reserve, whereas NIBL has the policy of keeping highest cash reserve to meet the daily obligation. Hence, NIBL has good liquidity position than other two banks, SCBNL and NABIL.

Figure 4.2

Cash and Bank Balance Total Deposit



4.1.1.3 Fixed Deposit to Total Deposit Ratio

In this study fixed deposits includes only the amount of fixed deposit account. It has fixed time period to mature. Total deposits includes saving deposit, current deposits, fixed deposit, call deposits and other deposits.

The higher the proportion of fixed deposits, the lower the proportion of current, saving or short-term deposit in the total deposit. This situation shows higher short-term liquidity position of the bank.

Table: 4.3

Fixed Deposit to Total Deposit Ratio

(Ratio in Percent)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	6.75	16.36	19.91
2009/10	7.31	14.25	22.53
2010/11	9.26	17.83	28.59
2011/12	12.97	23.28	30.69
2012/13	11.10	20.50	23.06
Mean	**9.48**	**18.44**	**24.96**
S.D.	**2.32**	**3.16**	**4.03**
C.V.%	**24.52**	**17.13**	**16.13**

The table 4.3 showed the ratio of fixed deposit to total deposit of the sampled banks. The table showed that the ratio was in fluctuating trend in case of SCBNL. The fixed deposit covered 6.75% of the total deposit in the fiscal year 2008/09, which increased to 7.31%, 9.26% and 12.97% in the fiscal year 2009/10, 2010/11 and 2011/12 respectively and finally decreased to 11.10% in the fiscal year 2012/13. In average, 9.48% of the total deposit of SCNBNL was been represented by the fixed deposit and its S.D. and C.V. are 2.32 and 24.52 respectively.

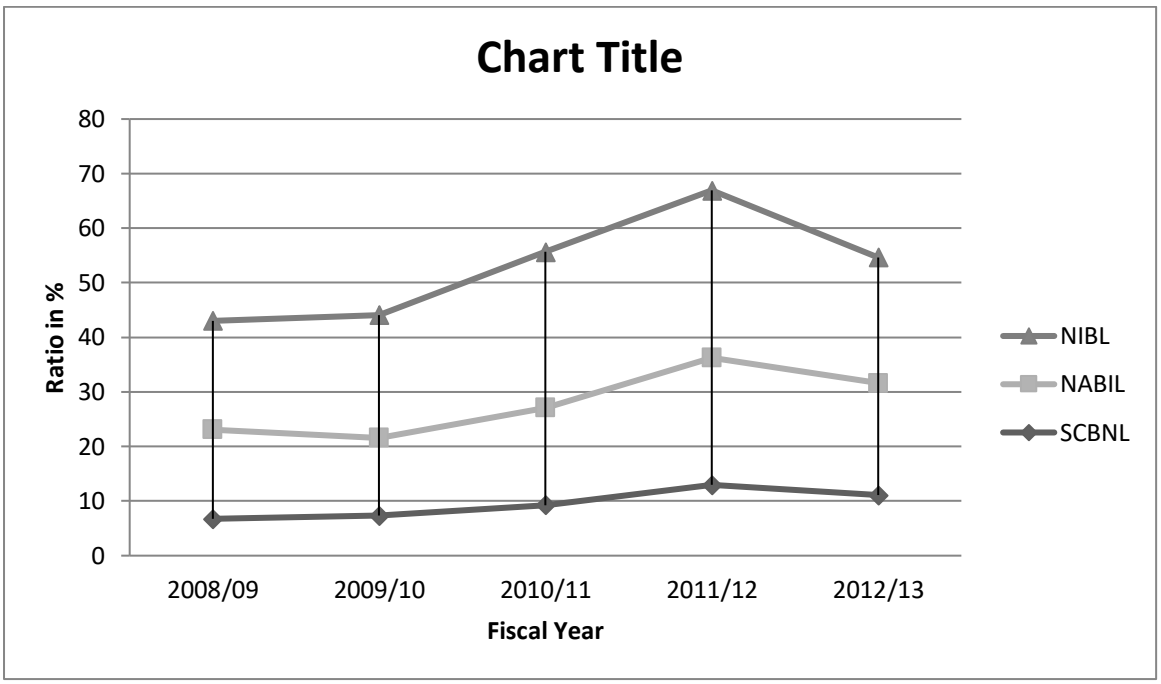
Similarly, the ratio was in fluctuating trend in NABIL also. Initially, it was 16.36% in the fiscal year 2008/09 and ranged from 14.25% in the fiscal year 2009/10 to 23.28% in the fiscal year 2011/12. In average, 18.44% of the total deposit was represented by the fixed deposit. Also, the coefficient of variation of 17.13% indicated inconsistency in the ratio.

However in NIBL, the ratio increased for the first four years, i.e. from 19.91% in the fiscal year 2008/09 to 30.69% in the fiscal year 2011/12 and then finally decreased to 23.06% in the fiscal year 2012/13. In average, 24.96% of the total deposit of NIBL was represented by the fixed deposit. And the coefficient of variation on such ratio was 16.13%, indicating inconsistency in the ratio.

Comparing three banks, it can be concluded that NIBL remained more successful than NIBL and NABIL in maintaining higher proportion of fixed deposit to total deposit hence mobilized higher portion of total deposit in investment.

Figure: 4.3

Fixed Deposit to Total Ratio



4.1.1.4 Saving Deposit to Total Deposit Ratio

Saving deposit includes only the amount of saving deposit account. It has lower-interest rate than fixed deposit. Generally, short-term deposit is not beneficial to the bank, as it can't be invested on long-term basis. Therefore lower ratio shows higher short-term liquidity position of the bank.

Table: 4.4

Saving Deposit to Total Deposit Ratio

(Ratio in %)

Fiscal Year	**SCBNL**	**NABIL**	**NIBL**
2008/09	60.35	42.45	42.39
2009/10	67.30	48.16	47.02
2010/11	63.30	45.33	42.70
2011/12	61.85	43.64	43.86
2012/13	60.03	41.57	39.73
Mean	**62.57**	**44.23**	**43.14**
S.D.	**2.64**	**2.33**	**2.36**
C.V.%	**4.22**	**5.28**	**5.48**

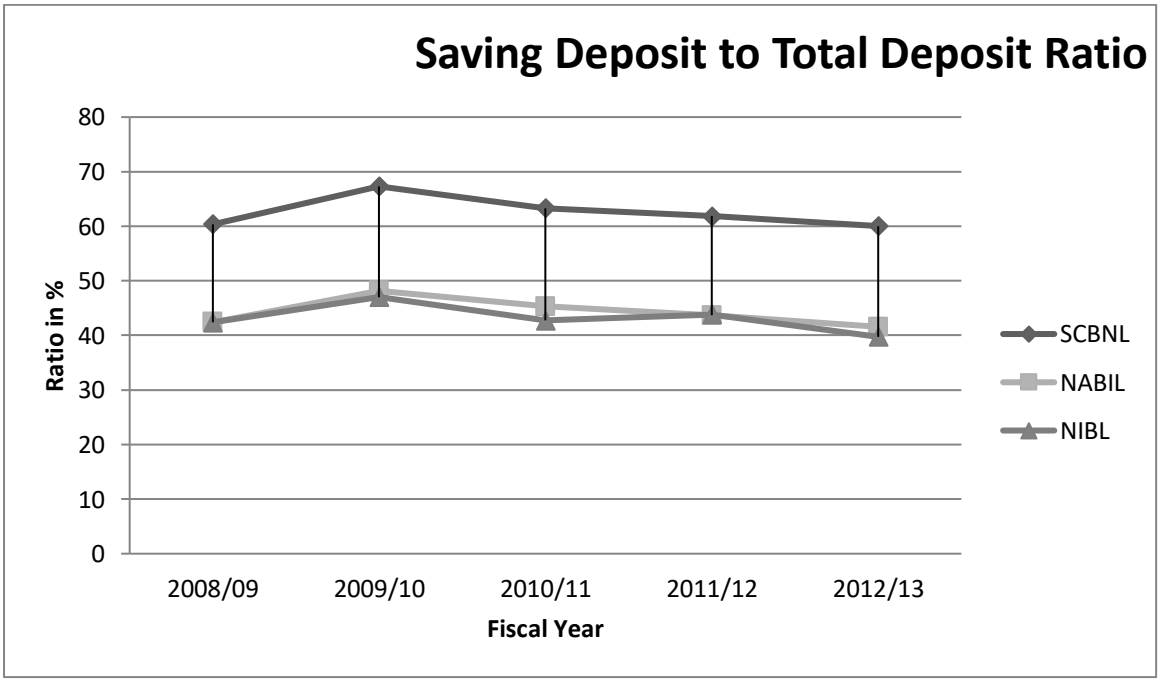
The table 4.4 depicted the ratio of saving deposit to total deposit of SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL fluctuated during the entire period. The ratio was 60.35% in the fiscal year 2008/09, which increased to 67.30% in the fiscal year 2009/10, then decreased to 63.30% in the fiscal year 2010/11, again decreased to 61.85% in the fiscal year 2011/12 and finally reached to 60.03% in the fiscal year 2012/13. In average, 62.57% of the total deposit of SCBNL was represented by saving deposit. The coefficient of variation of 4.22% indicated higher consistency in the ratio.

Similarly, the ratio followed fluctuating trend in NABIL as well. The ratio ranged from 41.57% in the fiscal year 2012/13 to 48.16% in the fiscal year 2009/10. In average, 44.23% of the total deposit of NABIL came out from saving deposit and the coefficient of variation of 5.28% delineated uniformity in the ratio.

Likewise, in NIBL, the ratio was 42.39%, 47.02%, 42.70%, 43.86% and 39.73% in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. In average, 43.14% of the total deposit of NIBL came out through saving deposit and the coefficient of variation on such ratio was 5.48% in the five years period. Comparing three banks, it can be concluded that the liquidity position on NIBL was best and SCBNL was worst, as the ratio of saving deposit to total deposit of NIBL was lowest (43.14%) and that of SCBNL was highest (62.57%).

Figure: 4.4

Saving Deposit to Total Deposit Ratio



4.1.2 Efficiency Ratio

Efficiency ratio is employed to measure the efficiency which the bank manages and utilize its resources. This ratio indicates the efficiency, speed and rapidity with which the assets have been used or converted into sales. The greater the ratio the more efficient the utilization of resources get more. In this section, some of the activity ratios have been calculated to measure the efficiency of assets management of selected three commercial banks.

4.1.2.1 Interest Expenses to Total Deposit Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	1.22%	1.88%	2.69%
2009/10	1.27%	1.56%	2.30%
2010/11	1.30%	1.79%	2.44%
2011/12	1.65%	2.28%	2.63%
2012/13	1.51%	2.16%	2.66%
Mean	**1.39**	**1.93**	**2.54**
S.D.	**0.17**	**0.26**	**0.15**
C.V.%	**11.92**	**13.37**	**5.90**

The table shows the ratio of interest, expenses which is incurred for deposit to the total deposit. The table showed that the ratio in all three banks fluctuated during the entire period. In, SCBL the ratio increased for the first four years i.e. 1.21% to 1.65% in fiscal year 2008/09 to 2011/12 and then slightly decreased to 1.51% in 2012/13. In average SCBNL incurred 1.39% of the total deposit as interest expenses. The coefficient of variation on such ratio was 11.92%.

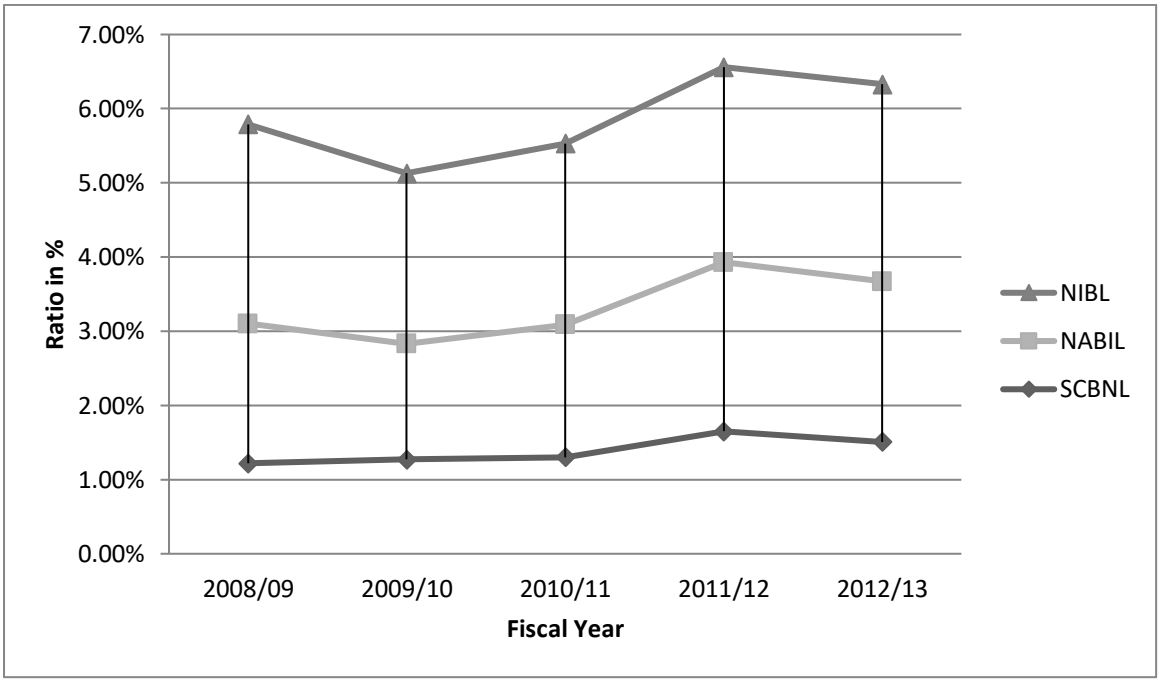
Similarly, the interest expenses to total deposit ratio of NABIL was 1.88% in the fiscal year 2008/09, which decreased to 1.56% in the fiscal year 2009/10, increased to 1.79% and 2.28% in the fiscal year 2010/11 and 2011/12 respectively and then finally reached to 2.16% in the fiscal year 2012/13. In average, NABIL incurred 1.93% of the total deposit as interest expenses for maintaining the deposit account.

Likewise the ratio in NIBL was 2.69%, 2.30%, 2.44%, 2.63% and 2.66% in fiscal years 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. NIBL incurred 2.54% of the total deposit as interest expenses in average. Further, the coefficient of variation of 5.90% indicated higher consistency in the ratio.

Comparing three banks on the basis of average interest expenses to total deposit ratio, it can be concluded that SCBNL has more control over cost and thus remained more successful to reduce interest expenses. However, it would be worthwhile if NIBL promotes the non-interest bearing and lower interest bearing account and thus reduces the interest expenses, and eventually increases the net profit.

Figure: 4.5

Loan Expenses to Total Deposit Ratio



4.1.2.2 Loan and Advance to Total Deposit Ratio

The ratio measures the bank's ability to mobilize the depositor's fund to earn profit by providing loans and advances. Loan and advances refer to total sum of loan, advances, credit, overdraft, local and foreign bills purchased and discounted. Total deposits include total outsiders' fund or all kinds of deposits. A high ratio indicates higher efficiency to utilize depositor's fund and low ratio indicates bank's inability to efficiently utilize the depositor's fund.

Table: 4.6

Loan and Advance to Total Deposit Ratio

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	31.63	60.55	63.68
2009/10	43.49	75.05	73.33
2010/11	39.92	68.63	69.63
2011/12	43.78	68.13	72.56
2012/13	46.95	68.18	79.91
Mean	**41.15**	**68.11**	**71.82**
S.D.	**5.26**	**4.60**	**5.28**
C.V.%	**12.77**	**6.75**	**7.35**

The table demonstrated the loan and advances to total deposit of the selected banks, viz, SCBNL, NABIL and NIBL. The table showed that the ratio of loan and advances to total deposit of SCBNL increased for the first two years, i.e. from 31.63% in the fiscal year 2008/09 to 43.49% in the fiscal year 2009/10, and then decreased to 39.92% in the fiscal year 2010/11 and again increased to 43.78% in the fiscal year 2011/12 and finally reached to 46.95% in the fiscal year 2012/13. In average, SCBNL mobilized 41.15% of the total deposit in disbursing loans and advances.

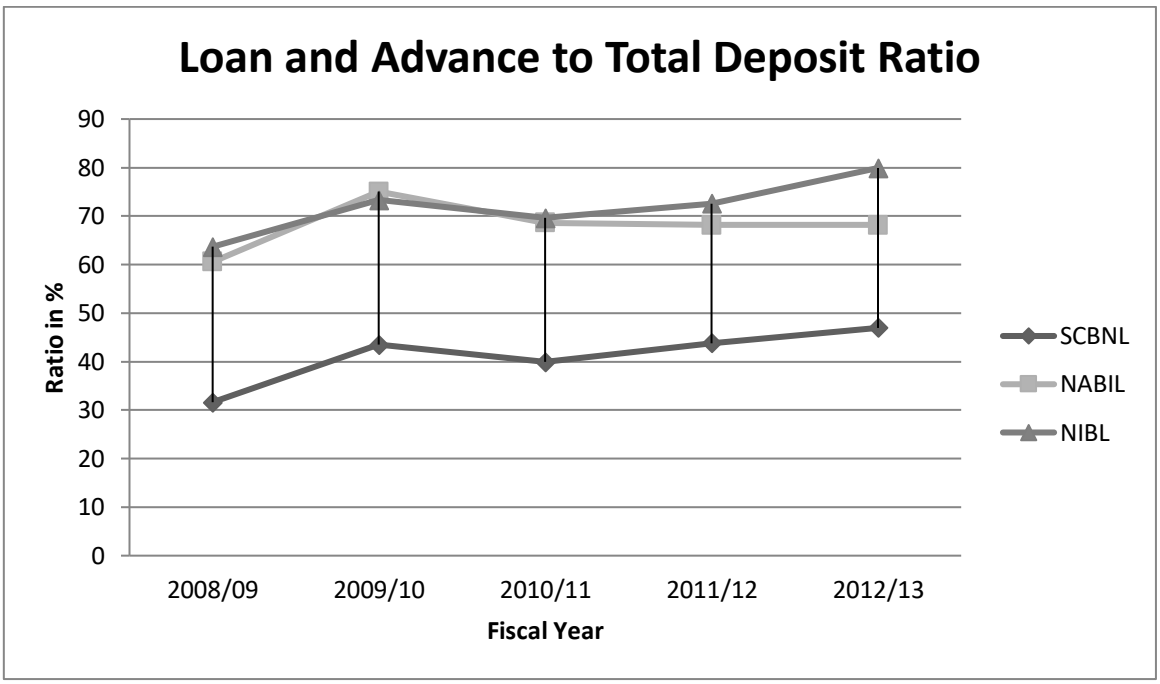
Similarly, the loans and advances to total deposit of NABIL fluctuated during the five years period taken for study. The ratio ranged from 60.55% in the fiscal year 2008/09 to 75.05% in the fiscal year 2009/10. In average, 68.11% of the total deposit fund was mobilized by NABIL in providing loans and advances. The coefficient of variation on the ratio was only 6.75%, which indicated higher consistency.

Likewise, except in the fiscal year 2008/09, the ratio of loans and advances to total deposit of NIBL was found to be in increasing trend. The ratio was 63.68% in the fiscal year 2008/09 and increased to 79.91% in the fiscal year 2012/13. In average, 71.82% of the total deposit of NIBL was utilized in providing loans and advances and the coefficient of variation on such ratio was 7.35% only.

Comparing three banks, it can be concluded that NIBL followed aggressive policy, NABIL followed moderate policy and SCBNL followed conservative policy in mobilizing the total deposit in loans and advances.

Figure: 4.6

Loan and Advance to Total Deposit Ratio



4.1.2.3 Loan and Advance to Fixed Deposit Ratio

The ratio indicates, how much of loans and advances has been granted against fixed deposit. Loan an advances includes total loans, advance, cash credit, overdraft etc. Fixed deposit is that kind of deposit, which has fixed time period to maturity. A high ratio indicates more efficiency in utilize their fixed deposit and vice-versa.

Table: 4.7

Loan and Advance to Fixed Deposit Ratio

(Ratio in Times)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	4.69	3.70	3.20
2009/10	5.95	5.27	3.25
2010/11	4.31	3.85	2.43
2011/12	3.38	2.93	2.36
2012/13	4.23	2.57	3.47
Mean	**4.51**	**3.66**	**2.94**
S.D.	**0.84**	**0.93**	**0.46**
C.V.%	**18.55**	**25.46**	**15.51**

The table 4.7 showed the loans and advances to fixed deposit ratio of SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL fluctuated in the five consecutive years. The loans and advances of SCBNL was 4.69 times, 5.95 times, 4.31 times, 3.38 times and 4.23 times greater than the fixed deposit amount collected in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. In average, SCBNL disbursed 4.51 times of the fixed deposit as loans and advances, which implied that almost 22% (1/4.51) of the total loans and advances was covered by fixed deposits.

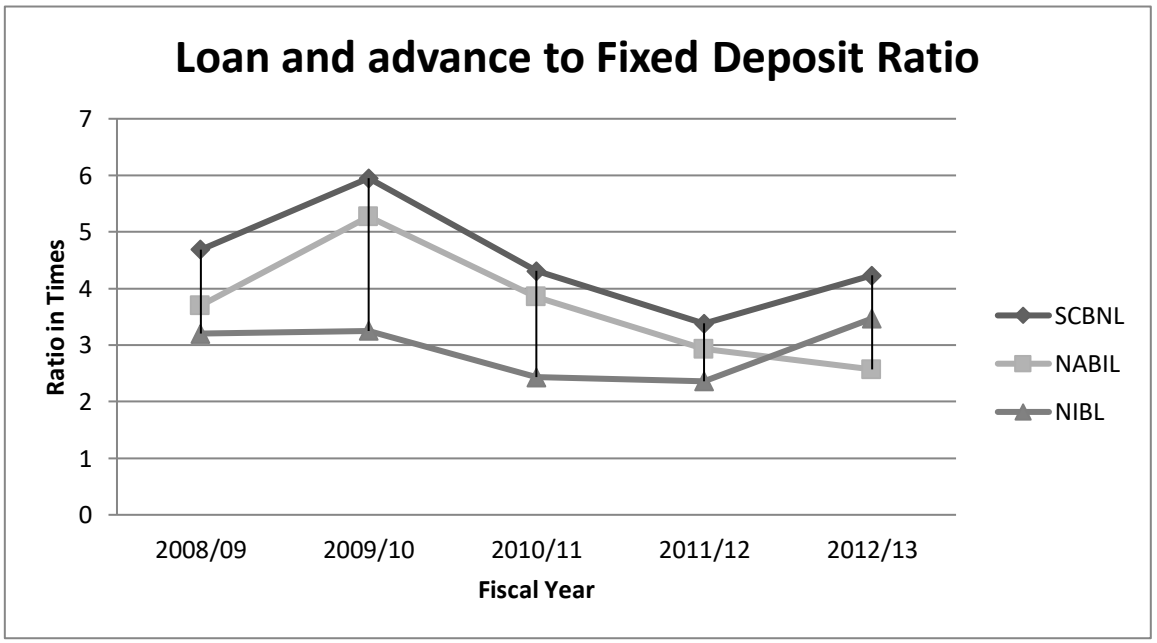
Similarly, the ratio in NABIL was 3.70 times, 5.27 times, 3.85 times, 2.93 times and 2.57 times in the fiscal years 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. In average, NABIL flowed loans and advances which was 3.66 times greater than the fixed deposit collected. Further the coefficient of variation of 25.46% indicated inconsistency in such ratio.

Likewise, the ratio in was 3.20 times in the base year 2008/09, which ranged to 2.36 times in the fiscal year 2011/12 to 3.47 times in the fiscal year 2012/13. In average, almost 34% (1/2.94) of the total loans and advances disbursed was financed through fixed deposit. The coefficient variation of 15.51% indicated inconsistency in the ratio.

Comparing three banks, it can be concluded that SCBNL is more efficient in utilizing the fixed deposit than NABIL, as the ratio in SCBNL was highest (4.51 times) than that of NABIL (3.66 times) and NIBL (2.94 times).

Figure: 4.7

Loan and advance to Fixed Deposit Ratio



4.1.2.4 Loan and Advance to Total Assets Ratio

Loan and advances to total assets ratio reflects the extent to which the bank is successful in mobilizing its total assets on loan and advance for the purpose of income generating. It is calculated by dividing loan and advances by total assets. A high ratio is more desirable to the bank and indicates successful to mobilize the total assets.

Table: 4.8

Loan and Advance to Total Assets Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	28.31	51.05	55.36
2009/10	38.66	64.15	65.09
2010/11	35.72	59.47	61.78
2011/12	37.73	58.60	64.40
2012/13	41.89	58.32	70.82
Mean	**36.46**	**58.32**	**63.49**
S.D.	**4.54**	**4.20**	**5.02**
C.V.%	**12.44**	**7.20**	**7.91**

The table 4.8 showed that the loans and advances to total assets ratio of SCBNL fluctuated in the study period. The ratio was 28.31% initially in the fiscal year 2008/09 which increased to 38.66% in the fiscal year 2009/10, then decreased to 35.72% in the fiscal year 2010/11, again increased to 33.73% in the fiscal year 2011/12 and finally reached to 41.89% in the fiscal year 2012/13. In average, ratio directly indicated that the loans and advances only occupied the minor place in total assets.

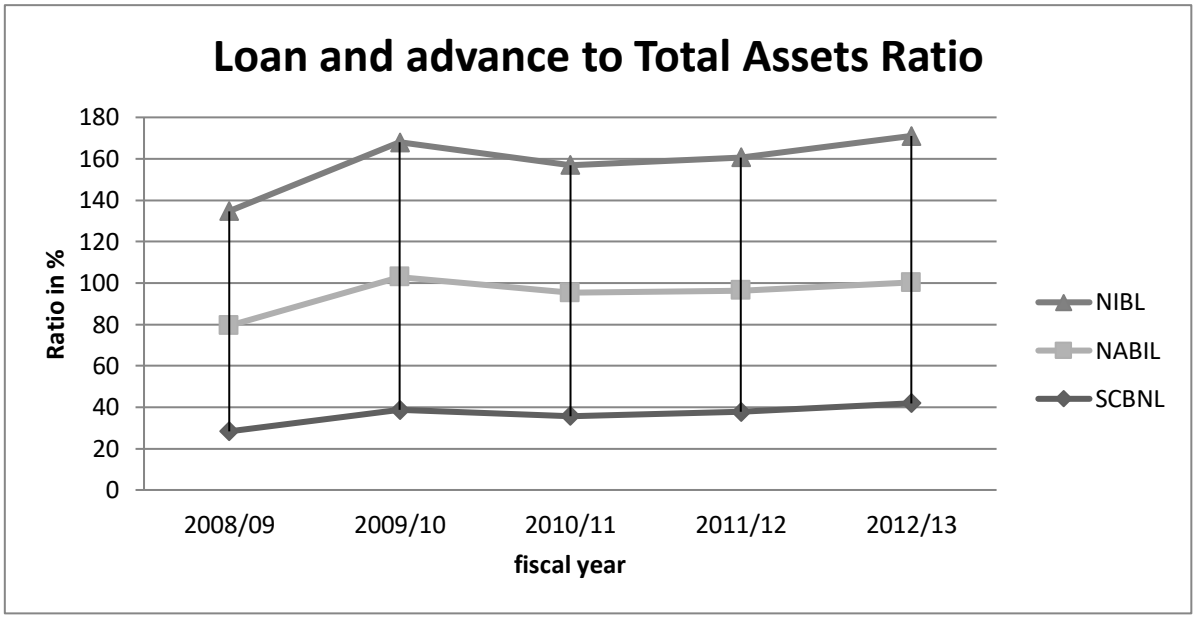
Similarly, the ratio in NABIL ranged from 51.05% in the fiscal year 2008/09 to 64.15% in the fiscal year 2009/10. In average, the loans and advances covered 58.32% of the total assets and hence played the dominant role in the total assets. Further, the coefficient of variation of 7.20% also indicated higher uniformity in ratio.

Likewise, except in the fiscal year 2010/11, the ratio was found to be in increasing trend in NIBL. The loans and advances to total deposit ratio ranged from 55.36% in the fiscal year 2008/09 to 70.82% in the fiscal year 2012/13. In average, 63.49% of the total assets of NIBL were covered by loans and advances amount. The coefficient of variation on such ratio was only 7.91%, indicating uniformity in the ratio.

Comparing three banks, it can conclude that NIBL remained more successful than SCBNL and NIBL in mobilizing total assets in loans and advances. However, the higher ratio also indicated that the total asset of NIBL was more risky than that of SCBNL and NABIL.

Figure: 4.8

Loan and advance to Total Assets Ratio



4.1.3 Leverage Ratio

A bank should have strong short-term as well as long-term financial position. The long-term financial position of the bank is judged by the leverage or capital structure ratio analysis. It measures the extent of the bank's total debt burden. It reflects the bank's ability to meet its short-term as well as long-term obligations.

4.1.3.1 Debt-Equity Ratio

A debt-equity ratio measure tells us the relative importance of debt in the capital structure. Generally, very high debt to equity ratio is unfavorable to the business. Excess debt allows the third party to have legal claims on the company. Similarly, a very low debt to equity ratio is also unfavorable form the shareholder's point of view as it affects their profitability. Total debt refers to current liabilities, short-term, loan bills payable, tax provision, staff bonus, dividend payable and other liabilities. Total equity includes share capital reserves and surplus.

Table: 4.9

Debt-Equity Ratio

(Ratio in Times)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	14.81	10.30	17.18
2009/10	12.76	9.29	12.61
2010/11	13.69	10.90	14.06
2011/12	12.51	12.24	13.69
2012/13	12.37	14.23	13.46
Mean	**13.23**	**11.39**	**14.20**
S.D.	**0.92**	**1.71**	**1.56**
C.V.%	**6.92**	**15.01**	**11.02**

The table 4.9 showed the ratio debt-equity policy of the sampled banks. The table depicted that the debt-equity ratio of SCBNL ranged from 12.37 times in the fiscal year 2012/13 to times in the fiscal year 2008/09. In average, the debt financing of SCBNL was 13.23 times more than the equity financing. The coefficient of variation on such debt-equity policy was 6.92%, which indicated higher uniformity.

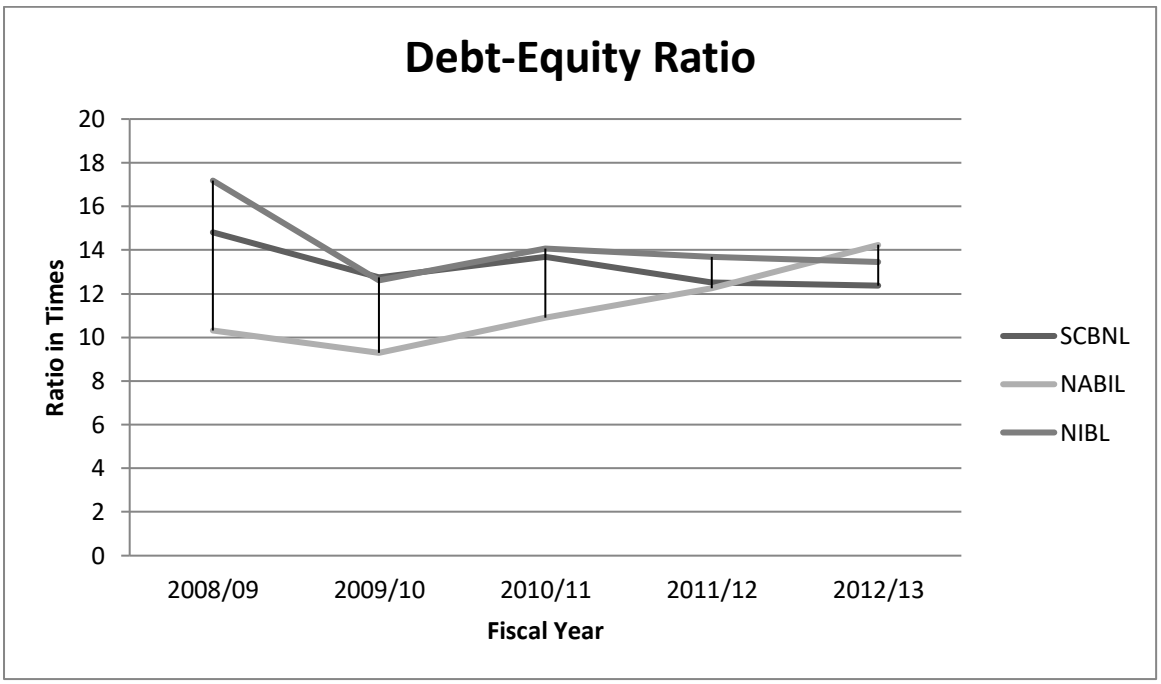
Similarly, in NABIL the ratio was 10.30 times, 9.29 times, 10.90 times, 12.24 times and 14.23 times in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. In average, the debt financing of NABIL was 11.39 times more than the equity financing. And the coefficient of variation on such policy was 15.01%, indicating inconsistency.

Likewise, in NIBL the ratio was 17.18 times, 12.61 times, 14.06 times, 13.69 times and 13.46 times in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. NIBL utilized debt which was 14.20 times more than the equity to finance the total assets.

Comparing three banks on the basis of average debt-equity ratio, it can be concluded that the total assets of NIBL was more risky than that of other banks, as higher position of total assets of NIBL was financed through debt.

Figure: 4.9

Debt-Equity Ratio



4.1.3.2 Debt Assets Ratio

This ratio shows what portion of the capital assets is financed by outside fund. Higher the debt ratio higher the financial risk as well as increasing claims of outsiders in total assets. On the other hand, lower the ratio; lower the financial risk as well as decreasing claims of outsiders.

Table: 4.10

Debt Assets Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	93.67	91.15	94.50
2009/10	92.74	90.28	92.65
2010/11	93.19	91.60	93.36
2011/12	92.60	92.45	93.19
2012/13	92.52	93.43	93.08
Mean	**92.94**	**91.78**	**93.36**
S.D.	**0.43**	**1.08**	**0.62**
C.V.%	**0.46**	**1.18**	**0.66T**

The table 4.10 reveals the debt-assets ratio. The table showed that 93.67%, 92.74%, 93.19%, 92.60% and 92.52% of the total assets of SCBNL in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively was financed through debt capital. In average, 92.94% of the total assets were debt financed.

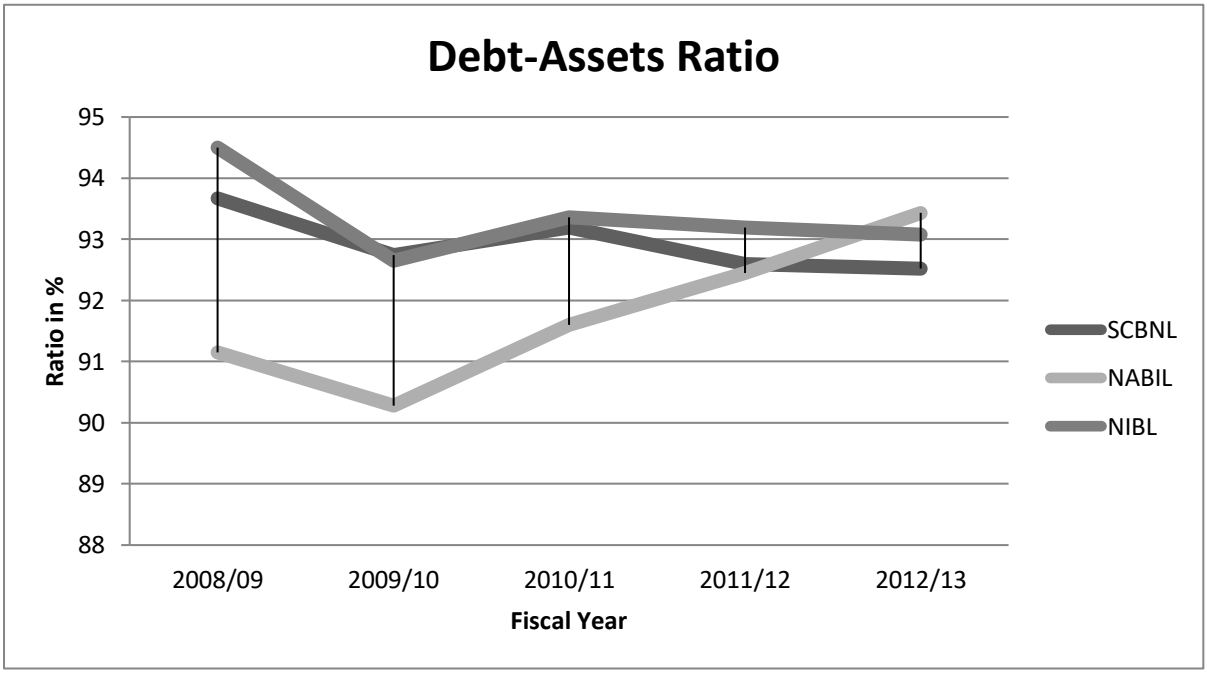
Similarly, the ratio in NIBL ranged from 90.28% in the fiscal year 2009/10 to 93.43% in fiscal year 2012/13. In average, 91.78% of the total assets of NIBL were financed through debt capital and the coefficient of variation on such ratio was 1.18%, including higher consistency.

Likewise, the ratio in NIBL was highest, 94.50%, in the fiscal year 2008/09 and lowest 93.08% in the fiscal year 2012/13. In average, NIBL financed 93.36% of the total assets through debt capital. Also, the coefficient of variation of 0.66% only indicated higher uniformity.

All of the sampled banks followed aggressive policy of financing total assets through outside fund. However, comparing three banks on the basis of average debt-assets ratio, it can be concluded that the total assets of NIBL was much more risky than that of NABIL and SCBNL.

Figure: 4.10

Debt-Assets Ratio



4.1.3.3 Capital Adequacy Ratio

Capital adequacy ratio shows whether commercial banks are maintaining sufficient amount of capital fund or shareholder's fund in comparison to the total amount of their deposits. According to capital adequacy ratio principles, safety and stability of the fragile financial system ultimately rest upon the confidence of the depositors and creditors.

Table: 4.11

Capital Adequacy Ratio

(Ratio in %)

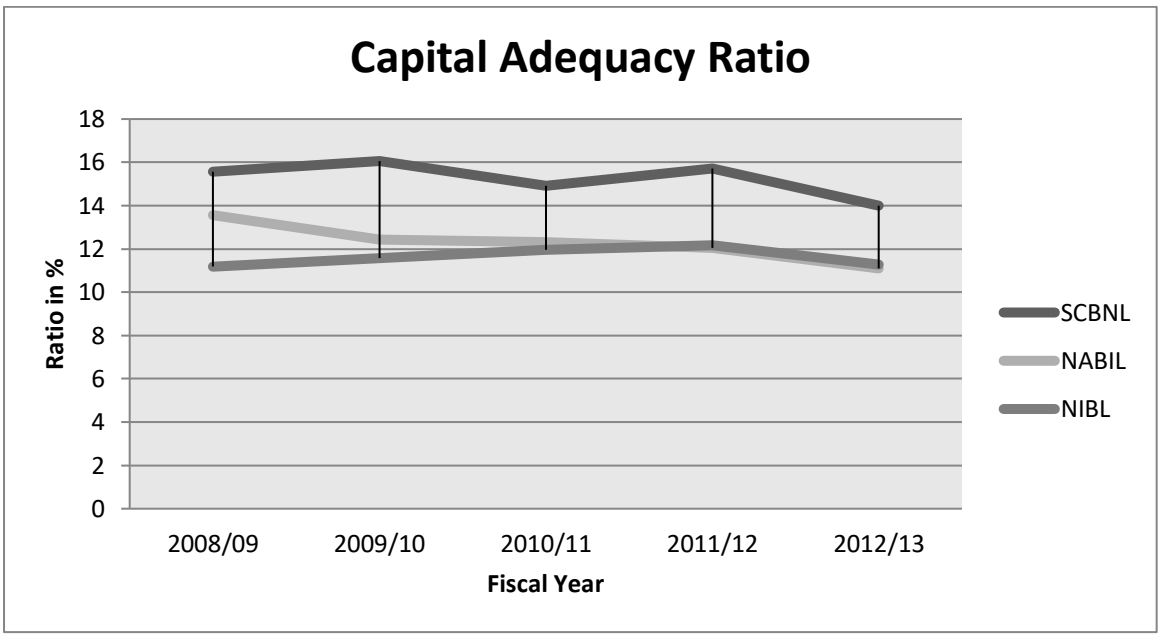
Fiscal Year	SCBNL	NABIL	NIBL
2008/09	15.57	13.56	11.18
2009/10	16.06	12.44	11.58
2010/11	14.93	12.31	11.97
2011/12	15.71	12.04	12.17
2012/13	14.00	11.10	11.28
Mean	**15.25**	**12.29**	**11.64**
S.D.	**0.73**	**0.79**	**0.38**
C.V.%	**4.76**	**6.42**	**3.29**

(Source: Financial Reports of SCBNL, NABIL & NIBL)

Table 4.11 showed total capital adequacy ratio of SCBNL, NABIL & NIBL for the study period. The ratio of SCBNL 15.57%, 16.06%, 14.93%, 15.71 and 14.00%, NABIL was 13.56%, 12.44%, 12.31%, 12.04% and 11.10% and NIBL was 11.18%, 11.58%, 11.97%, 12.17% and 11.28% for the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. The NRB standard on the total capital adequacy for the commercial banks is 11% for the study period. The data revealed that the ratio maintained by sampled commercial banks was more than the NRB standards on the study period. The table also disclosed mean of SCBNL, NABIL and NIBL as 15.25%, 12.29% and 11.64% respectively. It also revealed that C.V. of SCBNL, NABIL and NIBL was 4.76%, 6.42% and 3.29% respectively. Based on mean CAR, it can be concluded that the capital vase of SCBNL was stronger than that of NABIL and NIBL. However, the value of C.V. concluded that there was greater variability in CAR of NABIL than that in SCBNL and NIBL.

Figure: 4.11

Capital Adequacy Ratio



4.1.3.4 Net Worth to Total Assets Ratio

Net worth to total assets ratio reflects the sufficiency of shareholders' fund against the total assets. Where net worth refers to ordinary share capital, bonus share capital, preference share capital and all kinds of shareholders reserve. And total assets includes current assets, fixed assets, investment in share and investment in debentures and miscellaneous assets.

Table: 4.12

Net Worth to Total Assets Ratio

(Ratio in %)

Fiscal Year	**SCBNL**	**NABIL**	**NIBL**
2008/09	6.33	8.84	5.49
2009/10	7.26	9.71	7.34
2010/11	6.81	8.39	6.63
2011/12	7.40	7.54	6.80
2012/13	7.48	6.56	6.91
Mean	**7.06**	**8.21**	**6.63**
S.D.	**0.43**	**1.08**	**0.62**
C.V.%	**6.10**	**13.18**	**9.32**

The table revealed the ratio of net worth to total assets. The table depicted that the net worth to total assets of SCBNL was in fluctuating trend. The ratio ranged from 6.33% in the fiscal year 2008/09 to 7.48% in the fiscal year 2012/13. In average, only 7.06% of the total assets was represented by the internal fund.

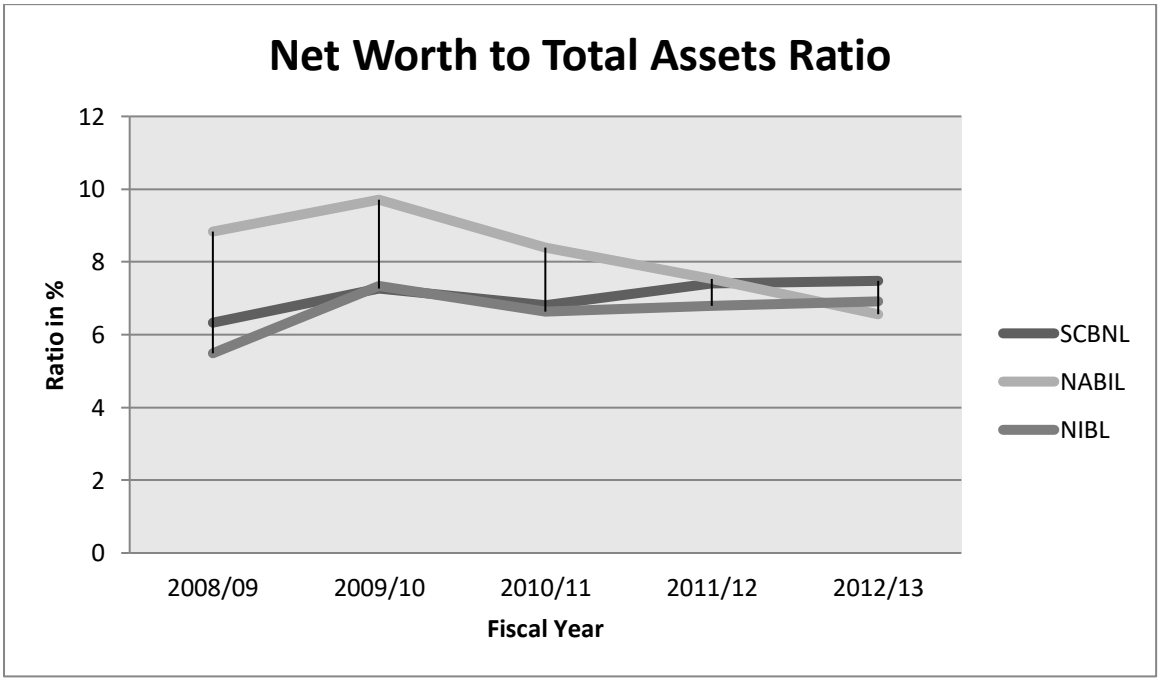
Similarly, the ratio in NABIL was highest, 9.71% in the fiscal year 2009/10 and lowest 6.56% in the fiscal year 2012/13. In average, NIBL financed 8.21% of the total assets through internal financing.

Likewise, the ratio in NIBL was 5.49% in the fiscal year 2008/09, which increased to 7.34% in the fiscal year 2009/10 then decreased to 6.63% in the fiscal year 2010/11 and then increased to 6.80% in the fiscal year 2011/12 and finally reached to 6.91% in the fiscal year 2012/13. In average, 6.63% of the total assets was financed through internal financing by NIBL.

On the basis of net worth to total assets, it can be considered that all the three banks have the policy of financing higher portion of total assets through outside financing. However, comparing three banks, it can be concluded that the assets of NABIL bank is much more safe than that of other banks, as highest %, 8.21% of total assets of NABIL was financed through internal fund.

Figure: 4.12

Net Worth to Total Assets Ratio



4.1.4 Profitability Ratio

Profit maximization and wealth maximization are primary objectives of any organization. Therefore, all the organization tries to maximize its profit. It is very important for their survival in this competitive market for their future growth. Profit indicates the present condition of the organization where they stand in the market. In this section various profitability ratios, which reflects the operating efficiency of the bank have been analyzed.

4.1.4.1 Net Profit Margin

Net profit margin indicates margin of compensation left to the owners for providing their capital, after all expenses have been met. It helps in determining the efficiency with which the affairs of the business are being managed. A net profit margin would enable the firm to withstand adverse economic conditions and low margin will have opposite implications.

Table: 4.13

Net Profit Margin

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	33.95	31.92	16.71
2009/10	34.01	34.33	20.26
2010/11	37.06	35.32	23.99
2011/12	34.55	32.16	25.07
2012/13	34.94	29.68	25.33
Mean	**34.90**	**32.68**	**22.27**
S.D.	**1.14**	**1.98**	**3.32**
C.V.%	**3.26**	**6.05**	**14.91**

(Source: Financial Reports of SCBNL, NABIL & NIBL)

The table revealed the net profit margin of the three commercial banks. The net profit margin of SCBNL increased for the first three years, i.e. from 33.95% in the fiscal year 2008/09 to 34.01% in the fiscal year 2009/10 and 37.06% in the fiscal year 2010/11 and then decreased to 34.55% in the fiscal year 2011/12 and finally reached to 34.94% in the fiscal year 2012/13. In average, the net profit margin of SCBNL for the five years period was 34.90% and the coefficient of variation on such ratio was only 3.26% showing higher consistency.

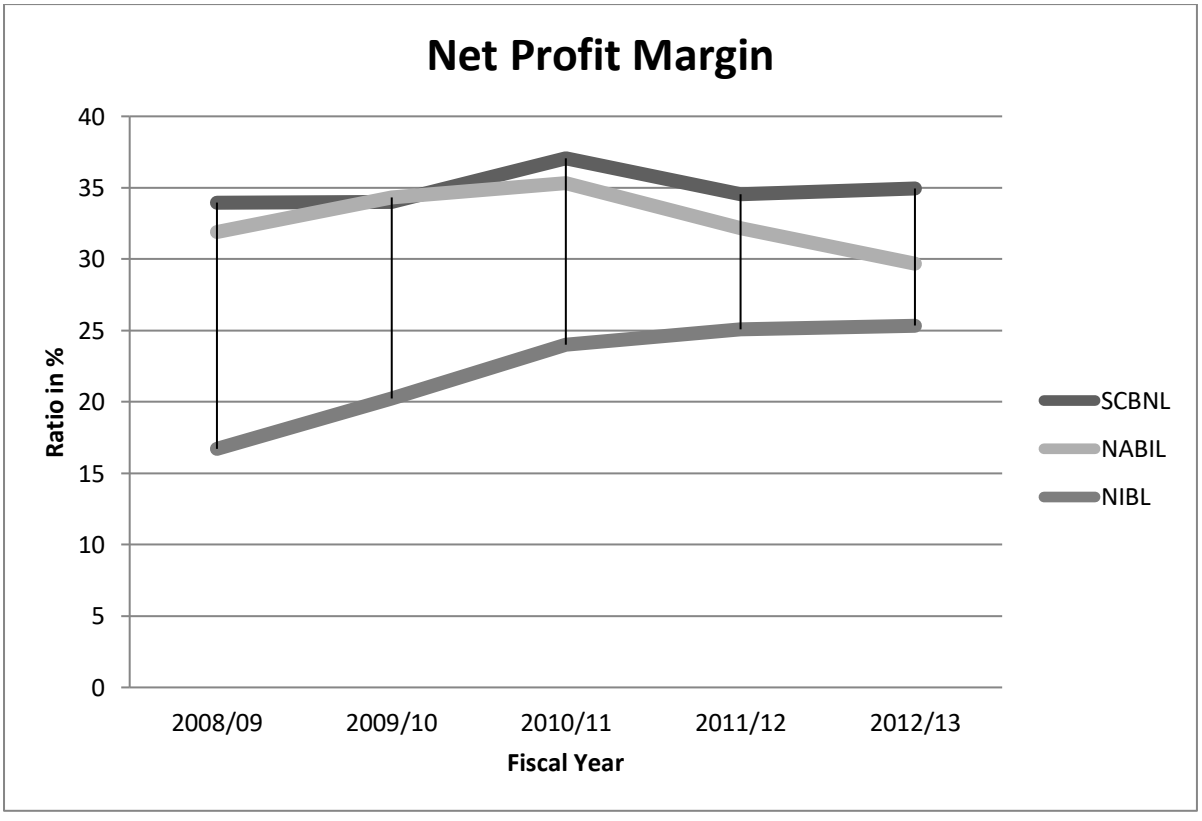
Similarly, the net profit margin of NABIL increased for the first three years, i.e. from 31.92% in the fiscal year 2008/09 to 35.32% in the fiscal year 2010/11, and then followed decreasing trend and finally reached to 29.68% in the fiscal year 2012/13. In average, NABIL's net profit margin was 32.68% in the five years period and the coefficient of variation was 6.05%.

However, the net profit margin of NIBL followed increasing trend for the five years period taken for study. The net profit margin was 16.71% in the fiscal year 2008/09 which finally reached to 25.33% in the fiscal year 2012/13. In average, the net profit margin of NIBL was 22.27% and the coefficient of variation was 14.91% indicating higher inconsistency.

Comparing three banks on the basis of average net profit margin, it can be considered that the SCBNL enjoyed highest portion of net income out of the total sales in the form of interest income than other two banks, i.e. NABIL and NIBL. However, the increasing trend of net profit margin of NIBL indicated better management of controlling cost and increasing interest income.

Figure: 4.13

Net Profit Margin



4.1.4.2 Return on Net Worth

Return on net worth reflects how well the firm has used the resources of the owners. It is calculated by dividing profit after tax by net worth. The ratio of net profit to owners' equity reflects the extent to which social responsibility toward owners has been accomplished. This ratio is thus a great interest to present as well as prospective shareholders and a great concern to management.

Table: 4.14

Return on Net Worth

(Ratio in %)

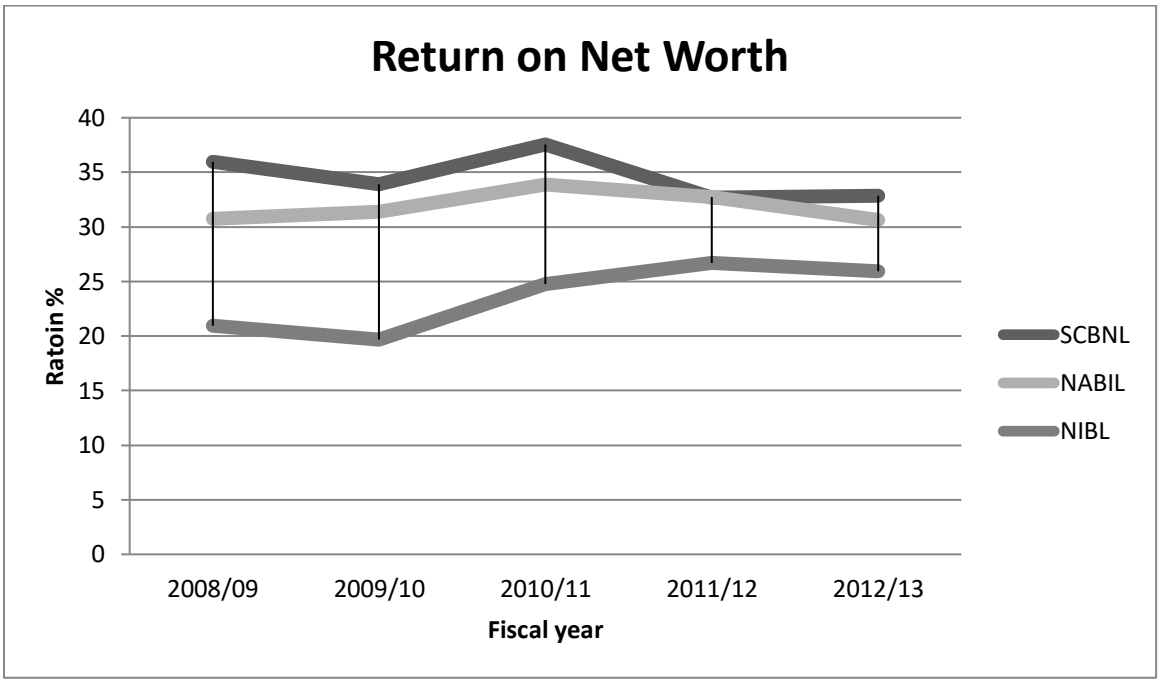
Fiscal Year	SCBNL	NABIL	NIBL
2008/09	35.96	30.73	20.94
2009/10	33.89	31.38	19.67
2010/11	37.55	33.88	24.77
2011/12	32.68	32.76	26.70
2012/13	32.85	30.63	25.93
Mean	**34.59**	**31.88**	**23.60**
S.D.	**1.89**	**1.26**	**2.79**
C.V.%	**5.46**	**3.95**	**11.82**

Table 4.14 depicted the return on the sum invested by the shareholders. The table showed that the return on net worth of SCBNL was in fluctuating trend. The ratio was lowest, 32.68% in the fiscal year 2011/12 and highest, 37.55% in the fiscal year 2010/11. In average, SCBNL was able to convert 34.59% of the total amount invested by shareholder in the form of net profit. Also, the coefficient of variation on the ratio was only 5.46% indicating higher consistency.

However, the ratio in NABIL followed increasing trend for the first three years, i.e. from 30.73% in the fiscal year 2008/09 to 33.88% in the fiscal year 2010/11 and then followed decreasing trend in the remaining years, and thus finally reached to 30.63% in the fiscal year 2012/13. The table showed that NABIL generated 31.88% of the total investment of shareholders as net profit. The coefficient of variation of 3.95% showed higher uniformity in the ratio.

Also, the ratio in NIBL fluctuated during the five years period and was lowest, 19.67% in the fiscal year 2009/10 and highest 26.70% in the fiscal year 2011/12. In average, 23.06% of the total net worth of NIBL was turned out in net profit.

Comparing three banks, it can be concluded that SCBNL remained more successful than NABIL and NIBL in efficiently generating net profit from the net worth of the bank. However, there was more uniformity in the ratio in NABIL than in SCBNL and NIBL.



4.1.4.3 Return on Total Assets Ratio (ROA)

Return on Total Assets explains the contribution of assets to generating net profit. Return on total assets is calculated by dividing net profit after tax by total assets of the company. Higher return on total assets indicates the higher efficiency in the utilization of total assets and vice-versa.

Table: 4.15

Return on Total Assets

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	2.27	2.72	1.15
2009/10	2.46	3.05	1.45
2010/11	2.56	2.84	1.64
2011/12	2.42	2.47	1.82
2012/13	2.46	2.01	1.79
Mean	**2.43**	**2.62**	**1.57**
S.D.	**0.09**	**0.36**	**0.25**
C.V.%	**3.87**	**13.64**	**15.77**

Table 4.15 depicted that the return on assets (ROA) of SCBNL increased for the first three years, i.e. from 2.27% in the fiscal year 2008/09 to 2.56% in the fiscal year 2010/11, then decreased to 2.42% in the fiscal year 2011/12 and finally increased to 2.46% in the fiscal year 2012/13. In average, the ROA was 2.43% which indicated that SCBNL earned Rs. 2.43 as net profit for per Rs. 100 investment in total assets. The coefficient of variation of 3.87% also indicated higher uniformity in the ratio.

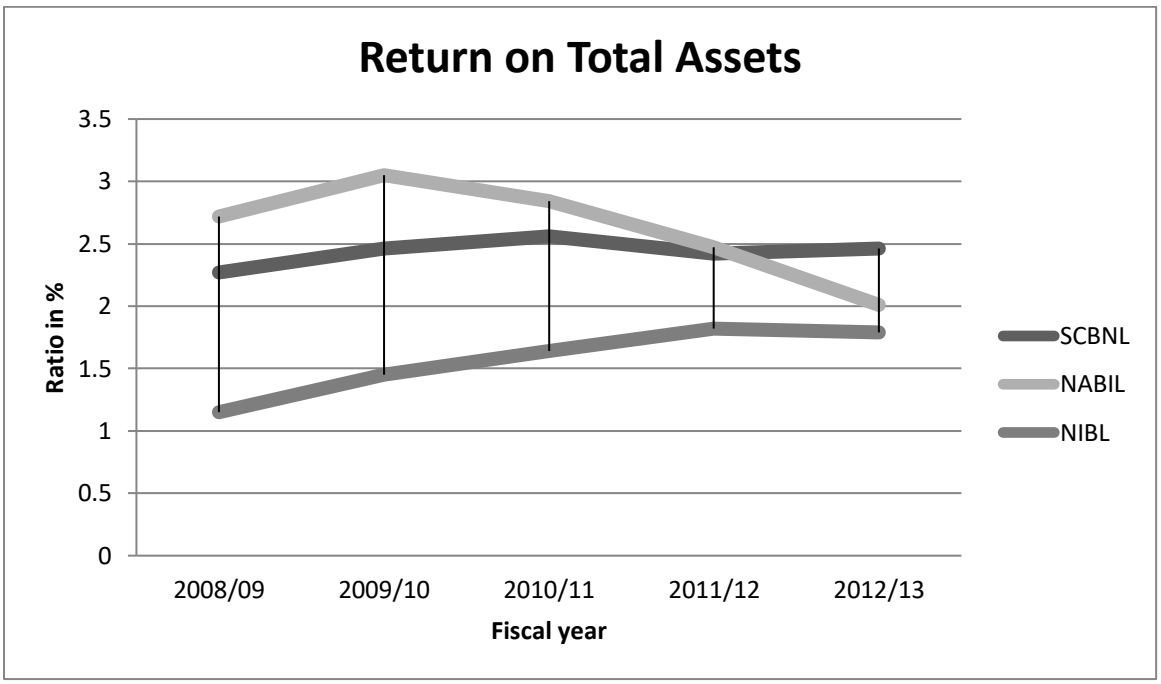
Similarly, the ratio in NABIL was better in the first three years compared to the last two year. The ratio ranged from 2.01% in the fiscal year 2012/13 to 3.05% in the fiscal year 2009/10. The average ratio of 2.62% indicated that NABIL generated Rs. 2.62 as net profit from per Rs. 100 investment in the total assets. However, the coefficient of variation of 13.64% indicated higher inconsistency compared to that of SCBNL.

Likewise, the ratio in NIBL followed increasing trend for the first four years, i.e. from 1.15% in the fiscal year 2008/09 to 1.82% in the fiscal year 2011/12 and then slightly decreased to 1.79% in the fiscal year 2012/13. The average ratio of 1.57% indicated that from Rs. 100 investment in total assets, NIBL earned Rs. 1.57 as net profit. The coefficient of variation on such ratio was 15.77% which indicated inconsistency in the ratio.

Comparing three banks, it can conclude that NABIL utilized its assets more effectively to generate highest profit than SCBNL and NIBL.

Figure: 4.15

Return on Total Assets



4.1.4.4 Return on Total Deposit Ratio

Return on total deposit ratio measures how efficiently the deposit has been mobilized. This ratio is a mirror of bank's overall financing performance; deposits are outsiders' capital fund that entails paying fixed interest, this affects NPAT ultimately. Shareholders, depositors and management are concerned with the ratio.

Table: 4.16

Return on Total Deposit Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	2.54	3.22	1.32
2009/10	2.77	3.57	1.63
2010/11	2.86	3.28	1.85
2011/12	2.81	2.89	2.05
2012/13	2.75	2.34	2.02
Mean	**2.75**	**3.06**	**1.77**
S.D.	**0.11**	**0.42**	**0.27**
C.V.%	**3.99**	**13.72**	**15.32**

Table 4.16 delineated that the return on total deposit of SCBNL increased for the first three years i.e. from 2.54% in the fiscal year 2008/09 to 2.86% in the fiscal year 2010/11 and then decreased in the last two years, i.e. 2.81% in the fiscal year 2011/12 to 2.75% in the fiscal year 2012/13. In average, the return on total deposit of SCBNL was 2.75% which indicated that SCBNL earned Rs. 2.75 as net profit by investing Rs. 100 deposit collected.

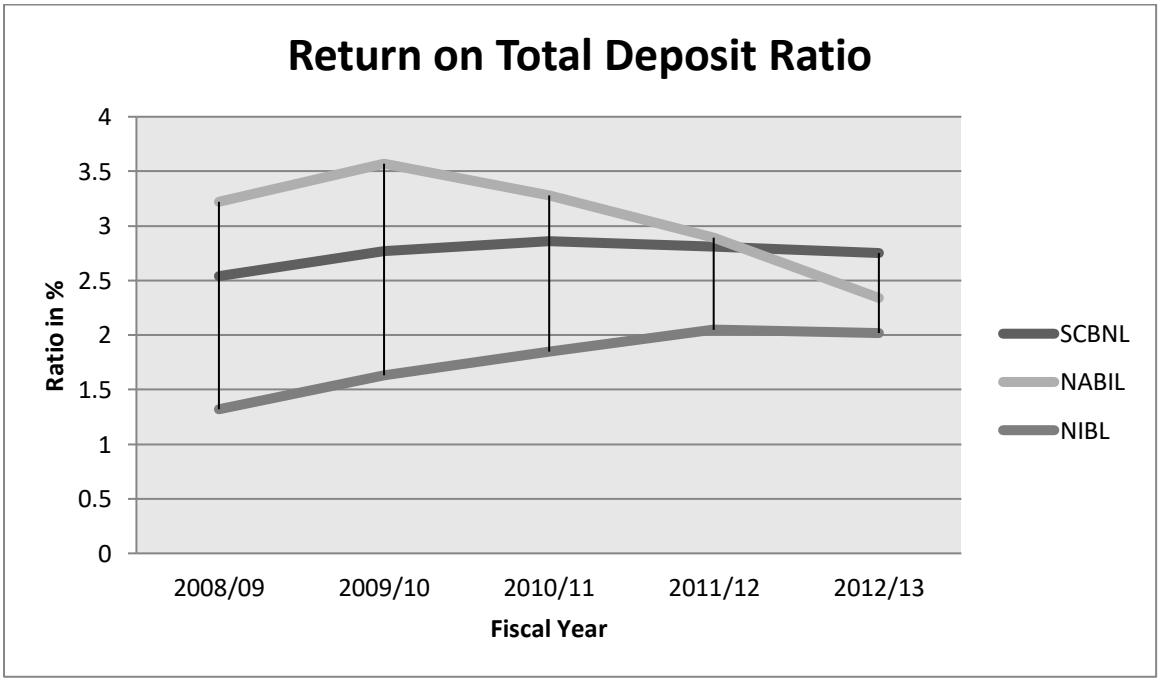
Similarly, the ratio in NABIL was in fluctuating trend and thus was lowest, 2.34% in the fiscal year 2012/13 and highest, 3.57% in the fiscal year 2009/10. In average, NABIL turned earned Rs. 3.06 as net profit from the investment of Rs. 100, which was collected as deposit.

Likewise, the returns on total deposits of NIBL increased for the first three years, i.e. form 1.32% in the fiscal year 2008/09 to 1.85% in the fiscal year 2010/11 and then decreased in the last two years and hence were 2.02% in the fiscal year 2012/13. The average ratio of 1.77% indicated that NIBL turned Rs. 1.77 as net profit from the investment of Rs. 100 collected as deposit.

Comparing three sampled banks on the ground of return on total deposit, it can be concluded that the capacity of turning total deposit into net profit of NABIL much more admirable than that of SCBNL and NIBL. Hence, it can also be considered that the investment of Rs. 100 collected as deposit.

Figure: 4.16

Return on Total Deposit Ratio



4.1.4.5 Interest Earned to Total Assets Ratio

Interest earned to total assets ratio shows how much interest has been generated by mobilizing the assets in the bank. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa. 'Interest earned' represents the total interest shows in the income side of profit and loss account. And 'total assets' represent the total of balance sheet.

The following table displays the interest earned to total assets ratio.

Table: 4.17

Interest Earned to Total Assets Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	4.41	5.98	2.46
2009/10	4.86	6.26	2.21
2010/11	4.62	5.87	2.30
2011/12	4.94	5.83	2.48
2012/13	4.77	5.33	2.55
Mean	**4.72**	**5.85**	**2.40**
S.D.	**0.19**	**0.30**	**0.13**
C.V.%	**3.98**	**5.16**	**5.22**

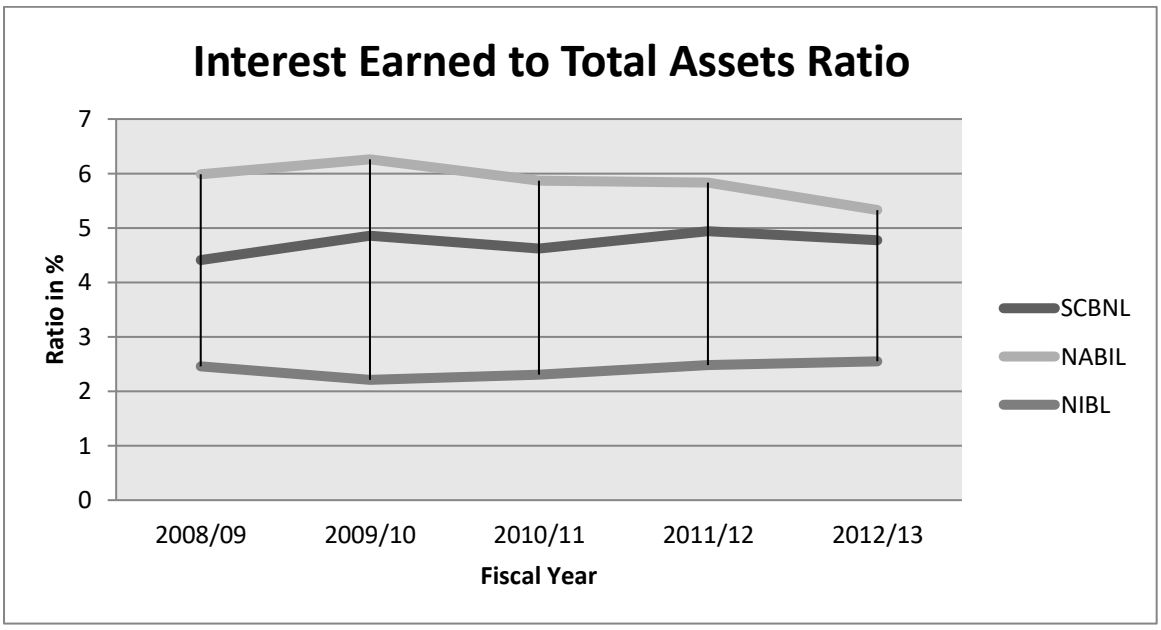
Table 4.17 showed that the interest earning capacity of SCBNL from total assets ranged from 4.41% in the fiscal year 2008/09 to 4.94% in the fiscal year 2011/12. In average, the interest earned to total assets ratio was 4.72%, which indicated that SCBNL generated Rs. 4.72 as interest income from Rs. 100 investment in total assets.

Similarly, the ratio in NABIL ranged from 5.33% in the fiscal year 2012/13 to 6.26% in fiscal year 2009/10, in average the interest earned to total assets ratio was 5.85% meaning NABIL generated Rs. 5.85 as interest income from Rs. 100 investment in total assets. The coefficient of variation on such ratio was only 5.16%.

Likewise, the ratio in NIBL was highest 2.5% in the fiscal year 2012/13 and lowest 2.21% in the fiscal year 2009/10. In average, NIBL generated 4.72% of the total investment in assets as interest income. Comparing three banks on the basis of interest earned to total assets, it can be concluded that the capacity of utilizing total assets to generate interest income is highest in NABIL compared to SCBNL and NIBL.

Figure: 4.17

Interest Earned to Total Assets Ratio



4.1.5 Miscellaneous Ratio

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

4.1.5.1 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 sources. In this present study, 'Total interest expenses' includes interest paid on deposits and borrowings. And 'interest income' includes the interest from loan and advance, cash-credit and overdraft, government securities, inter-bank and other investments.

Table: 4.18

Interest Paid to Interest Income Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	26.46	28.25	44.60
2009/10	24.00	22.79	39.98
2010/11	25.49	27.26	41.86
2011/12	29.25	35.00	43.25

2012/13	29.65	38.33	45.22
Mean	**26.97**	**30.33**	**42.98**
S.D.	**2.17**	**5.59**	**1.90**
C.V.%	**8.06**	**18.44**	**4.41**

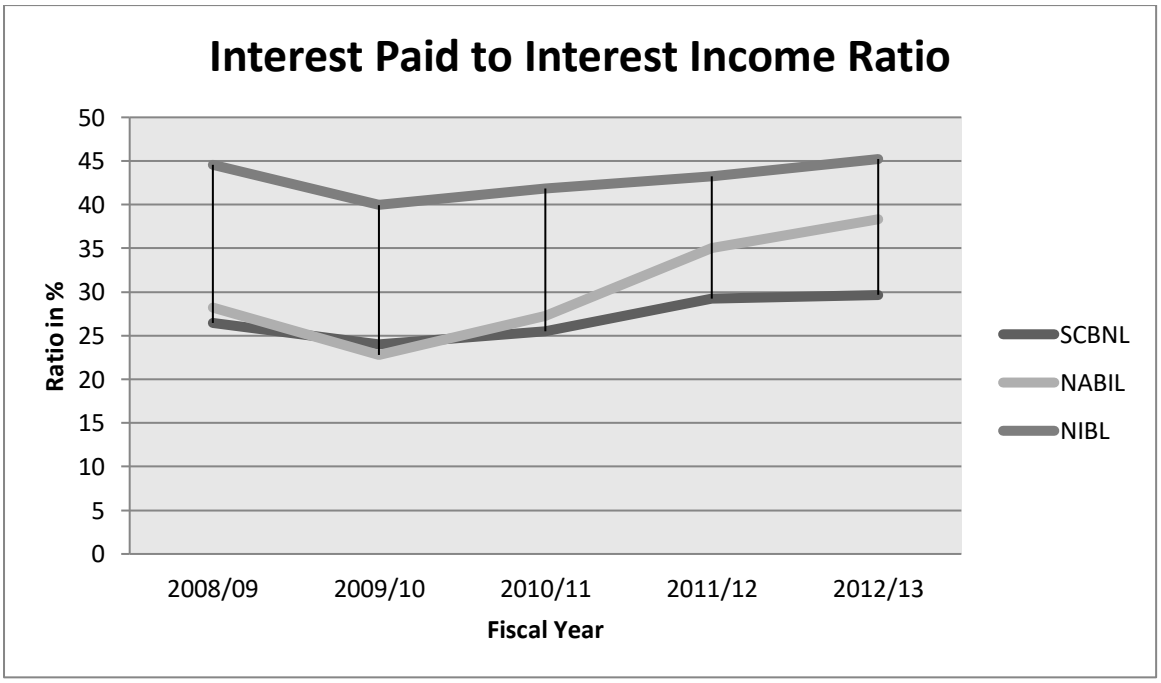
The above table showed that the interest paid to interest income ratio of SCBNL was highest, 29.36% in the fiscal year 2012/13 and lowest 24.00% in the fiscal year 2009/10. In average, SCBNL incurred only 26.97% of the total interest income as interest expenses. Similarly, the interest paid to interest ratio of NABIL ranged from 22.79% in the fiscal year 2009/10 to 38.33% in the fiscal year 2012/13. In average, NABIL paid 30.33% of the total interest income as interest expenses.

Likewise, the ratio in NIBL was highest 45.22% in the fiscal year 2012/13 and lowest 39.98% in the fiscal year 2009/10. . In average42.98% of the total interest income was spent by NIBL as interest expenses. The coefficient of variation such ratio was 4.41% which indicated higher uniformity in the ratio.

Comparing the sampled banks, it can be concluded that SCBNL has the highest control on interest expenses than other banks, as the interest paid to interest income of SCBNL was lowest than that of NABIL and NIBL.

Figure: 4.18

Interest Paid to Interest Income Ratio



4.1.5.2 Earning Per Share

The earnings per share show the profitability of the bank on per share basis. It shows the earning available to each shareholder out of the total earning. The earnings per share are calculated by dividing the profit after tax to total number of common share outstanding.

Table: 4.19

Earnings per Share

(Unit in Rs.)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	143.55	92.61	51.70
2009/10	143.14	105.49	39.50
2010/11	175.84	129.21	59.35
2011/12	167.37	137.08	62.57
2012/13	131.92	108.31	57.87
Mean	**152.36**	**114.54**	**54.20**
S.D.	**16.47**	**16.28**	**8.15**
C.V.%	**10.81**	**14.21**	**15.04**

(Source: Financial Reports of SCBNL, NABIL & NIBL)

Table 4.19 showed the trend of EPS of the selected sample banks. The EPS of SCBNL fluctuated during the five year periods. The EPS ranged from Rs. 143.14 in the fiscal year 2009/10 to Rs. 175.84 in the fiscal year 2010/11. In average, SCBNL earned Rs. 152.36 per share. Also, the C.V. of 10.81% on the EPS indicated uniformity in the EPS.

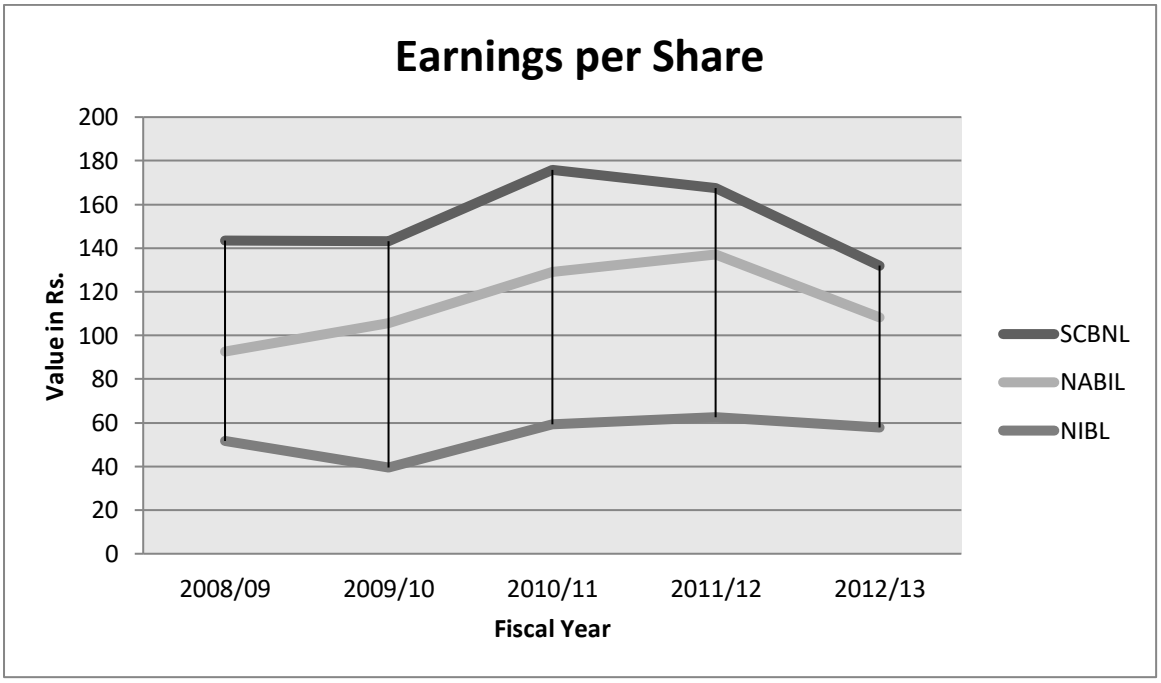
Likewise, the EPS of NABIL increased for the first four years, i.e. Rs.92.61, Rs. 105.49, Rs.129.21 and Rs. 137.08 in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. Finally, the EPS of NABIL decreased to Rs. 108.31 in the fiscal year 2012/13. However, in average NABIL earned Rs. 115.54 per share and the C.V. on such EPS was 14.21%.

Eventually, the EPS of NIBL was found to be in fluctuating trend, i.e. Rs. 51.70, Rs.39.50, Rs.59.35, Rs.62.57 and Rs. 57.87 in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. In average, NIBL earned Rs. 54.20 per share and the coefficient of variation on such EPS was 15.04% which indicated quite uniformity on EPS.

Comparing five banks on the basis of EPS, it can be concluded that SCBNL is the highest profit earning bank than others and the uniformity on the EPS is also greatest in SCBNL compared to that others.

Figure: 4.19

Earnings per Share



4.1.5.3 Dividend per Share

The net profit after taxes belongs to shareholders. But the income, which they really receive, is the amount of earnings distributed as dividends. The dividend per share presented includes both cash dividend percentage paid per par value of share and the bonus share dividend percentage per par value of unit share.

Table: 4.20

Dividend per Share

Banks	**Fiscal Year**					**Mean**	**S.D.**	**C.V.**
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**			
SCBNL								
CD	110	120	130	80	80	104	20.59	19.80
BSD	0	0	10	50	50	22	23.15	105.23
TD	**110**	**120**	**140**	**130**	**130**	**126**	**10.20**	**8.09**

NABIL								
CD	65	70	85	100	60	76	14.63	19.25
BSD	0	0	0	40	40	16	19.60	122.47
TD	**65**	**70**	**85**	**140**	**100**	**92**	**26.94**	**29.29**
NIBL								
CD	15	12.50	20	5	7.50	12	5.34	44.49
BSD	0	0	35.46	25	33.33	18.76	15.71	83.75
TD	**15**	**12.50**	**55.46**	**30**	**40.83**	**30.76**	**16.09**	**52.30**

The table 4.20 depicted the dividend pattern of the sampled banks. The table showed that SCBNL distributed 110%, 120%, 130%, 80% and 80% of par value as cash dividend in fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. Also, the bank distributed bonus share dividend per unit share holding, which was 10%, 50% and 50% of face value in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. In average, SCBNL disbursed 126% of face value per share as dividend; 104% of face value as cash dividend and 22% of face value as bonus share dividend. The coefficient of variation of 8.09% also indicated higher consistency in the dividend policy.

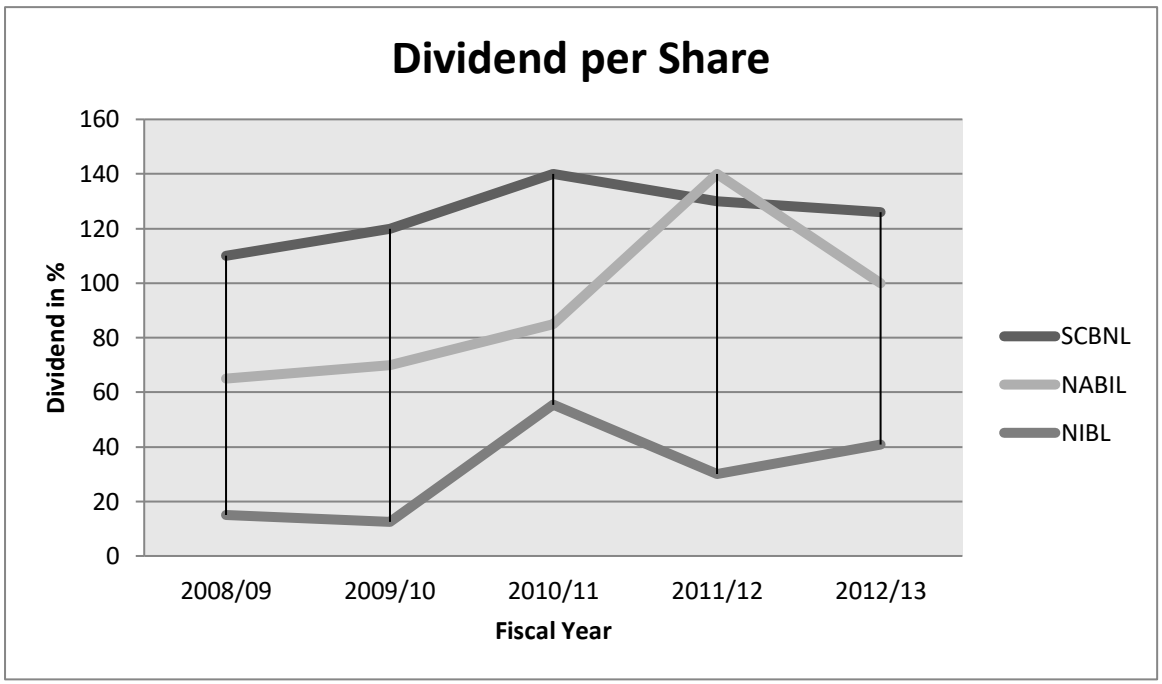
Similarly, the cash dividend paid by NABIL was 65%, 70%, 85%, 100% and 60% of he face value in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. NABIL disbursed bonus share dividend of 40% of the face value in fiscal year 2010/11 and 2011/12. In average, NABIL paid 92% f the face value per share as dividend, viz, 76% per share as cash dividend and 16% per share as bonus share dividend. Also, the coefficient of variation on dividend payment was 29.29% indicating inconsistency.

Likewise, NIBL paid 15%, 12.50%, 20%, 5% and 7.50% of face value as cash dividend in the fiscal year 2008/09, 2009/10, 2010/11, 2011/12 and 2012/13 respectively. Also the bonus share dividend of 35.46%, 25% and 33.33% of face value was disbursed in the fiscal year 2008/09, 2009/10 and 2012/13 respectively. In average, NIBL paid 30.76% of face value as dividend, viz, 12% of face value as cash dividend and 18.76% of face value as bonus share dividend. The coefficient of variation of 52.30% indicated higher irregularity in the payment of dividend.

On the basis of DPS, it can be concluded that SCBNL remained more success to retain its existing shareholders and to allure the potential shareholders toward it, by distributing highest amount of dividend per share than NABIL and NIBL.

Figure: 4.20

Dividend per Share



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4.1.5.4 Dividend Payout Ratio

Dividend payout ratio indicates the percentage amount of dividend paid to shareholders out of earning per share. Banks distribute the earning to shareholders in terms of dividend but they don't pay in the full value. They will retain some earnings in-order to expand the business. Higher dividend payout ratio indicates higher cash dividend to shareholders.

Table: 4.21

Dividend Payout Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2008/09	76.63	70.19	29.01
2009/10	83.83	66.36	31.65
2010/11	79.62	65.78	93.45
2011/12	77.67	102.13	47.95
2012/13	98.54	92.33	70.55
Mean	**83.26**	**79.36**	**54.52**
S.D.	**8.03**	**14.99**	**24.45**
C.V.%	**9.64**	**18.89**	**44.85**

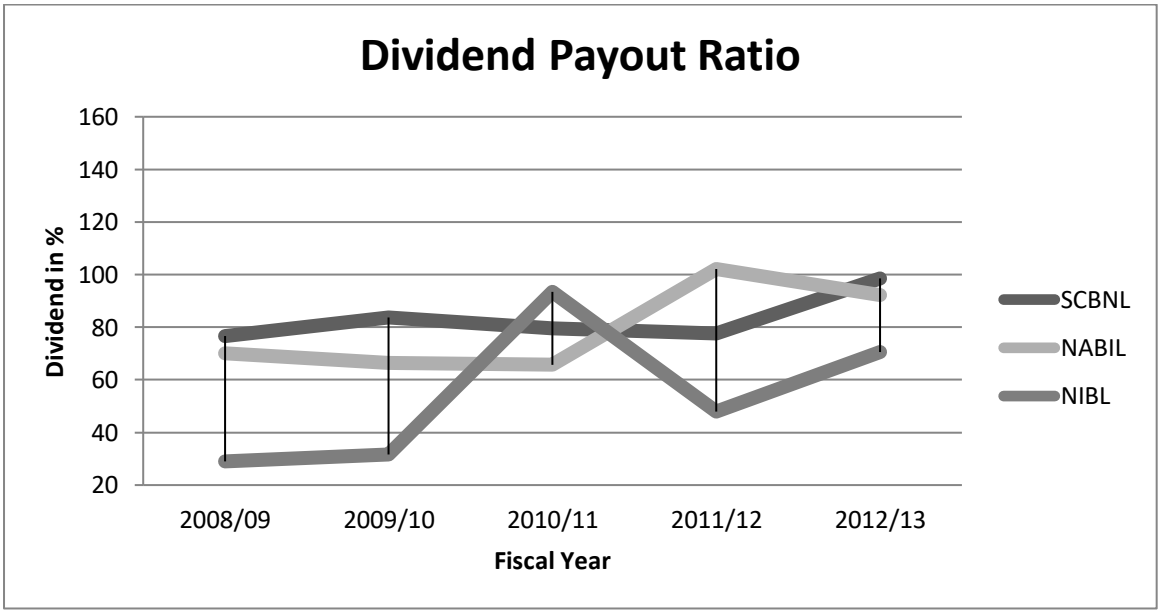
The table 4.21 showed the dividend payout ratio of the sampled banks, SCBNL, NABIL and NIBL. The table showed that the dividend payout ratio of SCBNL in the five consecutive years were 76.63%, 83.83%, 79.62, 77.67% and 98.54% respectively. Similarly, the dividend payout ratio NABIL ranged from 65.78% in the fiscal year 2010/11 to 102.13% in the fiscal year 2011/12. Also, the dividend payout ratio of NIBL ranged from 29.01% in the fiscal year 2008/09 to 93.45% in the fiscal year 2010/11.

In average, SCBNL, NABIL and NIBL distributed 83.26%, 79.36% and 54.52% respectively of the total earnings as dividend to the shareholders of the corresponding banks. Besides these, the coefficient of variations on dividend payout ratio of SCBNL was 9.64%, NABIL was 18.89% and NIBL was 44.85%.

Although NABIL distributed 102.13% of earnings as dividend in the fiscal year 2008/09 the dividend payout ratio of SCBNL is considered best since the average dividend payout ratio of SCBNL is highest compared to that of other banks. Hence, it can be considered that the shareholders of SCBNL were more satisfied than those of other banks, as SCBNL's shareholders got more percentage of EPS in the form of dividend. Also, on the basis of highest dividend payout ratio, it can be considered that SCBNL is most matured bank than others. In addition, the lowest C.V. of 9.64% of SCBNL indicated that SCBNL has best benchmark and uniformity on dividend payout ratio.

Figure: 4.21

Dividend Payout Ratio



4.2 Primary Data Analysis

On the second part of the data analysis, the primary data has been analyzed to find out the true picture of the financial strength and problems of banking sector. The primary data has been collected by requesting to fill out the questionnaire to the staff of sampled banks. Five staffs of each bank have been chosen for opinion survey.

4.2.1 Problem related to Finance

To know the existing problems that the banks are facing on while financing the assets, the respondents were asked to opine their view. The opinions obtained from them are presented in the table 4.22.

Table: 4.22

Problems related to Finance

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Reserve Ratio	3	4	2	9	60
Security	2	1	3	6	40
Total	**5**	**5**	**5**	**15**	**100**

(Source: Field Survey, 2014**)**

The table 4.22 depicted that 3 out of 5 respondents of SCBNL, 4 out of 5 of NABIL respondents that the reserve ratio is the major problem while financing. Whereas, the majority of the NIBL bank's respondents stated that the security of the principal amount is the major problem in financing. Overlooking the overall, responses, the majority of the total respondents, 9 out of 15, i.e. 60% of the respondents revealed the fact that reserve ratios are the major problems in financing.

4.2.2 Effect of NRB's regulation for Bank

To know whether the NRB's regulations are really favorable for the operation of banks, the respondents were asked on this regard. The responses obtained from them are presented in the table below.

Table: 4.23

NRB's Regulation for the Bank

Responses	SCBNL	NABIL	NIBL	Total
				%
Yes	4	5	3	12
No	1	0	2	3
Total	**5**	**5**	**5**	**15**

(Source: Field Survey, 2014**)**

The table 4.23 shows that the majority of each bank 4 out of 5 respondents of SCBNL, 5 out of 5 respondents of NABIL and 3 out of 5 respondents of NIBL stated that the NRB regulations are favorable for their respective banks. Similarly, the majority of the total respondents, 12 out of 15, i.e. 80% of the respondents said that the NRB regulations are favorable. Hence, on the basis of majority, it can be considered that the NRB regulations are favorable.

4.2.3 Reserve Rate on Current and Saving Deposits

As per the NRB rules, each bank has to keep 7% of the current and savings deposit on NRB as reserve. Thus, to know the extent of satisfaction of banker on this policy, the responses were asked to express their view. The responses obtained from them are presented in the table 4.24.

Table: 4.24

Reserve Rate on Current and Savings Deposits

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Less than 7%	1	2	3	6	40
Exactly 7%	3	3	2	8	53
More than 7%	1	0	0	1	7
Total	**5**	**5**	**5**	**15**	**100**

(Source: Field Survey, 2014**)**

the table 4.24 showed that the majority of SCBNL, 3 out of 5, and NABIL 3 out of 5, are in the view that the current reserve rate, i.e. 7% on current and saving deposits is appropriate for the bank to prevent from turning bankrupt. While, the majority of NIBL 3 out of 5 said that the reserve ratio should be less than 7%. Gazing the overall

responses 53% of the respondents are in the view that the reserve rate should be exactly 7%, 40% of the respondents are in the view that the rate should be less than 7% and 7% of the respondents said that the rate should be more than 7%. Hence, it can be concluded that the existing rate of 7% is appropriate on the basis of overall majority.

4.2.4 Reserve Rate on Fixed Deposits

As per the NRB rules, each bank has to keep 4.5% of the total fixed deposit as reserve in NRB to protect the depositors' amount. To examine the appropriate rate that the bankers feel, the responses were asked to express their views. The opinions obtained from them are delineated in the table 4.25.

Table: 4.25

Reserve Rate on Fixed Deposits

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Less than 4.5%	2	3	3	8	53
Exactly 4.5%	3	2	1	6	40
More than 4.5%	0	0	1	1	7
Total	**5**	**5**	**5**	**15**	**100**

(Source: Field Survey, 2014**)**

The table 4.25 showed that 53% of the respondents, 8 out of 15, stated that the reserve rate on fixed deposits should be less than 4.5%, 40% of the respondents, 6 out of 15, opined that the rate should be exactly 4.5% of the fixed deposit and 7% of the respondents, 1 out of 15, affirmed that the reserve rate should be more than 4.5% of the fixed deposit. Except SCBNL, the majority of the respondents of each NABIL and NIBL strongly supported that the ratio should be less than 4.5%. Hence, considering the overall majority, it can be concluded that it would be better if the reserve rate was less than 4.5%.

4.2.5 Cash Vault on Total Deposit

To know what the bank thinks on about the cash vault of 2% on total deposit that is to keep on the respective bank as per the rules of NRB, the respondents were asked on this regard. The responses obtained from the questionnaire are presented in the table 4.26.

Table: 4.26

Cash Vault on Total Deposits

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Less than 2%	1	0	1	2	13
Exactly 2%	3	3	2	8	53
More than 2%	1	2	2	5	
Total	**5**	**5**	**5**	**15**	**100**

(Source: Field Survey, 2014**)**

The table 4.26 demonstrated that the 53% of the respondents, 8 out of 15 opined that the cash vault should be exactly 2% of the total deposit. Similarly, 34% of the respondents, 5 out of 15, said that the cash vault should be more than 2% and 13% of the respondents, 2 out of 15 stated that cash vault should be less than 2% of the total deposit. Hence, on the basis of majority, it can be considered that the existing 2% cash vault on total deposit is appropriate to prevent bank from turning into bankrupt.

4.2.6 New Sectors of Investments

To investigate what could be the new sectors of investment for the bank to maximize the profit, the respondents were given the options and requested to choose the best. The opinions obtained from them are presented in the table 4.27.

Table: 4.27

New Sectors of Investment

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Corporate Bonds	3	1	1	4	27
Real State	3	4	3	10	67
Derivative Securities	0	0	1	1	6
Total	**5**	**5**	**5**	**15**	**100**

(Source: Field Survey, 2014**)**

The table 4.27 reveals that 67% of the respondents, 10 out of 15 are in the opinion that real assets can be the new sectors of investment for bank. Similarly, 27% of the

respondents, 4 out of 15 said that investment in corporate bond can be the new sector for the investment. Likewise, 6% of the respondents, 1 out of 15, said that derivative securities can be the new sector for investment. Hence on the basis of majority, it can be concluded that the real assets business is the most appropriate new sector of investment.

4.2.7 Secured Investment Sector

The bank invests in various sectors to make profit. To know the most secured sector of investment that the bank thinks, the respondents were asked on this regard. The opinions achieved from them through questionnaire are presented in the table 4.28.

Table: 4.28

Secured Investment Sector

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Share and Debenture	0	1	0	1	7
Loans & Advances	1	1	0	2	13
Govt. Securities	4	3	5	12	80
Total	**5**	**5**	**5**	**15**	**100**

(Source: Field Survey, 2014**)**

The table 4.28 reveals that the majority of each bank, 4 out of 5 respondents of SCBNL, 3 out of 5 respondents of NABIL and 5 out of 5 respondents of NIBL opined that govt. security is the most secured investment sector. Thus, 80% of the respondents 12 out of 15 stated that government securities is the most secured investment sector, 13% of the respondents, 2 out of 15, affirmed that loans and advances is the most secured investment and 7% of the respondents, 1 out of 15 said that share and debenture is the most secured sector. Hence, it can be concluded that government securities is the most secured investment.

4.2.8 Programs to Increase Business Volume

The intention of each bank is to increase its business volume. So, to examine the special programs that the bank thinks is the best to increase the business volume the respondents were asked on this regard.

Table: 4.29

Programs to Increase Business Volume

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Launch New Service	1	1	0	2	13
Higher Interest Rate on Deposit	3	2	4	9	60
Quest New Sector for Investment	1	2	1	4	27
Total	**5**	**5**	**5**	**15**	**100**

(Source: Field Survey, 2014**)**

The table 4.29 reveals that 60% of the respondents out of 15 stated that by increasing the interest rate on deposit, the volume of the business can be extended. Similarly, 27% of the respondents, 4 out of 15, opined that the banks should quest new sector for investment to increase the volume of business. However, 13% of the respondents, 2 out of 15 said that by launching new service and offering new facilities to the customer, the volume of business can be increased. Overlooking the majority, it can be considered the volume of business can be extended if the bank offers higher interest rate to its depositors.

4.2.9 Present Problems of Bank

To examine the present problems of bank, the respondents were given a set of objectives answers and asked to choose the best. The responses obtained from them on the present problems are presented are presented in the table 4.30.

Table: 4.30

Present Problems of Bank

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Unclear Government Rules & Regulation	2	1	3	6	40
Financial Problem	0	0	0	0	0
Human Resource Problem	1	1	0	2	13
Banking Policy of NRB	2	3	2	7	47
Total	**5**	**5**	**5**	**15**	**100**

(Source: Field Survey, 2014**)**

The table 4.30 depicts that 47% of the respondents, 7 out of 15, are in the view that the rigid banking policy of NRB is the present problems of banking industry. Similarly, 40% of the respondents 6 out of 15 stated that unclear govt. rules and regulation is the problems of the bank. While, 13% of the respondents, 2 out of 15, said that human resource I s the major problem of bank, whereas, non e of the respondents stated financial problem. Thus, on the basis of majority, it can be considered that rigid banking policy of NRB is the major problems of banks.

4.2.10 Financial Strength

To investigate what factor truly represents the financial strength of the bank, the respondents were given a set of objective answer and asked to express their degree of agreement by filling 'SA' for strongly agree and 'A' for agree and 'IND' for remaining indifference, 'DA' for disagree and 'SD' for strongly disagree.

Table: 4.31

Financial Strength of SCBNL

Responses	SA	A	IND	DA	SD
Earning Rate	2	3	0	0	0
Operating Leverage	1	1	0	2	1
Firm Size	0	2	0	2	1
Interest Rate	1	3	0	0	1
Flexibility	0	1	1	3	0
Control	1	2	0	2	0
Growth Opportunity	2	1	0	1	1
Debt Service Capacity	0	1	0	2	2
Market Condition	2	2	0	1	0
Dividend Payout	3	2	0	0	0
Goodwill	2	3	0	0	0

(Source: Field Survey, 2014**)**

The table 4.31 depicts that earning rate, interest rate, control, growth opportunities, market condition, dividend payout scheme and goodwill are representative of the financial strength of SCBNL, as the total agreed responses are greater than the total disagreed responses. While operating leverage, firm size, flexibility and debt service capacity are not the true representatives of the financial strength of the bank.

Looking each category, cent percent of the respondents (2 strongly agreed and 3 agreed) pointed earning rate represent the financial strength. Similarly, 4 out of 5 (1 strongly agreed and 3 agreed), 3 out of 5 (1 strongly agreed and 1 agreed), 3 out of 5 (2 strongly agreed and 1 agreed), 4 out of 5 (2 strongly agreed and 2 agreed), 5 out of 5 (3 strongly agreed and 2 agreed) and 5 out of 5 (2 strongly agreed and 3 agreed) stated that interest rate, control, opportunities, market condition, dividend payout ratio and goodwill respectively represents the financial strength of SCBNL.

Table: 4.32

Financial Strength of NABIL

Responses	SA	A	IND	DA	SD
Earning Rate	3	1	1	0	0
Operating Leverage	0	1	1	2	1
Firm Size	1	2	1	1	0
Interest Rate	1	2	0	1	1
Flexibility	0	1	0	2	2
Control	2	2	0	0	1
Growth Opportunity	1	3	0	1	0
Debt Service Capacity	1	1	1	2	0
Market Condition	1	4	0	0	0
Dividend Payout	1	4	0	0	0
Goodwill	1	3	0	1	0

(Source: Field Survey, 2014**)**

Similarly, the table 4.32 shows that earning rate, firm size, interest rate, control, growth opportunities, market condition, dividend payout ratio and goodwill are representative of the financial strength of NABIL, as the total number of agreed responses in each of the before mentioned variables is greater than the total number of disagreed responses. However, the table, shows that operating leverage, flexibility, debt service capacity do not truly represent the financial strength of NABIL.

Viewing each agreed indicator, 4 out of 5 respondents (3 strongly agreed and 1 agreed) stated that the earning rate is the true indicator of financial strength. Likewise, 3 out of 5 (1 strongly agreed and 2 agreed), 3 out of 5 (1 strongly agreed and 2 agreed), 4 out of 5 (2 strongly agreed and 2 agreed), 4 out of 5 (1 strongly

agreed and 3 agreed), 5 out of 5 (1 strongly agreed and 4 agreed), 5 out of 5 (1 strongly agreed and 4 agreed) and 4 out of 5 (1 strongly agreed and 2 agreed) stated that firm size, interest rate, control, growth opportunities, market condition dividend payout ratio and goodwill respectively represent the financial strength of NABIL.

Table: 4.33

Financial Strength of NIBL

Responses	SA	A	IND	DA	SD
Operating Leverage	0	1	2	1	1
Firm Size	1	2	0	1	1
Interest Rate	2	1	0	1	1
Flexibility	2	1	0	0	2
Control	1	2	0	2	0
Growth Opportunity	1	1	0	2	1
Debt Service Capacity	0	1	0	3	1
Market Condition	1	3	0	1	0
Dividend Payout	2	3	0	0	0
Goodwill	2	3	0	0	0

(Source: Field Survey, 2014**)**

Finally the respondents of NIBL stated that that earning rate, firm size, interest rate, control, growth opportunities, market condition, dividend payout ratio and goodwill are representative of the financial strength of NIBL. While the respondents balked with the other variables to be the financial strength and hence the other indicators, viz, operating leverage, growth opportunities, debt service capacity are not the true financial strength of NIBL.

Viewing each agreed indicator, 4 out of 5 respondents (1 strongly agreed and 3 agreed) stated that the earning rate is the true indicator of financial strength. Likewise, 3 out of 5 (1 strongly agreed and 2 agreed), 3 out of 5 (2 strongly agreed and 1 agreed), 3 out of 5 (1 strongly agreed and 2 agreed), 4 out of 5 (1 strongly agreed and 3 agreed), 5 out of 5 (1 strongly agreed and 4 agreed), 5 out of 5 (1 strongly agreed and 4 agreed) and 4 out of 5 (1 strongly agreed and 2 agreed) stated that firm size, interest rate, control, growth opportunities, market condition dividend payout ratio and goodwill respectively represent the financial strength of NIBL.

4.3 Major Findings of the Study

From the data analysis, the following major findings have been drawn;

Findings from Secondary Data Analysis

- The current ratio showed that SCBNL, NABIL and NIBL maintained 1.07:1, 1.07:1 and 1.09:1 as current ratio and hence none of the banks met the benchmark of 2:1 thus indicating poor liquidity.
- SCBNL, NABIL and NIBL maintained 7.18%, 5.67% and 10.65% of the total deposit as cash and bank balance respectively and thus cross the benchmark of keeping the benchmark of keeping 2% of the deposit as cash vault set by NRB
- 9.48% of the total deposit of SCBNL was covered by fixed deposit. Similarly, 18.44% and 24.96% of the total deposit of NABIL and NIBL was occupied by fixed deposit respectively.
- Similarly, 62.57%, 44.23% and 43.14% of the total deposit was dominated by the saving deposit of SCBNL, NABIL and NIBL respectively. Hence, the liquidity position of NIBL was best than SCBNL and NABIL
- SCBNL paid 1.39% of the total deposit as interest expenses and NABIL and NIBL paid 1.93% and 2.54% of the total deposit as interest expenses.
- NIBL was most successful in mobilizing the total deposit in loans and advances. SCBNL, NABIL and NIBL utilized 41.15%, 68.11% and 71.82% of the total deposit in loans and advances respectively.
- The loans and advances to fixed deposit ratio SCBNL, NABIL and NIBL were 4.51 times, 3.66 times and 2.94 times respectively. Hence, SCBNL was most successful in utilizing the fixed assets in loans and advances. Likewise, 36.46%, 58.32% and 63.49% of the total assets of SCBNL, NABIL and NIBL were mobilized in disbursing loans and advances respectively.
- The total assets of NIBL was most risky than that of NABIL and SCBNL. SCBNL, NABIL and NIBL used 13.23 times, 11.39 times and 14.20 times more debt finance than the equity finance respectively. Likewise 92.94%, 91.78% and 93.36% of the total assets of SCBNL, NABIL and NIBL were financed through debt capital respectively.
- The capital base of SCBNL was strongest than that of NABIL and NIBL. SCBNL, NABIL and NIBL kept 15.25%, 12.29% and 11.64% as capital adequacy ratio respectively.

- The net worth to total assets ratio indicated that NABIL was most successful in mobilizing the net worth to finance total assets. The ratio was 7.06%, 8.21% and 6.63% in SCBNL, NABIL and NIBL.
- The net profit margin indicated that SCBNL was most profitable than NABIL and NIBL. The net profit margin of SCBNL, NABIL and NIBL were 34.90%, 32.68% and 22.27% respectively.
- SCBNL was most successful to efficiently utilize the net worth in generating net profit. The return on net worth of SCBNL, NABIL and NIBL were 34.95%, 31.88% and 23.60% respectively. Similarly, the return on total assets of SCBNL, NABIL and NIBL were 2.43%, 2.62% and 1.57% respectively. And the return on total deposit of the same banks was 2.75%, 3.06% and 1.77% respectively.
- NABIL bank remained most successful in efficiently utilizing the total assets in generating interest income. The interest earned to total assets of SCBNL, NABIL and NIBL were 4.72%, 5.85% and 2.40% respectively. Likewise, the interest paid to interest income ratio of SCBNL, NABIL and NIBL were 26.97%, 30.33% and 42.98% respectively.
- The average EPS of SCBNL, NABIL and NIBL for the five years period was Rs.152.36, Rs.114.54 and Rs. 54.20 respectively. Similarly, the DPS was 126%, 92% and 30.76% of face value and DPR were 83.26%, 79.36% and 54.52% of SCBNL, NABIL and NIBL.

Findings from Primary Data Analysis

- On financing the assets from majority of the total responds 9 out of 15, i.e. 60% of the respondents revealed the fact that reserve ratio is the major problem in financing the assets rather than security.
- The majority of total respondents 12 out of 15 that is 80% of the respondents said that the NRB regulations are favorable.
- Gazing responses of SCBNL, NABIL and NIBL it can be concluded that the existing rate of 7% is appropriate on the basis of overall majority.
- Except SCBNL the majority of responds of each NIBL and NABIL strongly supported that the reserve rate on fixed deposits should be less than 4.5%.
- On the basis of majority it is considered that the existing 2% cash vault on total deposit is appropriate to prevent bank from turning into bankrupt.

Chapter-V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

A bank is an institution which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services. To the greater extent, economic growth rate is based on the banks and other financial institutions performance in an economy. Many researches' have revealed that banks that banks and economic condition are two wheels of the same chariot. Nowadays, banking activities are spreading all over the world. In the beginning of this thesis, there are 32 commercial banks operating in Nepal, licensed by NRB up to 2013. Besides some other development banks are in the process of their conversion into commercial banks and few other commercial banks are emerging too. This has led to the intense competition in the banking business. Only those banks, providing better services and having a greater profit margin would survive in long run.

The secondary objective of this study is to examine the financial performance of the sampled commercial banks on the basis liquidity, profitability, stability and market value. This analysis also helps to provide package of suggestions and possible guidelines to improve the banking operating in order to maximize the values of its shareholders based on the finding of the study.

The researcher has identified the research problem of the joint venture bank then the objectives are determined on the basis of research problem. Related literatures are reviewed on the bases of the purposive study. Then the data have been collected from the different available sources, i.e. primary and secondary sources. The analysis of data has different available data and the objectives of this study. The five years financial statements, covering from the fiscal year 2008/09 to 2012/13, have been examined for the purpose of the study. The analysis and interpretation of data has been done by applying the wide varieties of methodology as stated in earlier chapter.

The objective of the study also identified as to come up with conclusion of the financial performance of standard Chartered Bank Limited, Nepal Arab Bank Ltd. and Nepal Investment Bank Limited with regard to key financial variables based on finding of analysis. This will provide possible suggestions that will be beneficial for selected banks, SCBNL, NABIL and NIBL. Financial analysis is done to determine the selected bank's financial position in order to identify its current strengths and weaknesses and to suggest action that might enable the firm to take advantage of its strengths and correct its weaknesses. By using financial and statistical tools, the overall financial performance of the bank

has tried to analyze. Various ratios, statistical tools such as Mean, Standard Deviation, and Coefficient of Variation have revealed the financial condition of the bank over the last five years.

5.2 Conclusion

From the data analysis and the major findings drawn, it can be concluded that none of the selected bank has good liquidity position, as the current ratio of each bank in each fiscal year was comparatively lower than the benchmark 2:1. However, the current ratio of NIBL was highest comparing to that of SCBNL and NABIL. Similarly, it can be concluded that all the sampled banks are in the position to pay the debt as the cash and bank balance to total deposit ratio maintained by each was greater than the standard set out on cash vault, i.e. 2% of total deposit. Likewise, on the basis of fixed deposit to total deposit, and saving deposit to total deposit, it can be concluded that the liquidity position of NIBL was strongest than that of SCBNL and NIBL. Hence, in aggregate it is worthwhile to say that the liquidity position of NIBL is far much better than that of NABIL asd SCBNL.

Further, on the basis of interest expenses to total deposit ratio, it can be concluded that SCBNL was more efficient in controlling cost than others. Also, the loans and advances to total deposit ratio indicated that NABIL was most efficient in utilizing the deposit collected in disbursing loans and advances. However, SCBNL remained most successful in mobilizing the fixed deposit collection in loans and advances. In contrast, NIBL showed its efficiency in mobilizing the total assets in loans and advances.

Besides these, on the basis of debt-equity and debt assets ratio, it can be concluded that the total assets of NIBL was most risky than that of SCBNL and NABIL, as NIBL financed highest proportion of the total through debt financing. Although the capital adequacy ratio of all the banks met the standard set by NRB, the capital base of SCBNL was strongest. In addition, NABIL was most successful to optimally utilize the net worth in financing the total assets.

Similarly, on the basis of analysis of profitability ratios, it can be concluded that the net profit margin and generating net profit from net worth of the shareholders of SCBNL was most praiseworthy. However, the capacity of generating return from optimally utilizing total assets and total deposits, and earning interest through mobilizing total assets of NABIL was superior to others.

Eventually, the miscellaneous ratios analyzed helps to conclude that SCBNL has highest control over the interest expenses as compared to the interest earned. Also, the capacity of making earning per share, the extent of satisfying shareholders through distributing highest amount of dividend, and the scheme of disbursing highest dividend payout ratio of SCBNL was highest compared to NABIL and NIBL.

The primary data analysis aids to conclude the outstanding loan of the sampled banks is in increasing trend and the reserve ratios creates problem in financing. However, the overall NRB regulations are favorable for the bank to operate and the reserve rate kept on current and savings deposits and in cash vault is appropriate. On the basis of the opinion of respondents, it can be concluded that the reserve rate kept on fixed deposit is higher than the expectations of the bankers. It can also be considered that the real asset is the alluring new sector of investment for the bank, while government securities are the secured existing investment sector. Further, the volume of business can be concluded that the earning rate, interest rate, control over activities, market condition, dividend payout ratio and goodwill truly reflect the financial strength of the bank.

5.3 Recommendations

After the analysis of financial performance of Standard Chartered Bank Limited, Nepal Arab Bank Limited and Nepal Investment Bank Limited and the conclusion drawn, the following recommendations are given to the banks to overcome weaknesses and inefficiency and improve the financial performance in better way.

- The current ratio of each sampled banks, SCBNL, NABIL and NIBL is below the benchmark, i.e. 2:1 which can create problem while paying the debt. Hence, it would be secured from bankruptcy, if all the sampled banks increase the existing ratio and meet the standard set out.
- Both SCBNL and NABIL should increase the utilization of fixed deposit amount while mobilizing loans and advances rather than keeping idle and thus more increase profit.
- It would be better if NABIL and NIBL recognize the unnecessary interest expenses on the total deposit and try to minimize such expenses to increase profit.
- Also, NABIL bank remained more successful in mobilizing the total deposit in disbursing loans and advances. Hence, it would be better if

SCBNL and NIBL also trace out the fruitful investment sector and try to increase the mobilization of deposit in disbursing loans and advances.

- NIBL has followed aggressive policy of financing the total assets through debt finance, which might be the cause of lower profit because of higher interest expenses. Hence, NIBL should decrease the ratio of debt financing and mobilize the internal financing to increase profit.
- Both SCBNL and NIBL should focus on optimally utilizing the total deposit and total assets to generate return. While, NABIL and NIBL should concentrate on generating return from utilizing net worth.
- The EPS, DPS and dividend payout ratio of SCBNL was highest than that of NABIL and NIBL. So, it is recommended that both NABIL and NIBL increase the EPS by tracing out the fruitful and secured sector of investment and thus, increase DPS and dividend payout ratio to retain the existing shareholders as well as to fascinate the potential shareholders.
- The capacity of flowing highest amount of loan is not shrewd if the bank remains unable to collect the principal in the same speed that the loan has been disbursed. So, it is recommended that all the sampled banks, NABIL, SCBNL and NIBL introduce the efficient loan collection policy to decrease the amount of outstanding loan.

Appendix-III

Questionnaire

1. What are the existing problems that the banks facing on while financing the assets?

   a. Reserve Ratio b. Security

2. Are the NRB's regulations really favorable for the operation of banks?

   a. Yes b. No

3. To what extent you are satisfied to keep of the current and saving deposits in NRB reserve?

   a. Less than 7%

   b. Exactly 7%

   c. More than 7%

4. What is your opinion regarding reserve rate 4.5% on fixed deposits in NRB?

   a. Less than 4.5%

   b. Exactly 4.5%

   c. More than 4.5%

5. What is your opinion about the cash vault of 2% on total deposit that is to keep on the respective banks as per the rules of NRB?

   a. Less than 2%

   b. Exactly 2%

   c. More than 2%

6. What would be the new sectors of investment for the banks to maximize the profit?

   a. Corporate Bonds

   b. Real Assets

   c. Derivative Securities

7. What are the most secured sectors of investment for the banks?
    a. Share and debentures
    b. Loan and advances
    c. Government Securities
8. What would the programs to increase business volume of the banks?
    a. Lunch new services
    b. Higher Interest Rate on Deposit
    c. Quest new Sector for Investment
9. What are the present problems of the banks in operating their activities?
    a. ……..
    b. …….
    c. …….
    d. …….
    e. …….

10. What are the factors truly represents the financial strength of the bank?

Responses	SA	A	IND	DA	SD
Earning Rate					
Operating Leverage					
Firm Size					
Interest Rate					
Flexibility					
Control					
Growth Opportunity					
Debt Service Capacity					
Market Condition					
Dividend Payout					

Goodwill					

Where,

SA = strongly Agree DA= for disagree

A = For Agree SD = for strongly Disagree

IND = indifference