

CHAPTER- I

INTRODUCTION

1.1 Background of The Study

Nepal is an underdeveloped country per capita income of US \$ 645 (Economic Survey, 2011), 25.16% people are below poverty line (Kathmandu Post 2011-10-21) and GDP is 6.7 % (ekantipur 8th July, 2011) Many features are therefore slow pace of the development such as land locked position, lack of vagaries and misuse of resources, poor economy policy and institutional weakness. Innovation, Deregulation and Globalization in banking sector have contributed to making banking business more complex and potentially riskier. The business world today is entirely different from the past. The social needs have increased tremendously in quantity and quality as well. To survive in this world, the establishment of business and expansion of business is essential and impossible if there is no sufficient fund. The type of finance needed by a firm largely depends up on the type of the enterprise and varies from one firm to another.

Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting them into productive channels commercial banks expand and appreciate the value of aggregate economic activity in the economy. It has been witnessed that the Nepalese economy has been passing through very difficult times over the decade. Agriculture and Non-agriculture production has remained constant so far over the decade after the restoration of democracy in Nepal. Foreign aid in the form of grants now has been turned into loans that have to be repaid within the stipulated time period with certain interest. As a result we see that debt payment is eating up the huge portion of annual budget of the government. It is the harsh reality that the development of economics conditions cannot be improved without the help of banking industry. After the implementation of the policy of privatization and economic liberalization policy by the government, it is seen that there is remarkable growth in the banking industry in Nepal. The financial system in Nepal has evolved from a narrow, repressed regime till the

eighties to a dynamic expanding sector in the nineties. This constitutional network and the volume of operations of financial system have expanded and diversified with the number of increased in commercial banks.

1.2 Concept of Banking

The banking system of Nepal has seen a drastic change for the better in almost every aspect. The face of the Nepalese banking sector has changed significantly from few government banks providing limited services, Nepalese banking sector has come a long way with large number of banks offering wide range of services. At present the Industry is witnessing a phase of intense competition; consumers have seen a quantum leap in the quality and variety of service offered by the commercial banks. Banks are institutions whose debts usually referred to as "bank deposits" are commonly accepted in final settlement of other people's debt. Bank is also defined as an institution, which accepts deposits from the public and in turn advances loan by creating credit. Banking system occupied an important place in nation's economy.

Bank is a financial institution, which plays a significant role, in the development of a country. "Banking institutions are inevitable for the resources mobilization and all round development of the country. It is resources for economic development; it maintains economic confidence of various segments and extends credit to people" (Ronald, 1993:87).

“The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy. The banking sector has now reached to most remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy” (Shrestha, 1993:32).

Various types of banking institutions are performing different functions. It is the organ of government that under takes the major financial operations and by other means influences the behavior of financial institutions so as to support the economic policy of the government. But in

modern times commercial banks are concentrated in their activities of fulfilling the financial needs of their customers.

1.2.1 Historical development of Banking System in Nepal

The history of banking in Nepal can be described as a component of gradual and economic sphere of the Nepalese life. Even the financial system is still in evolutionary phase. In the year 1994 B.S. the establishment of Nepal Bank Limited, with the Imperial Bank of India came into existence under "Nepal Bank Act 1993 B.S." as the first commercial bank of Nepal. Banking concept was also in existence even in ancient period when the goldsmiths and rich people used to issue receipt to common people against the promise to safe keeping their valuable items.

"Banking concept existed even in the ancient period when the goldsmiths and the rich people used to issue the common people against the provides of safe keeping of their valuable items on the presentation of the receipt; the depositors would get bank their gold and valuables of the paying a small amount of safe keeping and saving" (Samuelson, 1973:27).

The establishment of Nepal Rastry Bank, the central bank of Nepal in 2013 B.S. under the Nepal Rastra Bank Act 2012 was a significant dimension in the development of the banking sector. The second commercial bank, the Rastriya Bankjya Bank was established in the public sector in 1966 with the equity participation of HMG/N and the NRB under the Rastriya Banijya Bank Act 1967. Large numbers of non-banking financial institutes were set up between 1962 to 1977 such as the employ provident fund 1962, National Insurance Company 1967, Credit Guarantee Corporation in 1974 and Securities Market Centers in 1977. Nepalese government since mid 1980 allowed foreign banks of joint venture basis to operate in the country on the approval of Nepal Rastra Bank. As result, Nepal Investment Bank Ltd (Nepal Indo-Suez Bank Ltd.), NABIL Bank Ltd. (Nepal Arab Bank Limited), Standard Chartered Bank Nepal Limited (Nepal Grindlays Bank) and Everest Bank Limited were established in 2042, 2041, 2043 and 2051 B.S. respectively. Today there are more than 20 commercial banks operating in Nepal Financial Market. Now commercial banks are established under Nepal Rastra Bank Act 2058, Bank and Financial Institute Related Act 2063, and Company Act 2063. Along with the development of the country, bank and allied activities grew gradually. A bank and its activities have always played a

prominent role in the development of our country. Financial development of the country largely depends up on effective mobilization of its internal resources.

1.2.2 Concept of Commercial Banks

Financial intermediaries play significant role to the development of national economy. They influence savings and surpluses considerably, which results investments. Financial intermediaries collect financial resources and supply them to the productive sectors that boosts the trade and industry and at last development of the country's economy.

Commercial Banks are heart of financial system they hold the deposits of many person, government establishment business unit. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services for the producers to customers and the financial activities of the government. They provide the large portion of the medium of exchange and they are media through which monetary policy is affected. These facts show that the commercial banking system of nation is important to the functioning of the economy (Read/Cotler/Will/Smith, 1976:39).

Commercial banks are also financial intermediaries they mediate people who save money and who want to secure the use of money by accepting the deposits, burrowing funds and advancing loans. In addition to these primary functions, commercial banks, collect checks and bills, open later of the credit, guarantee on behalf of customers, undertake capital and other many activities, exchange foreign currencies etc.

List of Commercial Banks in Nepal

S.No.	Name of Bank	Operation Date (B.S.)	Head Office
1	Nepal Bank Limited	1994/7/30	Dharmapath, Kathmandu
2	Rastriya Banijya Bank Limited	2022/10/10	Singadarbar, Kathmandu
3	Agriculture Development Bank Limited	2024/10/7	Ramsahapath, Kathmandu
4	NABIL Bank Limited	2041/3/29	Kantipath, Kathmandu
5	Nepal Investment Bank Limited	2042/11/26	Durbarmarg, Kathmandu
6	Standard Chartered Bank Nepal Limited	2043/10/16	Nayabaneshwor, Kathmandu
7	Himalayan Bank Limited	2049/10/5	Thamel, Kathmandu
8	Nepal S.B.I. Bank Limited	2050/3/23	Hattisar, Kathmandu
9	Nepal Bangladesh Bank Limited	2051/2/23	Nayabaneshwor, Kathmandu
10	Everest Bank Limited	2051/7/1	Lazimpat, Kathmandu
11	Bank of Kathmandu Limited	2051/11/28	Kamaladi, Kathmandu
12	Nepal Credit and Commerce Bank Limited	2053/6/28	Siddharthanagar, Rupandehi
13	Lumbini Bank Limited	2055/4/1	Narayangadh, Chitwan
14	Nepal Industrial and Commercial Bank Limited	2055/4/5	Biratnagar, Morang
15	Machhapuchhre Bank Limited	2057/6/17	Prithivichowk, Pokhara
16	Kumari Bank Limited	2057/12/21	Putalisadak, Kathmandu
17	Laxmi Bank Limited	2058/12/21	Aadarshanagar, Birgunj
18	Siddhartha Bank Limited	2059/9/9	Kamladi, Kathmandu
19	Global Bank Limited	2063/9/18	Aadarshanagar, Birgunj
20	Citizens Bank International Limited	2061/1/7	Kamladi, Kathmandu
21	Prime Commercial Bank Limited	2064/6/7	New Road, Kathmandu
22	Sunrise Bank Limited	2064/6/25	Gairidhara, Kathmandu
23	Bank of Asia Nepal Limited	2064/6/25	Tripureshwor, Kathmandu
24	Development Credit Bank Limited	2 057/10/10	Kamladi, Kathmandu
25	N. M. B. Bank Limited	2053/9/11	Babarmahal, Kathmandu
26	N.I.C. Bank	2055/5/11	Kamaladi sadak Kathmandu
27	Kist Bank Ltd.	2060/2/15	Anamnagar, Kathmandu
28	Janata Bank Nepal Ltd.	2060/1/25	Sanklhamu New Baneshwar
29	Comerze & Trust Bank Nepal Ltd.	2060/2/15	Tindhararoad, Kamaladi, Kathmandu
30	Civil Bank Ltd.	2061/5/23	Tindhararoad, Kamalad
31	Century Comercial Bank Ltd.	2065/2/15	Putalisadak, Kathmandu

Source: NRB Publication 2011

Now in this time there are 31 commercial banks are operated in Nepalese market. the first bank had been Nepal bank limited which was opened in 1994 and the last one is Century commercial bank which was opened in 2065 howeverer, the number of commercial banks are grew significiently. if the number will be grow as this ratio in few years the commercial banks reached to the peak and it maked the fickkle. On the other hand, commercial banks branches are only in citys area if commercial banks are applied urban banking policy or branches will be opened on urban area banks are collected huge amount of deposit i think it is more than cities area.

1.3 Profile of Commercial Banks Under Study

A. NABIL Bank Limited:

NABIL Bank Ltd. is the first joint venture commercial bank in Nepal which has in corporate in Ashadh 29, 2041(1984 A.D.) Dubai Bank Ltd., was the initial foreign joint venture partner with 50% equity investment. The share owned Dubai Bank Ltd, were transferred to Emanates Bank International Ltd. (EBIL) Dubai by virtue of its annexation with the later on EBIL Dubai sold its entire 50% equity to national Bank Ltd. NABIL Bank has been providing banking services through altogether 49 branches.

Share subscription and capital structure:

Subscription	% Holding
NB (International) Limited	50%
Nepal Industrial Development Corporation	6.15%
Rastriya Beema Sansthan	9.67%
Nepal Stock Exchange	0.33%
General Public	30%
Others	3.85%

Authorized capital: Rs. 1,60,00,00,000

Issued capital: Rs 1,44,91,24,000

Paid up capital: Rs. 1,44,91,24,000

B. Kumari Bank Limited:

Kumari Bank Limited came into existence as the fifteen commercial bank of Nepal by starting its banking operations from chaitra 21, 2057 B.S. (April 03, 2001) with an objectives of providing

competitive and modern banking services in the Nepalese financial market. Kumari Bank Ltd has been providing wide range of modern banking services through 29 branches located in various urban and semi urban part of the country, 29 outside and 9 inside the vally. The bank has been providing E- Banking and SMS banking services.

Shares subscription and capital structure:

Subscription	% Holding
Nepalese Promoters	70%
General Public	30%

Share Capital of Kumari Bank Ltd.

Authorized capital: Rs. 16,00,000,000

Issued capital: Rs. 14,85,000,000

Paid up capital: Rs, 14,85,000,000

C. Himalayan Bank Limited

Himalayan Bank Limited was incorporated in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial banks of Pakistan. Banks operation was commenced from January 1993. It is the first commercial bank of Nepal with maximum share holding by Nepalese private sector. Himalayan bank provide their services through 36 branches to customers. Beside commercial activities, the Bank also offers industrial and merchant banking. The promoters and their shares holding patterns of Himalayan Bank Ltd are as follows:

Share subscription and capital structure

Subscription	% Holding
Nepali promoters	51%
Habib Bank of Pakistan	20%
Karmachari Sancha ya Kosh	14.66%
General Public	15.34%

Share Capital of Himalayan Bank Ltd.

Authorized capital: Rs. 30,00,000,000

Issued capital: Rs.16,00,000,000

Paid up capital: Rs.16,00,000,000

D. Everest Bank Limited:

Everest Bank Limited was established in Kartik 01, 2051 (1994 A.D.). It joined with Punjab National Bank in 1997. It has 27 branches across Nepal. Its Head office in Lazimpat. It has 8 branches inside the Kathmandu valley and 19 branches outside the Kathmandu valley. The bank is providing customer friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

Shares subscription and capital structure:

Subscription	% Holding
Nepalese promoters	50%
General Public	30%
Foreign partner PNB	20%

Authorized capital: Rs. 2,00,00,00,000

Issued capital: Rs. 1,28,14,06,500

Paid up capital: Rs. 1,27,96,09,490

1.4 Focus of the study

In Nepal many commercial and financial company have opened within few years of period. Basically, joint venture banks have given a new horizon to the financial sector of Nepal. They have achieved tremendous success in terms of market share and profitability due to their prompt service and professionalism. The research study is focused on assessing the financial condition and performance of Nepal Investment Bank Limited, NABIL Bank Limited, Kumari Bank Limited and Everest Bank Limited This study focuses on the financial performance and comparative analysis of four commercial banks. Brief profiles of these four banks are given above:

1.5 Statement of the Problem

Due to the economic recession in the nation, there has been lower investment in the agriculture, manufacturing, industrial and financial sectors which has caused lower growth of gross domestic product and hence foreign trade deficit is increasing day by day. In this situation, banks invest their surplus funds in the non-risky portfolios like treasury bills, or government securities, which

yield lower rate of returns in comparison to credit to be in safer side. The economic slowdown of expansion is occurred mainly because of elasticity of credit supply. The elasticity of credit supply basically depends on the functioning of the central banking system. Central bank has issued directives to regulate the activities of commercial banks with the objective of safeguarding the public sector. Despite of prevailing economic recession in the country, joint venture banks operating in Nepal have managed to perform well in terms of their work efficiency and profitability. Every banking sector cannot reach their objective without a good financial performance. The financial sector has not been responsive enough for them to meet the growing resources. In this competitive market each and every bank and financial institution need to analyze their financial situation to develop strategies and to identify the strengths and weaknesses.

In modern days, especially in Nepal, Banks are being considered not as dealers of money transaction but also dealers of investment in the country. Banks are the active players of money market and capital market as well. In fact, economic liberalization and privatization policy adopted by the government has open up the opportunity and threat as to the banking sectors.

As a result, we see a rapid growth in the numbers of commercial banks in the country and of course, the rapid increment in numbers of commercial banks in small country like Nepal has created tough and bottle neck competition among bankers.

Thus study will try to seek the answers of the following statements relating to commercial banks of Nepal.

- 1 How the banks have maintained their liquidity position?
- 2 How is it possible to utilize the funds of banks?
- 3 What is the possible way to increase the value for sustainability of banks?
- 4 What are the operational results to their profitability?
- 5 What is the relationship between total deposit and total investment over the year?
- 6 To what extent the operating profit or loss is related to interest earned or paid?

1.6 Objectives of the Study

The Primary objective of this study is to financial performance of commercial bank in Nepal namely NABIL Bank Limited, Kumari Bank Limited, Himalayan Bank Limited and Everest Bank Limited to recommended suggestion for the improvement of state of affairs.

The task of any financial institution is to mobilize the savings scattered in the country and by ensuring efficient allocation of these savings to high yielding investment it provides attractive returns to depositors in one hand and also help the economy be providing various kinds of loans to many sectors of economy. Some of other objectives are:

- a. To evaluate the liquidity position to measure the strength of financial performance of selected banks.
- b. To evaluate the activity and operation with reference to mobilization of the collected funds.
- c. To identify the relationship between total deposit and total investment.
- d. To evaluate the earning and profitability position of selected banks.
- e. To provide suggestions and recommendation to the concerned authorities for the further improvements.

1.7 Significance of the Study

Analysis of financial performance of any company is very important. Actually, on the basis of the financial analysis we can say that the concerned company is strong or not. This study is mainly compared the financial performance of selected banks which compare the position of selected bank under the study, which encourage to improve the different position and performance of the selected banks. From data presentation and analysis researcher finds different strength and weakness of the selective banks which is recommended to the banks for their further improvement. Banking Institutions definitely contribute and play an important role for domestic resource mobilization, economic development and maintains economic confidence of various segments and extends credit to people.

- a) This study has multidimensional significance in particular area of concerned banks which have been undertaken that justifies for finding out important points and facts to researcher, shareholders, brokers, traders, financial institution, and public knowledge.

- b) This study helps and justify for finding out the financial performance of concerned selected commercial banks and Government of Nepal to make plans and policies for improvement .
- c) This study certainly input the policymakers of concerned selected banks for making plans and policies of the effective banking system.

1.8 Limitations of the Study

Every works have its own restriction and limitation due to the lack of time resources and knowledge. The work is completed within the periphery of its limitation. Despite the enough efforts of researcher, this thesis is not free from limitation. The study is presented just for the partial fulfillment of M.B.S. (Master of Business Studies) degree. The researcher has come across many problems while presenting the thesis. Following are the major limitations of this thesis.

- a. This thesis is based on secondary data collected from concerned banks. Thus, the result of the analysis depends on the information provided by the concern offices.
- b. This thesis covers four commercial banks only viz. NABIL Bank Ltd., Kumari Bank Ltd, Himalayan Bank Ltd.. and Everest Bank Ltd. only.
- c. The thesis is limited to analyze five years period i.e. from FY i.e. (2006/07 to 2010/11).
- d. Standard normal performance level is not available especially in Nepalese context. So, interpretations of data are depended upon common sense. In thesis context concerned experts are also consulted.
- e. The source of data i.e. published annual report and internet web site is assumed to be correct.

1.9 Organizations of the Study

This study has been organized over altogether five chapters. Starting from Introduction, Review of Literature, Research methodology, Presentation & Analysis of data and summary, to conclusion & Recommendation as get of the entire study. A brief outline of this chapter has been outlined as under.

Chapter I: Introduction

First chapter contains the background of the study, focus of study, statement of problems, objectives of study, significant of the study, limitation of the study and Organization of study.

Chapter II: Review of Literature

Second chapter deals with review of available literature. It's including conceptual framework, reviews of books, articles and thesis, and research.

Chapter III: Research Methodology

Third chapter explains the research methodology used in the study which includes research design, sources of data, population and samples, and data analysis tools etc.

Chapter IV: Presentation and analysis of data

Forth chapter is the main part of the study which includes presentation and analysis of data using different financial and statistical tools.

Chapter V: Summery, Conclusions and Recommendation

Fifth chapter consist of the summery, conclusion of the study and recommendations.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature is an essential part of any research work. In this part, the researcher reviewed various books, articles and previous researchers, publications of related subjects. This chapter consists of three sections: conceptual review, review of previous research work and research gap.

2.1 Conceptual Review

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

2.1.1 Banking: An Introduction

The Lexis “Banking” is a derivative of terminology “Bank”. Bank itself is an organizational engaged in any or all the various functions of banking viz. receiving, collecting, transferring, paying, lending, investing, dealing exchanging and servicing (safe deposit, trusteeship, agency, custodianship) money and claims to money both domestically and internationally. This is a board concept under which different types of bank includes. There are several popular modalities of banking. It may differ country to country. Commercial banking is one of them. (NRB, Prashikshan; 2003;12). Banking and Financial Institutions are also the transmission channels of monetary policy, it is important for the effective monetary policy management to ensure that their financial health is sound and overall financial sector is stable.

2.1.2 Modern Banking in Nepal

Nepal Bank Ltd. is the first modern bank of Nepal. It is taken as the milestone of modern banking of the country. This was established in 1937 A.D. From the beginning, it has rendered the following services to the customers: -

Accept deposit.

Extend loan.

Render customer-related service i.e. issue of bill of exchange, hundies.

Invest in government bonds and securities.

Perform agency function.

Act as banker to the government.

Until mid 1940s, only metallic coins were used as medium of exchange. So the Government of Nepal felt the need of separate institution or body to issues national currencies and promote financial organization in the country. Hence, the NRB Act 1955 was formulated. Accordingly, Nepal Rastra Bank was established in 1956 A.D. as a central bank of Nepal. A sound banking system is important for smooth development of banking system. It can play a key role in the economy. It gathers saving from all over the country and provides liquidity for industry and trade (*Singh; 2062:13*). In 1957 A.D., Industrial Development Bank was established to promote the industrialization in Nepal, which was later converted into Nepal Industrial Development Corporation (NIDC) in 1959 A.D. Rastriya Banijya Bank was established in 1856 A.D., as the second commercial bank of Nepal. The financial shapes of these two commercial banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad position. As the agriculture is the basic occupation of major Nepalese, the development of this sector plays the prime role in the economy. So, separate Agricultural Development Bank was established in 1968 A.D. This is the first institution in agricultural financing. For more than two decades, no more banks have been established in the country. After declaring free economy and privatization policy, Government of Nepal encouraged the foreign banks for joint venture in Nepal; As a result, Nepal Arab Bank Ltd. (NABIL) was established in 2041 B.S. This is the first modern bank with latest banking technology. Then lots of commercial banks have been opened in the country. Nepal Indosuez Bank was established in 1985 A.D. as a private joint venture Bank. Nepal Grindlays Bank was established as a joint venture between ANZ Grindlays and Nepal Bank Ltd. This bank is now known as Standard Chartered Bank since July 2001. After the opening of Nepal Indosuez Bank and Nepal Grindlays Bank, Nepalese really saw modern banking. Himalayan Bank Ltd. is a joint venture with Habib Bank of Pakistan. It started its operation in 2049 with paid-up capital of Rs. 60 millions. Nepal SBI Bank Ltd. is a joint venture between Employees Provident Fund and State Bank of India, where Indian Banks holds 50% of the equity. The initial paid-up capital was Rs. 119.95 millions in 2050. Nepal Bangladesh Bank was established in 2050 B.S. in technical collaboration with IFIC Bank Ltd. of Bangladesh.

Everest Bank Ltd. started its operation in 2051 B.S. It entered into joint venture with Punjab National Bank of India (PNB). PNB holds 20% equity stakes in the banks. Bank of Kathmandu was established in a joint venture with Syan Bank of Thailand. Nepal Bank of Ceylon is a Joint venture with a leading bank of Sri Lanka. Lumbini Bank was established in the year 2055 B.S. in Narayangadh. This is the first regional Bank of Nepal. Nepal Industrial and Commercial Bank was established in 2055B.S. It does not have any joint venture yet. But it has employed senior managers from India to handle its operation. Machhapuchre Bank started its operation from 2056 B.S. with its head office in Kathmandu. This bank has introduced internet banking which is a Hi-Tech Banking system of the world. Lately, Laxmi Bank was established in 2058 B.S. Its head office is situated in Kathmandu. Finally now mega bank and century banks had opened in Nepalese market. Now there are 31 commercial banks in Nepal. Among them, some banks have been opened by private sector in joint venture with foreign banks. Other commercial banks later established in the country. These commercial banks have played a very significant role in creating banking habit among the people, widening area and serving business communities and the government in various ways.

2.1.3 The Banks Services Offered to the Public

Banks accept the deposits from unproductive sectors and canalize them in the productive sectors. This is the basic function of banks. By this, they earn profit as interest by advancing the funds as loan at the interest rate higher than its cost. As the same, banks used to be just an intermediary between the saving and users of fund. They used to collect deposit from savers and provide loans to the businessmen and others. Now, the services provided by bank have been expanded to many areas as human wants and the development of technology. (Singh; 2062:15) General commercial banks offer the following services to customers.

1) Accepting Deposit

The primary function of bank is to accept deposits from savers. Banks accept deposits from those who can save money, but cannot utilize them in profitable sectors. People consider it more rational to deposit their savings in a bank because, by doing so, they earn interest. At the same time, they avoid the danger of theft, because a bank guarantees the safe custody of deposits. This is oldest function of banks. The banker used to charge a commission for keeping the money in its custody at that time. To attract savings from all sorts' customers, the banks provide different

types of account facilities. Among them, major accounts are as follows:

Current Account: - Especially businessmen open the current account, which have to make a number of payments everyday. Money from these accounts can be withdrawn, as many times as desired by the depositors, there is no limit on the amount of cheque in this account. Generally, no interest is paid on this account. Rather, the depositors have to pay certain incidental charges such as interest on bank overdraft, remittance charge, guarantee charge etc. The main advantage of this account is safe custody of deposit and unlimited drawing facility to the account holders.

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

Saving Account: - Banks have provided saving account facility especially for general public, who have some saving out to their income and expenditure. The main objective of this account is to encourage and mobilize small savings of the public. Certain restrictions are imposed on the account holders regarding the number of withdrawals and the amount to be withdrawn in a given period. Cheque facility is provided to the depositors. Rate of interest paid on this account is low as compared to that of fixed account. Similarly, withdrawal facility is also restricted in some limit as compared to that of current account.

Home Saving Account: - Account holders are provided the facility to deposit their saving in their own homes in this account. For this purpose, safe boxes locked by banker, are supplied to all account holders to keep them at homes and to put their small savings in them. Periodically, the boxes are taken to the bank where the amount of safe box taken out and created to their accounts. This account is appropriate for those, who have very small savings and hesitate to come to bank to deposit them. Especially, children and housewives are targeted under this account. This account promotes saving habits among the people providing them home deposit facility. Banks provide some interest as well as safe custody on this deposit.

Recurring Deposit Account: - Account holders have to pay in the installment deposit regularly in recurring deposit account. Generally, money in these accounts is deposited in monthly installment for a fixed period and is repaid to the depository along with interest on maturity. The rate of interest on these deposits is nearly the same as on fixed deposits. The main purpose of this account is to encourage regular savings of general public. People, who have fixed income, are targeted to make saving habit by this account.

2) Advancing of Loans

Commercial Bank is a profit oriented business organization. So banks have to advance loans to public and generate interest from them as profit. After keeping certain cash reserves, banks provide short, medium and long-term loans to needy borrowers. For security, banks generally provide loan on mortgage. General, loans for individual are provided on the mortgage of gold, silver, fixed deposit, receipts, Treasury Bills, Development bonds etc. whereas business loans are advanced on the mortgage of negotiable instruments such as land, building, go-down etc.

Nowadays, banking business is also facing sharp competitions. So bankers, sometimes, provide loans without mortgage, too. Such loans are advanced on the basis of goodwill and relationship with the party. The loan proposal is very good. The probability of success of proposal business is very high then bank may security. In this case, the bankers assume the loan proposal itself as the security of loan. According to the needs of the borrowers, banks provide different types of loan for different time period as given below: -

Term Loans: - Banks advance loans of different terms as required to customers. It provides medium-term loans on the basis of loan proposal. The maturity period of such loans is more than one year. Generally, the amount sanctioned is credited to the account of the borrower. However, banks pay the amount in cash to the borrower in some case. The interest is charged on the entire amount of the loan and the loan is repaid either on maturity or on installments.

Cash Credit: - Banks advance loan as cash credit to businessmen against certain specified securities. The amount of the loan is credited to the current account of the borrower. In case of a new customer, a loan account for the sum is opened. The borrowers can withdraw money through cheque according to his requirement. Interest is charged only on the amount actually

withdrawn from the account.

Overdraft: - Generally, businessmen and organizations open current account in bank. They deposit all receipts in the account and pay all dues through cheque. Bank provides overdraft facilities to such account holders. Overdraft facility allows the customer to withdraw more than their deposits. The account holders have to go in a special contract with bank to get such facility.

Money at Call: - It is a very short-term loan provided by bank at a very short notice. Generally, loan under money at call has time duration of only one day to fourteen days. After that period, the money should be refunded. Such loan is useful especially for other financial institution and traders.

3) Discounting of Bill of Exchange

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

4) Payment of Cheque

Cheque is the most developed credit instrument in the money market. In the modern business transactions, cheque has become much more convenient method of settling debts than the use of cash. Banks provide cheque pads to the account holders. Account holders can draw cheque upon bank to pay money. Banks pay for cheque of customers after formal verification and official procedures. Providing the cheque payment functions, a bank renders a very useful medium of exchange in the form of cheque. Through a cheque, the depositors direct the bankers to make payment to the payee.

5) Remittance

It is system, through which cash fund is transferred from one place to another. Banks provide the facilities of remittance to the customers and earn some service charge. Generally, a bank provides such facilities through cheque, bank drafts, letters of credit (L.C.) etc. Remittance plays an important role in the modern national as well as international trade.

6) Collection and Payment of Credit Instruments

Modern business uses different types of credit instruments such as bill of exchange, promissory notes, cheque etc. Banks deal with such instruments. Banks collect and pay various credit instruments as the representatives of the customers. The remittance service of banks has benefited both the business and personal customers.

7) Exchange Foreign Currencies

Banks deal with foreign currencies. As the requirement of customers, banks exchange foreign currencies with local currencies, which is essential to state down the dues in the international trade.

8) Consultancy

Banks are large organizations. They can expand their function to consultancy business. [In this function, banks hire financial, legal and market experts, who provide advices to customers in regarding investment, industry, trade, income, tax etc.]

9) Bank Guarantee

Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit curtain fund in governmental offices or courts for specific purpose such as legal case, bank can present itself as the guarantee for the customer, instead of depositing fund by customer. Bank provides such facility only, when the customers have sufficient fund in their account.

10) Agency Functions

As the agents of customers, modern banks perform different types of functions such as: -

Periodic Payment: - Banks can execute the standing order or instruction of customers for making periodic payment on behalf of their customers. Under this function, banks pay subscription, income tax, rents, insurance premium etc. for their respective customers and earn appropriate service charge.

Periodic Collection: - On behalf of them, bank can collect incomes of customers such as dividends of share, interest on debenture and fixed deposits etc.

Purchase and Sales of Securities: - On behalf of customers, banks undertake purchase and sales of various securities like share, stocks, bonds, debentures etc. Banks do not interfere in the decision and process of their customers regarding these investments. They simply perform the function of a broker only to purchase and sell the securities.

Representative: - Banks can act as representative of their customers. They can proceed for passports, traveler's tickets, books, vehicles, plots of lands etc. for their customers. In connection to getting such things for customers, they can exchange correspondence to concerned parties.

Trustee or Executor: - When customers want to transfer their property to specific persons after demise, they can make a legal document about them and handover it to the banks as trustee or executor. Banks preserve such documents of customers' will and execute their will after demise.

11) Others

Except below functions, modern banks provide many general utility services as given below: -

Locker System: - Modern banks provide locker system to their customers. The customers can hire a specific number of lock boxes, keep precious assets, and document in it. Bank provide guarantee to safeguard the valuable assets locked in such box.

Traveler's Cheque: - Carrying money while traveling is a risk in business. It is far more convenient to use traveler's cheque. Traveler's Cheque helps their customers to make their

traveling comfortable. Traveler's cheque is accepted by most traders. So customers need not take the risk of carrying cash with them during their travel, when bank issues traveler's cheque to them.

Credit Card: - Credit card is the developed form of traveler's cheque. It is a plastic card with magnetic mark of account number and bank balance. Such card is issued by modern commercial banks to their customers, who have deposited specific sum in the account to get such facility. Credit card facility has become possible only by development of technology, because modern equipment and computerized system is essential to implement the credit card system. Credit card is very convenient means of payment. The cardholders have just to show the credit card to the seller to pay the value. The seller enters the card in a machine and returns to the purchaser. Payment of due is automatically received by the banks. So it is widely used in modern market. It is also called plastic money and bank money.

Underwriting Securities: - Banks underwrite the securities issued by the Joint Stock Company, private company and even government organizations. Public have good faith upon banks. So people will not hesitate in buying securities carrying the signatures of a bank.

Gift Cheque: - Some banks issue special cheque to mark the auspicious occasions. They are known as gift cheque. Such cheque have already printed value such as Rs. 11,21,31,51,101,1001,etc.

Collection of Data: - Banks collect data giving important information relating to banking, money, business, industry and economy. They conduct survey and research for the purpose. Such data are published along with articles on economic and financial matters in bulletin, journals and other financial magazines.

Individual Information of Customers: - According to the demand of outside, banks provide individual information regarding the financial position, business reputation and respectability of their customers. The welfare of customers is top priority of modern banks. So they do not provide the information restricted by concerned customers. Significantly lower the per-unit cost associated with high-volume transactions. But they will depersonalize banking and result in

further loss of jobs as capital equipment is substituted for labor. Recent experience suggests, however, that fully automated banking for all customers may take a long time. (Singh; 2062:21)

2.1.4 Need and Role of Bank in the Economy

A well-developed banking system plays an important role in the economic development of a country. The banking services have become pre-condition for overall development in the modern economy. A country needs adequate a wide-distributed banking services for fast industrialization. Besides providing financial resources, bank can also influence the direction in which these resources are to be utilized for industrialization. In the developing country like Nepal, not only the banking facilities are limited to a few urban areas, but also the banking activities are limited mostly to trade and commerce. Therefore, a well-developed and diversified banking system is needed giving adequate attention to industry and agriculture. To fulfill this purpose, structural as well as functional reforms in the banking system are needed to enable the banks perform developmental role in the country.

In a modern economy, banks are known not merely as a dealer in money, but also the leaders in development. They are not needed only for storing the nation's wealth, but also are needed to provide resources for economic development. It is the growth of commercial banking in the 18th and 19th centuries that facilitated the occurrence of industrial revolution in Europe. Similarly, the economic progress in the present day largely depends upon the growth of sound banking system in developing countries. Mainly commercial banks are essential for overall development of a country in the following ways:

Capital Formation

Capital formation is the most important determinant of economic development. Bank is essential for formation of capital. Capital formation has three well-defined stages: -

Generation of Saving.

Mobilization of saving.

Canalization of saving in productive uses.

Bank plays a crucial role in all the three stages. On one side, banks stimulate saving to providing a number of incentives such as interest, safe custody to deposits. On another hand, they mobilize the fund by providing loan to those who have the opportunity of productive investment.

Price Stability

Banks can control and create the credit in the monetary market. According to the financial policy of government, banks regulate the interest rate in deposits and loan. They also provide different types of banking services for industrialization. Ultimately, this will increase the supply of product. In another hand, it will increase the employment and public earning. All these are the factor for helping to control market price.

Economic Development

A certain rate of inflation and sound financial atmosphere is essential for the overall economic development of a country. Banks can directly influence these sectors through the rate of interest and availability of credit. It is the business of banks to control over interest rate as well as credit.

A reduction in the interest rates makes the investment more profitable. It stimulates economic activities and increase in the interest rate. On the other hand, it discourages economic activities. Thus for the economic development, banks can follow low interest rate policy. If the inflation it to be controlled, they can adopt the high interest rate policy.

Monetization of Economy

Monetization of the economy is essential for accelerating trade and economic activities. Banks, which are the creator and distributors of money, allow money to pay an active role in the economy. Banks are needed for the process of monetization.

Banks provide adequate paper money and coins available in the market. Bank accepts currencies as deposits and exchanges. It helps to use money as the means of payment in business transactions. Businessman does not hesitate to accept money as payment, because it is widely accepted by banks. Banks spread their branches in the rural areas, which convert the non-monetized sectors of the economy into monetized sectors.

Implementation of Monetary Policy

An appropriate monetary policy is the infrastructure of the economy of a country. However, a well-development banking system is the backbone of the economy. In this way, a proper banking

system is a necessary precondition for the effective implementation of the monetary policy. Credit control and regulation by the government and central bank is not possible without the active co-operation of the banking system in the country.

Promotion of Trade and Industry

Industrialization could not have been made possible without the development of banking system. Bank provides the facility of cheque, draft and bill of exchange, which revolutionized the trade and industry. Banks provide different types of banking services, which play important roles in internal and international trade. This encourages the specialization and accelerates the pace of industrialization.

Regional Balance

Banks can also play important roles in achieving balanced development in different regions of a country. They can transfer surplus capital from the developed regions to the less developed region, where it is scarce and most needed. The canalization of resources from urban sector to rural sector will promote economic development in underdeveloped areas of the economy.

The undeveloped economics are primarily agriculture economics

Majority of the population in the developing country like Nepal live in rural areas. Agriculture is the basis occupation for them. Therefore, economic development in these countries requires the development of agriculture and small-scale industries in rural areas. So banks provide even medium-term and long-term loans to agriculture and other neglected areas such as poultry farming, fishery, beekeeping, handicraft, etc.

Promote Saving

Bank is the most important and recognized for safe custody of public saving. Providing interest, safe custody and banking facilities, banks collect deposits from current, saving and fixed facilities, bank collect deposit from current, saving and fixed deposit account, which encourage public savings. (Singh; 2062:27-30)

2.1.5 Financial Analysis

Financial analysis is based on historical accounting information, which reflects the transactions and other events that are affected the firm. The financial analysis helps to know strength,

weakness, opportunities and threats. To know the financial health of the commercial banks, it is necessary to study their major indicators. A manager in the bank would be interested in the banks overall financial strength, its income and growth potential and the financial affects of pending decisions. A potential lender, such as a bank loan officer would be concerned primarily about the firms' ability to payback the loan. Potential investors would be interested not only as the company's ability to repay its loan obligations, but also its future profit potential. Potential shareholders would want to assess the firm's ability to carry out its operation effectively and meet delivery schedule. Thus the needs of the analyst indicate the sort of financial analysis. The focus of the financial analysis is on key figures in the financial statements and the significant relationship between component parts of financial statement to obtain a better understanding of the firm's position and performance. (Khan and Jain; 2006:4.2). Interested parties in financial analysis are management, investors of shareholders or owner, creditors, employees and trade union, bakers and lenders and government etc. (Dangol & Dangol; 2061:593). Financial statement analysis is technique of answering various questions regarding the performance of a firm in the past, present, and the future. (Pradhan, 2004:45).

2.1.5.1 Financial Statement

Financial statements provide information about a firm's position at a point in time as well as its operation over some past period. However the real value of financial statement lie in the fact that they can be used to help predict the firms financial position in the future, and to determine expected earnings and dividends from an investors standpoint, predicting the future is what financial statement analysis is all about while from management's standpoint, financial statement analysis is useful both as a way to anticipate future conditions and more important as a starting point for planning actions that will influence future course of events. (Weston & Brigham; 1990: 93). Financial statements are vital source of information to a company's stakeholders in learning about the financial health of the company and how their respective interest is there by affected. (Chitrakar; 2003:8) financial statements are prepared primarily for users outside an organization; managers also find their organization's financial statement useful in making decision. (Hilton & Ronald, 2002:9).

There are primarily four components of financial statements: -

- 1). Balance sheet
- 2). Income statement
- 3). Statement of Retained earnings
- 4). Statement of cash flows

1). Balance sheet

The balance sheet shows the balances in the organization's assets, liabilities and owners equity as of the balance sheet date. It represents an organizational financial position at a point in time.

2). Income statement

The income statement reports the income for the period between two- balance- sheet dates.

3). Statement of Retained Earnings

The retained earnings statement shows how income and dividends for the period have changed the organizations retained earnings.

4). Cash flow statement

It shows how cash obtained during the period and how it was used. The cash flow statement is designed to convert the accrual basis of accounting used to prepare the income statement and balance sheet back to a cash basis. This may sound redundant, but it is necessary. The accrual basis of accounting generally is preferred for the income statement and balance sheet because it more accurately matches revenue sources to the expenses incurred generating those specific sources. However, it also is important to analyze the actual level of cash flowing into and out of the business. Like the income statement, the statement of cash flow measures financial activity over a period of time. And the cash flow statement also tracks the effects of changes in balance sheet accounts. The cash flow statement is one of the most useful financial management tools to run business. It is useful in providing information to the users of financial statements about the ability of the enterprise to generate cash and cash equivalents and the need of the enterprise to utilize those cash flows. (Wagle and Dahaal; 2004: 11.1-11.2)

2.1.5.2 Importance of financial statement analysis

- 1). To measure the firm's liquidity, profitability, and solvency position.
- 2). To assess the firm's operating, efficiency financial position and performance.
- 3). To fulfill the objectives and interest of short- term creditors, present and potential investors, long-term creditors, management and regulating authorities.

2.1.5.3 Objectives of Financial statement analysis

- 1). To judge the financial health of the firm.
- 2). To judge the profitability of the business undertaking
- 3). To evaluate the capacity to repay the loans and interests there on.
- 4). To evaluate the solvency position of the firm.
- 5). To examine and evaluate the return on investment and or capital employed.

2.1.5.4 Limitation of financial statement analysis

Analysis of financial statement suffers from certain limitations. The major limitations of financial analysis can be summarized as follows:

- Financial analysis fails to disclose the current worth of the enterprise.
- Financial analysis is based on financial statements, which record historical facts. They do not record the changes in the price level.
- The financial analysis is based on facts and figures contained on financial statements. Hence the limitations of financial statements such as influence of personal judgment, disclose of monetary facts only are the limitations of financial analysis (Munankarmi, 2002:467).

2.1.6 Ratio analysis

Ratios are the tools for measuring liquidity, solvency, profitability and management efficiency of the firm and it is also equally useful to the internal management, prospective investors, and creditors and outsiders etc. The roles of accounting ratios are very significant to increase the efficiency of the management. As such it is very important tool of management accounting also. An analysis of the firm's ratios generally is the first step in financial analysis. (Weston & Brigham; 1990:93)

Ratio analysis uses financial report and data and summarizes the key relationship in order to appraise financial performance. The effectiveness will greatly improve when trends are identified, comparative ratios are available and inter-related ratios are prepared. (Munankarmi; 2002:468)

Ratio analysis is widely used tool of financial analysis is fined as the systematic use of ratio to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two items/ variables. The relationship can be expressed as; percentage, fraction and proportion of numbers. Alternative methods of expressing items, which are related to each other, are for the purpose of financial analysis referred to as ratio analysis. A rationale of ratio analysis lies in fact that makes related information comparable. Single figure by itself has no meaning but when expressed in terms of a related figure. It yields significance instances. (Khan and Jain, 1996:60) Ratio analysis is a tool of scanning the financial statement of the firm. Through one comes to know in which areas of the operation the organization is strong and in which areas it is weak (Bajracharaya, 2001:1017) ultimately, ratio analysis is a tool of scanning the financial statement of the firm.

2.1.7 New NRB Directives on Classification of Loan and Provisioning

Nepal Rastra Bank has issued Unified Directives to Bank and financial institution for implementation effective 2062.4.1 (16 July 2007). This also contains the new directive (No. 2) concerning classification of loan portfolios and provisioning. Except a few important changes, this directive has retained most of the previsions.

1) Classification of Loan and Advances

The classification criteria are as follows: -

- PASS category: - all loans and advances the principal of which are not past due or past due for a period up to 3 (three) months. Only loans falling under PASS category are termed as “Performing Loans”.

- SUBSTANDARD category: - all loans and advances the principal of which are past due for a period of more than 3 months and up to 6 months.

- DOUBTFUL category: - all loans and advances the principal of which are past due for a period of more than 6 months and up to 1 year.

- LOSS category: - all loans and advances the principal of which are past due for a period of more than 1 year.

The respective overdue periods of PASS, Substandard and Doubtful loans shall be considered for higher classification from the next day of the date of expiry of the overdue period provided for each category.

Lending institutions are not restricted from classifying the loan and advances from low risk category to high – risk category. For instance, loans falling under sub- standard may be classified into doubtful or loss and loan falling under doubtful may be classified into loss category.

2) Loan Loss Provisioning

The loan loss provisioning on the outstanding loans and advances and bills purchases shall be done on the basis of classification, as follows: -

Classification of Loan	Loan Loss provision
Pass	1%
Substandard	25%
Doubtful	50%
Loss	100%

Source : Economy Survey report 2011

- Provision on restructured or rescheduled loans shall be made as follows: -

A minimum of 12.5% provision shall be made on restructured or rescheduled loans.

In respect of restructuring or rescheduling of deprived sector loan and guaranteed of insured priority sector loan, the requisite provisioning shall be only 25% of the rates stated above.

Where the installment of principal and interest of restructured or rescheduled loan is serviced

regularly for two consecutive years, such loan can be converted into PASS loan. Rescheduling/ restructuring of loan resulting improvement in classification to lowest risk category (PASS) is not prohibited. However, such rescheduled loan shall require provisioning of at least 12.5%. The upper limit of such provisioning requirement is not specified even if a LOSS loan is reclassified and categorized as PASS loan. However, adjustments to loan loss provisioning is allowed only on satisfactory service of the loan up to 2 consecutive years.

Loan loss provisioning on rescheduled/ restructured sick industries recommended by sick industry preliminary Enquiry and Recommendation committee, upon recovery of minimum 12% outstanding interest is fixed at minimum 25% (upper limit is not prohibited though). The only concession provided this case is rescheduling is made possible against collection of 12% interest (in other case, it is 25%). At the same time, the provisioning is required at minimum 25% (in other cases it is 12.5%) Full provisioning shall be made against the uninsured priority, deprived sector loans and small and medium scale industrial loans.

However, in case of insured loans the provisioning requirement will be only 25% of the prescribed normal rates. Concession provisioning is not limited to priority/deprived sector and small/medium industries only as was the case earlier. The condition is purchase of insurance cover. Accordingly all loans, including priority sector/deprived sector, not covered by the insurance (presumably with Deposit Insurance and credit Guarantee Corporation) fall under normal category. The norms of classification remain same for these loans and advances also. In the case of rescheduling/restructuring of insured credit, the proportion of loan loss provisioning would be 3.125% (being 25% of 12.5%).

Where the loan is extended only against personal guarantee, a statement of the asset, and equivalent to the personal guarantee amount not claimable by any other, shall be obtained. Such loans shall be classified as per above and where the loans fall under the category of pass. Substandard and Doubtful, in addition to the normal loan loss provision applicable for the category, an additional provision by 20 % point shall also be provided Additional loan loss provision as above shall also be provided for the loans which is partly covered by collateral of physical assets and personal/institutional guarantee is obtained to cover the shortfall.

Classification of such loan and advances shall be prepared separately.

By virtue of above, the loan loss provision required against a personal guarantee loan will be 21%, 45% and 70% for pass, sub-standard and Doubtful category respectively. Such an additional loan loss provisioning will be required where loan is extended against the personal guarantee only without having obtained other form of collateral. The directive also requires additional provisioning where the value of partial collateral falls short of the loan amount and partially covered by personal guarantee.

NPA as categorized by NRB are classifieds loans and advances. For the probable loss on lending that cannot be recovered even after liquidation. NRB has directed to maintain loan loss provision. The loan loss provision is to be maintained by debiting profit and loss account. Thus as the quality of loan degrades the ratio of loan loss provision is increased the profitability of banks.

- Effect of NPA on Profitability of the Bank: -

Under the circumstances assets that do not earn any income to the bank affects the profit in a number of ways. The resources locked up in NPA are borrowed at a cost and have to earn a minimum return to service this cost.

- 1) NPA on the one hand do not earn any income but on the other hand drain the profits earned by performing assets through the claim on provisioning requirements.
- 2) Since they do not earn interest they bring down the yield on advances and the net interest margin or the spread.
- 3) NPA has a direct impact on return on assets and return on equity.
- 4) NPA bring down the profits, affect the shareholder value and thus adversely affect the investor confidence

2.2 Review of Related Studies

Republica Daily, (2012 march 21) State of banking sector:

With most financial institutions in the country, including some traditional heavyweight commercial banks, reporting poor financial performance for the second consecutive quarter of the current fiscal year, stakeholders of these institutions and the banking industry as a whole are expressing serious concerns about the future of Nepali banking.

As many as 24 out of 31 commercial banks have witnessed dwindling profits, the decline ranging between less than a percent to as much as 97 percent. Overall, profits have declined by almost 25 percent as compared to the same period last fiscal. And even those banks that have shown positive results have earned their profits from write-back of provisioning made earlier and not from their regular banking business. The question, therefore, is whether this is merely a temporary slump or does it mark the beginning of the end of the celebrated phase of Nepal's bankingsector.

To begin with, it is imperative to understand whether the expansion of the financial sector here was driven by fundamental reasons. A major reason behind the expansion was a belief that Nepali commercial banks, representing more than 90 percent of the total deposits and assets of the entire banking industry, were insulated from any adverse external factors. The euphoria was such that an IPOs of even untested banks would be oversubscribed, thanks to investors cutting across social segments—from ministers, to bankers, doctors, lawyers, farmers, plumbers, students, housewives, and even minors. Most of these investors put in their money believing the value of their stocks would soar in future and also allow them to reap the benefits of regular dividends. However, the fact is that banks are like any other businesses, and can witness a period of dismal performance as well.

And that is precisely what is being articulated by the current scenario. However, some of the factors behind the current decline are temporary and not insurmountable. For instance, issues that have adversely affected the earnings of banks like liquidity and credit crunch are products of sluggish business activities and could go away with a revival of the economy. Similarly, the

realty sector bubble—fuelled by irresponsible risk taking, lax oversight, and fraud—is going through what can be called ‘managed bursting’ under the aegis of the central bank that would mutually benefit both the lender as well as the borrower.

However, there seems to be certain other structural and fundamental factors that are adversely affecting the profitability of the sector in a more permanent way. And a lot of these factors have to do with more stringent regulations aimed at making the financial system safer and more resilient. For instance, restrictions on a bank’s credit-deposit ratio, which has left banks with lesser funds at their disposal for lending, is likely to remain for some time yet.

While some challenges faced by the banking sector may ease gradually, new regulations in the future could still affect its profitability.

Traditionally, Nepali banks generated higher returns through wide margins and core lending spread. However, the era of cheap-money under the low interest rate regime and high leverage banking model that delivered high returns with low risks through the last decade saw a decisive end because of the liquidity crisis last year. The pervasive liquidity crunch induced banks to hastily raise the deposit interest rate—a major cost factor in a bank’s profit and loss account—and the inter-bank lending rate to double digit figures as they desperately tried to attract depositors. As a result, the average cost of funds of banks looms well above 8.5 percent, a figure that was inconceivable even three years ago when banks were offering an interest rate of 7 percent on fixed deposits and 1.5 percent on savings. This rising cost of funds resulted in a shrinking interest rate spread which, in turn, is taking a toll on the profit making abilities of banks.

While examining the banks’ health, much depends on a financial performance metric—return on equity—which effectively measures the profits a bank was able to generate on its capital. For instance, if a bank made Rs 200 million in profits on Rs 2 billion of equity, its return on equity would be 10 percent. In the middle of the current fiscal, the actual return of commercial banks that are at least three years old was only 12 percent, compared with 19 percent in 2067.

Further, the mandatory requirement of maintaining the credit-deposit ratio at or below 80

percent, (aimed at strengthening the resilience of the financial sector, though perhaps at the cost of making financial intermediation somewhat more expensive), has restricted the ability of BFIs (banking and financial institutions) to lend the money at higher interest earning assets. Instead, the banks are now coerced to invest in low yielding, albeit more secured and liquid, government securities that currently earn less than a percent.

Biz News (NRB 2009 march 22) Global financial crisis affected Nepal

The Nepal Rastra Bank (NRB) on Sunday said that Nepali economy has started witnessing the impact of the global financial crisis. Speaking at a press conference organised to release NRB's mid-term evaluation of the Monetary Policy of the current fiscal year, Dipendra Bahadur Chhetri, governor of NRB said that the economic growth expected by the government could not be achieved due to global financial crisis, high unemployment and inflation.

“The economy has started witnessing the impacts of the global financial crisis by the beginning of the second half of the current fiscal year and it is likely to squeeze the economic growth rate targeted for the current fiscal year,” said the report. Nepalis abroad are continuing to lose their jobs, consequently decreasing the remittance that enters Nepal, Chhetri informed. “The high inflation which touched 14.4 percent by the first half of the current fiscal year and was expected to remain at 11 percent on annual average is really a worrisome development,” said Chhetri warning that the inflation rate will stand at 11 per cent if the crisis continues. “High revenue mobilization and negative growth seen in the government’s expenditure is also resulting in the liquidity position to contract,” said the report. The report added that the expected economic recovery during the current fiscal year remained much weaker than expected mainly due to the worsening power crisis and weakening investment confidence.

Gautam (2061), *"WTO and challenges of Financial Services Liberalization,"* Nepal Rastra Bank Samachar 49th Anniversary edition 2061 by Nepal Rastrya Bank, Kathmandu, Nepal. In this article the author has caste highlight on Nepal's entry into WTO and its challenges to financial services. Nepal has become 148th member of world trade organization (WTO). Nepal has liberalized different sectors gradually. It is for sure that Nepal has to face various challenges, especially, in the financial sector.

The financial services has been liberalized and reformed well enough during the last 20 years. Nepalese financial sector presently enjoys the full liberalization. There is no special difficulty in this sector in regard to the membership of WTO. The membership in WTO opens many alternatives gates such as perfect venue for dispute settlement, easy access to the markets of 147 countries of the world, product- wise and country- wise diversification and greater opportunity in the similar markets of the countries with similar geographical and economical situation. In fact, Nepal is continuously facing some structural and supply side problems including weak technological adaptability, lack of skills and poor infrastructure. These challenges can be categorized as per their cause and relationship. It is a fact that Nepal is landlocked by India and China; therefore, it would be another challenge to explore a good access to growing economics of neighboring countries and to get easy access in their huge market will be our strength to explore the space in competitive market and to sell our services. Otherwise, the challenges will remain out of competence letting us lose the contest.

In conclusion, Liberalization in service sector is inevitable. We can not escape from the ground reality of globalization, wide spread acceptance of WTO and necessity of membership in this international trade institution. It should not be opposed to hide our inefficiencies or governance problems. Rather it is a right Time to find out the impacts continue and finish the reform process making the services sector really competitive. Otherwise, we will lose the opportunity. Reform and liberalization does not mean a cartel, therefore, a fair competition should be ensured in financial services sector. Similarly, transparency and disclosure practices are must for the growth and development of financial services sector.

Poudel, Upendra in the article, *“Present Condition of Financial Companies”* has presented with compared to the commercial bank, the interest rate is relatively high that is provided and accepted by finance companies. The financial companies should not be confined only in the valley. They should extend their services to the rural sectors of hill and tarai to reduce regional imbalance. The collection of deposit and loan investment done by the commercial banks also, to sustain themselves in the environment of competitions, they should introduce novel technology

and equipments to collect deposits and investment. They should learn from the draw backs, failure and success of commercial banks to effectively maintain as alternative status.

Pradhan, Krishna in the article, "*Transaction Analysis of Financial Companies in Nepal.*" Has concluded that the finance companies are centered in the city as like commercial banks. If this trends remains, the central bank is to consider novel strategy. However, financial and banking transaction don't take place in zero, it favors of financial intermediaries. The emergence of closure of financial companies in market economy in common sense. But keeping in mind, the social and economic structure o four country, we should not turn a deaf ear to regional balance.

2.3 Review of Related Thesis

Jha(2001), in his thesis entitled "*A Comparative Study on Financial Performance of NGBL and NSBI*", has pointed out following objectives.

- i. To evaluate liquidity position of both the banks.
- ii. To analyze comparative financial performance of both the bank
- iii. T o study the comparative position of both the banks
- vi. To offer a package of suggestion to improve the financial performance.

Major Findings of this study are as, follows

- i. Liquidity position, in terms of cash and bank balance to total deposit, of NGBL is found to be higher than that of NSBI
- ii. The loan and advance ratio of NSBI is higher than NGBL which implies that NSBI is successful in utilizing the outsider's fund.
- iii. Long term debt to total assets of NGBBL is slightly higher than NSBI which implies more use of long term debt.
- iv. Earning per share mid -dividend per share ratio of NSBI is very low in comparison to NGBL.

Joshi (2003), in her thesis entitled "*Financial performance of Nepal Investment Bank Limited,*" has tried to summarize the financial performance of NIBL.

- i) The result of the analysis indicates that the bank had the high debt equity ratio which again exhibits that the creditors have invested more in the bank than the owners.
- ii) The result of the analysis indicates that the bank has better mobilization of saving deposits in loans and advances for income generating purpose.

Karki (2005), in his thesis entitled "*A comparative analysis of financial performance of NABIL and SCBNL*", has pointed out following objectives.

- i) To evaluate liquidity position of both banks.
- ii) To analyze comparative financial performance of both banks.
- iii) To study the comparative position of both banks.
- iv) To offer a package of suggestion to improve the financial performance
- v) To identify the relationship between interests earned and operating profit.

Major Finding of this study are as follows

- i) SCBNL has efficiently operated its long-term fund, deposit and assets to generate more profits.
- ii) Liquidity position of NABIL bank is favorable in many cases it seems excessive. The proposed recommendation for these banks are to reduce its excessive non-performing assets (Cash and bank balance) and invest on the income generating current assets (Treasury bills), while SCBNL must strength the liquidity position.
- iii) Comparatively SCBNL's profit ability position is better than that of NABIL.

Kuikel (2009), in his thesis entitled "*Financial Performance of Leading Commercial Banks in Nepal of SCBNL, NABIL, HBL and EBL*", has pointed out following objectives.

- i) To measure liquidity, leverage, activity, profitability ratio and solvency ratios of SCBNL, NABIL, HBL and EBL.
- ii) To analyze and compare the position of NPA.
- iii) To analyze the comparative financial position of SCBNL, NABIL, HBL and EBL.
- iv) To examine to whether these commercial banks are following NRB directives or not.

Major Findings of This Study are as follows

- i) Regarding the liquidity management, all the banks are in better position except EBL, EBL was unable to maintain the liquidity (CRR) as per the directives of central bank (NRB). It obviously strikes that EBL was failure to meet short-term obligations.
- ii) SCBNL is successful on mainting capital adequacy ratio as per the directives of central bank. However, NABIL, HBL and EBL had not significant differences as per the directives should be maintained. HBL had least ratio.
- iii) The analysis of P/E ratio indicates all banks SCBNL, NABIL, HBL and EBL had getting more competitive value. This indicates they all had better P/E ratio.
- iv) The analysis of NPA indicates that EBL, NABIL and SCBNL had comparatively lower average of such ratio. HBL had comparatively high average. EBL has lowest and is more consistent in NPA, which indicates its sound lending & recovery policy.

Pradhan (2004), in his thesis entitled "*A comparative study on financial performance of HBL and SCBNL*" has pointed out following objectives.

- i) To analyze comparative financial performance of both banks.
- ii) To evaluate liquidity position of both banks.
- iii) To identity the relationship between interests earned and operating profit.
- iv) To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows

- i) Current ratio of both the banks is below the standard; this might effect the liquidity position of these banks.
- ii) SCBNL's loan and advances to total deposits ratio are significantly lower than that of HBL.
- iii) SCBNL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loan and advances.
- iv) HBL is strongly recommended to increases it's earning per share and dividend per share to keep investors within the bank.

Sadula (2007), in his thesis entitled "*Financial performance of commercial banks and returns to investors: With special reference to BOK, EBL, SCBNL, NIBL, NABIL*" has pointed out following objectives:

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

Major Findings of this study are as follows

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

Tiwari (2010), in his thesis entitled "*Financial Performance Analysis as Tools for Profit Planning with reference to EBL, NABIL and BOK*" has pointed out following objectives.

- i) To find out the relationship between total investment, loan & advance, deposit, net profit and outside assets.
- ii) To identify the investment priority sectors of commercial banks.
- iii) To assess the impact of investment on profitability.
- iv) To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial bank.

To provides suggestions and possible guidelines to improve investment policy and its problems.

Major Finding of this Study are as follows

- i) Current assets of all three banks i.e. EBL, NABIL and BOK are not satisfactory.
- ii) The ratio of cash & bank balance to total deposit and current assets of EBL is higher than that of NABIL and BOK.

- iii) From the study, he found that NABIL has not invested funds in government securities than that of other banks which shows that NABIL has kept relatively funds as cash & bank balance which does not earn any return.
- iv) Profitability ratios of banks are not satisfactory, if resources held idle bank have to bear more cost and result would be lower profit margin.
- v) The investment policy of EBL is good in every aspect as studied above but the consistency in the above investment sectors is in equilibrium states. He found that bank focuses much of its attention to one sectors leaving other sectors untouched.

Upreti (2007), in his thesis entitled "*A comparative study of financial performance of NIBL, HBL, SCBNL and EBL*", has pointed out following objectives.

- i) To study the present of the four joint venture banks
- ii) To do the comparative study about the financial performance of these banks with regard to-their profitable liquidity, efficiency and capital structure.
- iii) To provide recommendation and suggestion on the findings to improve financial performance of these banks.

Major Findings of the study are as follows

- i) Among all the sample banks, HBL has the lowest ratio and EBL has not mobilized its assets into profit generating projects.
- ii) SCBNL has been successful in earning more net profit by the proper use of its available assets.
- iii) EBL with the highest ratio has been successful in generating more interest by the proper use of its available assets.
- iv) EBL and HBL seem to have held more cash and bank balance rather than other commercial banks.

2.4 Research Gap

In this research gap topic the previous research and present research had bit difference. The previous researchers had not sufficient equipment, data, and annual report and internet facilities so the previous researchers had consulted only bank's authorized staff and they consulted only by questionnaires not more then and I think that the questionnaires data are not quite result. Thus, the result become there are some errors in previous research but in present research the researcher have significant solved the research gap so in present research there are lots of equipment, data, annual report and internet facilities to resolve the gap.

In additionally, the previous research had only represented the one, two three and five banks. So in present I have use four standard level of banks like A) Nabil Bank Limited B) Kumari Bank Limited C) Himalayan Bank Limited and D) Everest Bank Limited. I used the comparative financial and statistical tools for analysis financial performance.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that we generally adopted by a researcher, studying his research problem among with the logic behind them. Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation, backed by collection, presentation and interpretation or relevant details or data. Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view.

The prime objective of this study is to compare, evaluate and assess the financial performance of selected commercial banks, i.e. Nepal Investment Bank Limited., NABIL Bank Limited, Kumari Bank Limited and Everest Bank Limited. This chapter contains these methods that make convenience for comparison of the performance made, so far by these banks by analyzing the strength and weakness of the financial performance of these three joint venture banks.

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

3.2 Research Design

Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. In other words research design is the frame work for a study that helps the analysis of data related to study topic.

A research design is the arrangement of conditions, for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Research design is very important for scientific investigation. Research design gives the investigator a systematic direction to research work. Actually, research design in a plan for data collection and analysis. It presents a series of guideposts to enables the researcher to process in

the right direction in order to achieve the goal. A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework of the project that stipulates what information to be collected from which sources by what procedures. There are various approaches of research design. For our convenience, in this thesis, a comparative analysis of financial performance of four commercial banks based on descriptive and analytical research design.

3.3 Sources of Data

This study mainly based on secondary data. Secondary data are collected from their respective annual report especially from profit and loss account, balance sheet and other publications made by the banks. Also some data has been gathered from annual report, SEBON, NEPSE data, Website. Similarly, articles, journals related to the financial performance study, previous research report etc., have also taken into account while collecting information.

3.4 Populations and Sample

In this study convenience sampling method will be used. At present there are 25 commercial banks operating in Nepal under the guidance of Nepal Rastra Bank. These twenty five commercial banks are considered as population and only four banks viz. Nepal Investment Bank Limited., NABIL Bank Limited, Kumari Bank Limited and Everest Bank Limited have been taken as sample of this study. Five years data are taken to conduct the study from FY i.e 2006/07 to 2010/11. Following commercial banks have been selected for the study:

1. NABIL Bank Limited (NABIL)
3. Kumari Bank Limited (KBL)
3. Himalayan Bank Limited (HBL)
4. Everest Bank Limited (EBL).

3.5 Data Collecting Procedure

Besides the above stated sources of data, a detailed review of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from Library of Shanker Dev Campus, Central Library of Tribhuvan

University, Such data, information, facts and figures have been edited, tabulated and calculated before analysis. Then, results were concluded and interpretations were made.

3.6 Method of Data Analysis

For the purpose of the study, financial statements of the listed commercial banks are analyzed by using financial and statistical tools.

3.6.1 Financial Tools

In this study the following financial tools have been used to measure the strength and weakness of the sample banks.

Ratio Analysis

A ratio may be defined as a fixed relationship in degree or number between two numbers. Ratio analysis is the primary tool used for examining the firm's position and performance. Financial analysis is the process of identifying the financial strength and weakness of firm establishing relationship between times of balance sheet and profit and loss account. Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating results and growth

A. Liquidity Ratio

Liquidity ratio refers to the ability of a firm to meet current/ short term obligation of a firm. Liquidity ratio examines the adequacy of funds, the solvency of firm of the firms and the firms ability to pay its obligations when due. In case of commercial banks, short-term obligations are current deposit, saving deposits, short-term loans and source of meeting these obligations are cash and bank- balance, money at call and short notice., investment 'in government securities and bills discounted and purchase.) There is compulsion for commercial bank to maintain cash and bank balance according to NRB regulations. From legal perspective cash and bank balance to Total Deposit ratio snows actual liquidity position of the bank whereas other liquidity ratios are also useful. In this study following ratios are analyzed to measure the liquidity position of a firm.

a. Current Ratio

The current ratio indicates bank's liquidity and short term debt paying ability. It shows the relationship between current assets and current liabilities. It is calculated dividing the current assets by current liabilities.

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

Current assets are those assets, which can be converted into cash with in short period of time. Normally, not exceeding one-year. Cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other interest receivable, debtors, bills purchased and discounted and miscellaneous are the examples of current assets. Similarly, current liabilities are those obligation which are payable with a short period. Sometimes it is called working capital ratio.

Generally, the current assets of the company should be twice than current obligation to be technically solvent. For many types of business, 2:1 is considered to be an adequate ratio. If the current ratio of the firm less than 2:1, the solvency position of the firm is not good. A relatively high value of the current ratio is liquid and has the ability to pay its bill and vice-versa. Lastly, the widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstance incase of seasonal business ratio and the nature of business.

b. Cash and Bank Balance to Total Deposits

This ratio shows ability of bank's fund to cover their current margin call and saving deposits. It is calculated in order to see the position of cash and bank balance to make the payment of deposits when demanded. This ratio is calculated by the following formula:

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

Here, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposits, saving deposits, fixed deposits, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits and vice-versa. Moreover, too high ratio is unfit as capital will be tied-up and opportunity cost will be higher.

c. Cash and Bank Balance to Current Assets Ratio

Cash and bank balance to current assets ratio reflects the proportion of cash & bank balance out of total current assets. It is calculated by dividing cash & bank balance by total current assets.

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

Here, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total current assets encompass all assets except fixed assets.

d. Loan and Advance to Current Assets Ratio

Loan and advance to current assets ratio reflects the proportion of loan and advance out of total current assets. It is calculated by dividing loan and advance by total current assets.

$$= \frac{\text{Loan \& Advance}}{\text{Current Assets}}$$

Here, loan and advance included all kind of government and non government loan and advances.

B. Activity Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratio is employed to evaluate the efficiency with the bank manages and utilizes funds. The following ratios are calculated under the activity ratio.

a) Loan and Advance to Total Deposits Ratio

This ratio is used to see extent to which the banks are successful to mobilize the outsider's funds. It is calculated to measure the percentage of total deposit invested in loan, advance and overdraft. It is the proportion of efficiency i.e. loan the advance among the total deposit of the commercial banks. This ratio is calculated by using the following formula:

$$= \frac{\text{Loan \& Advance}}{\text{Total Deposit}} \times 100$$

Higher ratio shows the finance companies ability to provide the loan and advances to the people. A high ratio of loan and advances is considered to be the sign of efficient commercial bank and better mobilization of collected deposits and vice-versa.

b) Total Investment to Total Deposits Ratio:

This ratio is calculated to see how efficiently the banks have mobilized the deposits on investment. This ratio is calculated by using the following formula:

$$= \frac{\text{Total Investment}}{\text{Total Deposit}} \times 100$$

The numerator consists of investment of government securities, investment on debenture and bonds, shares in subsidiary commercial bank share in other companies and other investment. A high ratio indicates that the commercial bank's efficiency is more investing on its deposits and low ratio indicates in ability to put its deposit for the lending activities.

c) Loan and Advances to total working fund ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of commercial bank are successful in mobilizing their loan and advances on working fund ratio for the purpose of income generation. This ratio is computed by dividing loan and advance by total working fund. This is stated as,

$$= \frac{\text{Loan \& advance}}{\text{Working Fund}} \times 100$$

Here, the denominator includes all assets of on balance sheet items. In other words, this includes current assets, net fixed assets, loans for development bands and other investment in share, debenture and other etc. A high ratio indicates a better mobilization of fund as loan and advances and vice-versa.

C. Profitability Ratio

Profitability ratio indicates the degree of success in achieving desired profit. This ratio measures how effectively the company manages its fund to earn profit. It is regarding as the most essential element for commercial bank growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company be able to acquire funds from investors for expansion and to contribute towards the goals of the nation. This implies that profit is the measuring rod of companies for the financial performance. Higher the profitability ratio, better the financial performance of the commercial bank and vice-versa. Profitability position can be evaluated through following different way. For the study purpose, the following profitability ratios have been calculated.

a. Net Profit to Total Working Fund Ratio

This ratio measures the profitability with respect to the total assets. It reflects the efficiency of the banks in utilizing its overall resources. This is found by using the following formula:

$$= \frac{\text{Net Profit}}{\text{Working Fund}} \times 100$$

The numerator indicates the position of income left to the interval equities after all costs, charges, expenses have been deducted. Total assets comprise those assets, which appear on the working fund side of the balance sheet. The high return on working fund ratio usually indicator that high profit margin and high turnover of working fund and vice-versa.

b. Interest Earned to Working Fund Ratio

This ratio is used to measure the percentage of interest earned in relation to working fund of the banks. It signifies the mobilization of the banks assets in interest generating purpose. Higher ratio signifies better efficiency in utilizing the resources in interest generating sectors. It is calculated by using following formula:

$$= \frac{\text{Interest Earned}}{\text{Working Fund}} \times 100$$

The numerator comprises net interest income from loans, advances, cash credit and overdrafts, government securities, inter commercial bank and other investment. A high ratio is an indicator of high earning power, and better performance of the commercial banks on its total working fund and vice-versa.

c. Interest Paid to Working Fund Ratio

This ratio is used to measure the percentage of interest paid in relation to working fund of the banks. It signifies the mobilization of the banks assets in interest paid generating purpose. Higher ratio signifies better interest paid to investors. It is calculated by using following formula:

$$= \frac{\text{Interest Earned}}{\text{Working Fund}} \times 100$$

The numerator comprises net interest expenses from loans, advances, cash credit and overdrafts, government securities, inter commercial bank and other investment from investors. A high ratio

is an indicator of high paid power, and better performance of the commercial banks on its total working fund and vice-versa.

D. Miscellaneous Ratios

Earning Per Share, dividend payout ratio and price earning ratio are grouped under miscellaneous ratio to measure the financial performance of commercial banks in Nepal.

a. Earning Per Share (EPS)

Earning per share calculations made over years indicates whether or not the company's earning power on per share basis has change over that period. EPS shows the profitability of the company of a per share basis. It is calculated by the following formula:

$$= \frac{\text{Net Profit After Tax}}{\text{No of Common Share}}$$

b. Dividend Per Share

Dividend per share is the regular amount availed to the holders of each common stock by the company. Evaluation of performance of listed companies in terms of dividend per share (DPS) is considered as an appropriate measure, which shows the companies' earnings and dividend paying capacity.

$$= \frac{\text{Proposed Dividend}}{\text{Paid of Share Capital}}$$

c. Price Earning Ratio (P/E ratio)

The price- earning ratio is widely used by the security analysts to evaluate the firm's performance as expected by investors. This ratio is closely related to the yield/earning ratio. This ratio is computed by dividing market price of share by the earning per share.

$$= \frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

3.6.2 Statistical Tools

The statistical tools selected for the study of four commercial banks (NABIL Bank Ltd., Kumari Bank Ltd., Himalayan Bank Ltd. and Everest Bank Ltd.) are as follows.

A. Average (Arithmetic Mean)

Average is the typical values around which other items of distribution congregate. The most popular and widely used measure of representing the entire data by the value is known as average. Its value is obtained by adding together all items and by dividing this total by number of items. The purpose of computing the average value for set of observation is to obtain a single value which represents the items and which can grasp the mind dimply and quickly. Since, average reduce the mass of data to a single figure, they are very helpful for the purpose of making comparative study. By using average as a statistical tools calculation can be made easier to interpret the data and comparison between the sample commercial banks.

Mathematically,

$$\bar{X} = \frac{x_1 + x_2 + \dots + x_n}{n} = \frac{\sum x}{n}$$

Where

\bar{X} = Arithmetic Mean, $x_1+x_2+\dots+x_n$ = Values of Variable,
 $\sum x$ = Sum of the values of variables x , n = Number of observation

B. Standard Deviation

The Standard deviation measures the absolute value of risk. i e. Variability of the returns from the mean returns. It is also known as root mean square deviation for the reasons that it is the square root of the mean of the squared deviations from arithmetic means. A large S.D. means a lower degree of homogeneity of the observation of a series and vice versa. Standard deviation is calculation for the purpose of comparing the data of sampled banks in different ratios.

Mathematically,

$$\text{Standard Deviation } (\sigma) = \sqrt{1/n \sum (X - \bar{X})^2}$$

Where,

σ = Standard Deviation

$\sum (X - \bar{X})^2$ = Mean Deviation Squared

C. The Coefficient of Variation

For comparing the variability of two distributions we compute the coefficient of variation. A distribution with smaller C.V. is said to be more homogenous or uniform or less variable than other and the series with greater C.V. is said to be more heterogeneous or more variable than others. The coefficient of variation is a relative measure which is useful in comparing the amount of variation in data group with different means :

Mathematically,

$$\text{C.V.} = \frac{S.D}{\bar{X}} \times 100$$

Where,

S.D. = Standard Deviation

\bar{X} = Mean

C.V. = Coefficient of variation

D. Coefficient of Correlation

The Coefficient of correlation is an important measure to describe how well one variable is explained by another. It measures the degree of relationship between the two casually related variables. Karl person's coefficient of correlation between two variables X and Y is usually devoted by 'r' which is the numerical measure of linear association between the variables.

Mathematically,

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}}$$

Where,

n = No. of observation of X and Y.

$\sum x$ = Sum of the observations in series X.

$\sum y$ = Sum of the observations in Series Y.

$\sum x^2$ = Sum of square observations in series X.

$\sum y^2$ = Sum of square observations in series Y.

$\sum xy$ = Sum of product of the observations in series X and Y.

E. Probable Error

The probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation, probable error of correlation coefficient usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value of correlation coefficient in so far as it depends upon the conditions of random sampling. It is worked out as:

Mathematically,

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Where,

r = Correlation Coefficient

n = No. of pairs of observation

$r > \text{PE} (r) \times 6$ (correlation coefficient more than six times of probable error r is significant)

$r < \text{PE} (r)$ (Correlation coefficient less than six times of probable error r is insignificant)

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, the data are presented, calculated and analyzed. The secondary data is used for the purpose and the data represents the duration of five years (2006/07 to 2010/11). The details of calculation are shown in the respective appendix.

4.1 Financial Tools

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it data have been analyzed. Various financial ratios related to the investment management and the fund mobilization are presented and discussed to evaluate and analyze the performance of NABIL, KBL, HBL and EBL. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. a)

a) Liquidity Ratio

b) Assets management Ratio

c) Profitability Ratio

d) Miscellaneous Ratio

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Demand for the deposits, with drawls, pay maturity in time and convert non-cash assets into cash to satisfy immediate need without loss to bank and consequent impact or long run profit.

The following ratios are evaluated and interpreted under liquidity ratios.

(i) Current Ratio

Current ratio indicates the ability of a bank to meet its current obligation. This is the broad measure of liquidity position of the financial institution. Current ratio is derived by dividing current assets by current liabilities.

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

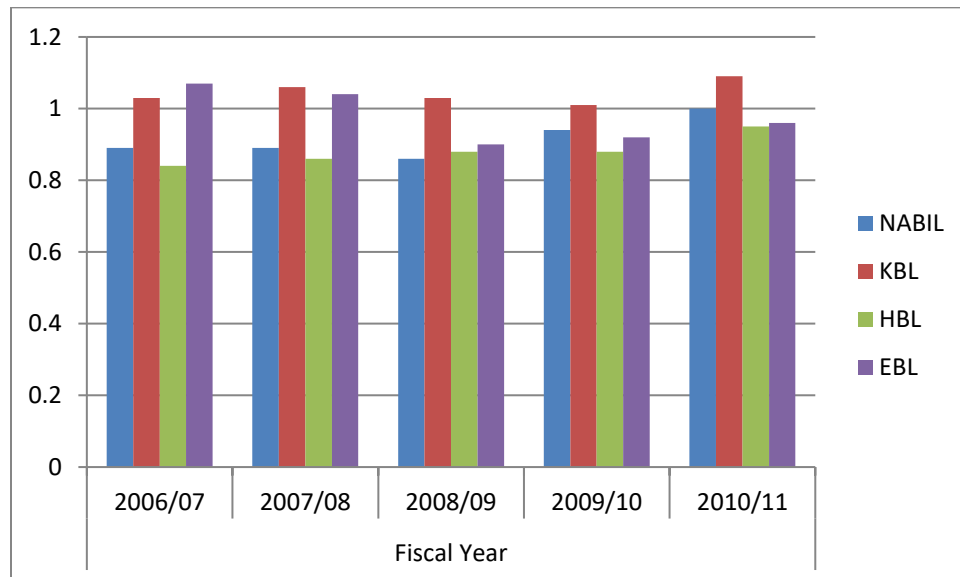
Table 4.1
Current Ratio (Times)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	0.89	0.89	0.86	0.94	1	0.91	0.05	5.42
KBL	1.03	1.06	1.03	1.01	1.09	1.04	0.03	2.89
HBL	0.84	0.86	0.88	0.88	0.95	0.88	0.04	4.17
EBL	1.07	1.04	0.9	0.92	0.96	0.98	0.07	7.05

Sources: Appendix 1(i)

In this table 4.1 KBL has highest current ratio then other three banks which has highest and lowest ratio 1.09 in 2010/11 and 1.01 in 2009/10. Similarly, NABIL has highest and lowest ratio 1 in 2010/11 and 0.86 in 2008/09. HBL has highest and lowest ratio 0.95 in 2010/11 and 0.85 in 2006/07 finally, EBL has highest and lowest ratio 1.07 in 2006/07 and 0.9 in 2008/09 respectively.

Figure 4.1
Current Ratio (Times)



Overall the mean value of KBL has 1.04 which is highest mean value among four banks. Similarly the standard deviation and CV is 0.03 and 2.89% respectively. HBL has lowest mean value 0.88 and NABIL and EBL have 0.91 and 0.98 in order. On the case of SD and CV, EBL has higher percentage of SD and CV, which has 0.07 and 7.05% finally Nabil and HBL have 0.05 and 0.04 SD and 5.42% and 4.17% of CV respectively.

(ii) Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)

Cash and bank balance is said to be the first defense of every bank. The ratio between the cash and bank balance and total deposit measures the ability of the bank to meet the unanticipated cash and all types of deposits. Higher the ratio, the greater will be the ability to meet sudden demand of deposit and vice versa. But every high ratio is not desirable since bank has to pay interest on deposits. This will also maximize the cost of fund to the bank.

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

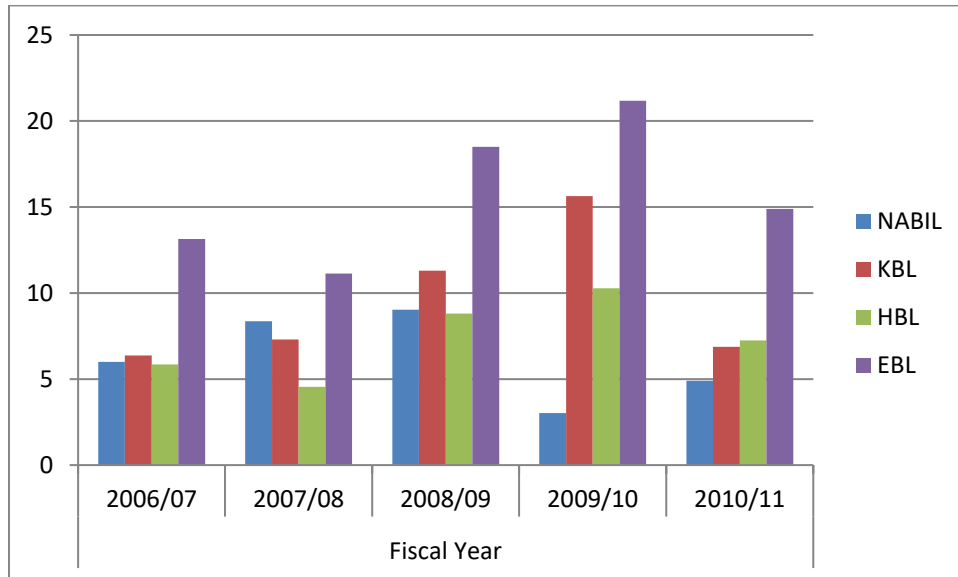
Table 4.2
Cash and Bank Balance to Total Deposit (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	6.00	8.37	9.03	3.02	4.90	6.26	2.22	35.40
KBL	6.37	7.31	11.31	15.63	6.88	9.5	3.53	37.16
HBL	5.85	4.55	8.80	10.28	7.24	7.34	2.04	27.77
EBL	13.15	11.13	18.50	21.17	14.89	15.77	3.63	23.01

Sources: Appendix I(ii)

Table 4.2 shows that the cash and bank balance to total deposit ratio of EBL has significant highest ratio then other three banks and NABIL has least ratio then other banks. To represent the data NABIL has highest and lowest ratio is 9.03 in 2008/09 and 3.02 in 2009/10. Similarly, KBL has highest and lowest ratio 15.63 in 2009/10 and 6.37 in 2006/07. HBL has highest and lowest ratio 10.28 in 2009/10 and 4.55 in 2007/08 and EBL has highest and lowest ratio 21.17 in 2009/10 and 11.13 in 2007/08 respectively.

Figure 4.2
Cash and Bank Balance to Total Deposit (%)



In figure 4.2 EBL has huge ratio of mean 15.77 and 3.63 S.D. and 23.01% of C.V. similarly, the least proportion of mean ratio has NABIL which has 6.23 as well as 2.22 S.D. and 35.40% C.V. which is the great percentage of C.V. like wise on the cause of KBL and HBL have 9.5 and 7.34 mean ratio finally, S.D 3.53 and 2.04 and C.V is 37.16% and 27.77 % respectively.

(iii) Cash and Bank Balance to Current Assets Ratio

This ratio shows the bank liquidity capacity on the basis of cash and bank balance that is the most liquid asset. Higher ratio indicates the bank ability to meet the daily cash requirement of their customer deposit and vice versa. But higher ratio is not preferred, as the bank has to pay more interest on deposit and will increase the cost of fund. Lower ratio is also very dangerous, as the bank may not be able to make the payment against the cheques presented by the customers. Therefore, bank has to balance the cash and bank balance to current assets ratio in such a manner that it should have the adequate cash for the customers demand against deposit when required and less interest is required to be paid against the cash deposit.

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

Table 4.3

Cash and Bank Balance to Current Assets Ratio (%)

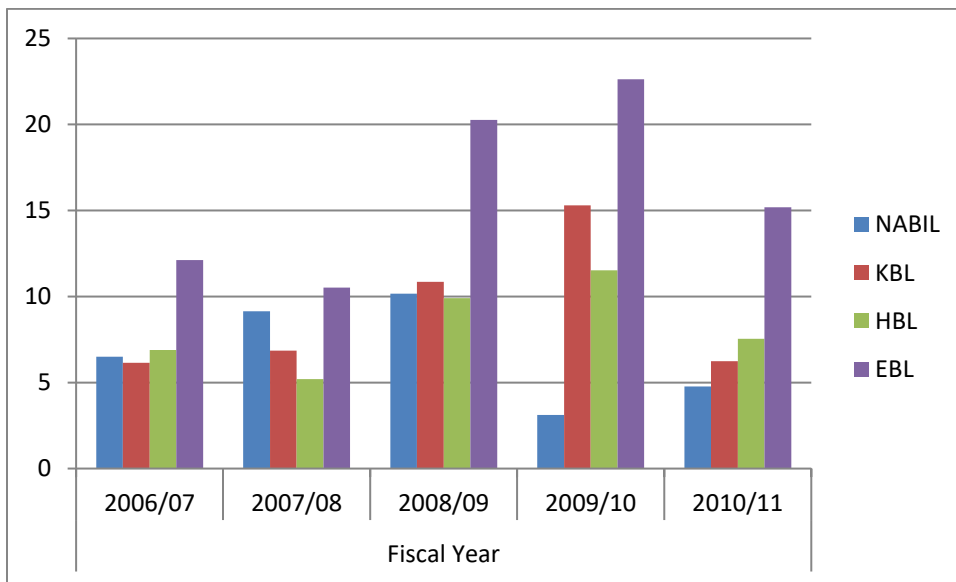
Banks	Fiscal Year					Mean	S.D	C.V (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	6.51	9.14	10.16	3.12	4.77	6.75	2.64	39.11
KBL	6.15	6.86	10.85	15.29	6.25	9.08	3.55	39.10
HBL	6.90	5.20	9.90	11.53	7.54	8.21	2.24	27.28
EBL	12.11	10.51	20.27	22.63	15.19	16.15	4.65	28.80

Sources: Appendix 1(iii)

Above table exhibits that cash and bank balance to current assets ratio EBL has mind-blowing highest proportion then other three banks and NABIL has again least popular ratio on cash and bank balance to current assets ratio. NABIL has highest and lowest ratio is 10.16 in 2008/09 and 4.77 in 2010/11. Similarly, KBL has highest and lowest ratio 15.29 in 2009/10 and 6.15 in 2006/07. HBL has highest and lowest ratio 11.53 in 2009/10 and 5.20 in 2007/08 and EBL has highest and lowest ratio 22.63 in 2009/10 and 10.51 in 2007/08 respectively.

Figure 4.3

Cash and Bank Balance to Current Assets Ratio (%)



In figure 4.3 EBL has huge ratio of mean 16.15 and 4.65 S.D. and 28.80% of C.V. similarly, the least proportion of mean ratio has KBL which has 9.08 as well as 3.55 S.D. and 39.10% C.V.

like wise on the cause of NABIL and HBL have 6.75 and 8.21 mean ratio finally, S.D 2.64 and 2.24 and C.V is 39.11% and 28.80 % respectively.

(iv) Loan and Advances to Current Assets Ratio

Loan and advances are also included is the current assets of commercial banks because generally it provides short-term loan, advances/overdraft/ cash-credit, local and foreign bill purchased and discounted.

To make a high profit by mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those unutilized deposit funds and may lose some earnings, but high loan and advances may also be harmful to keep the bank is most liquid position because they can only be collected at the time of maturity only. Thus, the bank must maintain its loan and advances in appropriate level to find out portion of current asset, which is granted as loan and advances.

$$= \frac{\text{Loan and Advance}}{\text{Current Assets}}$$

Table 4.4
Loan & Advances to Current Assets Ratio (%)

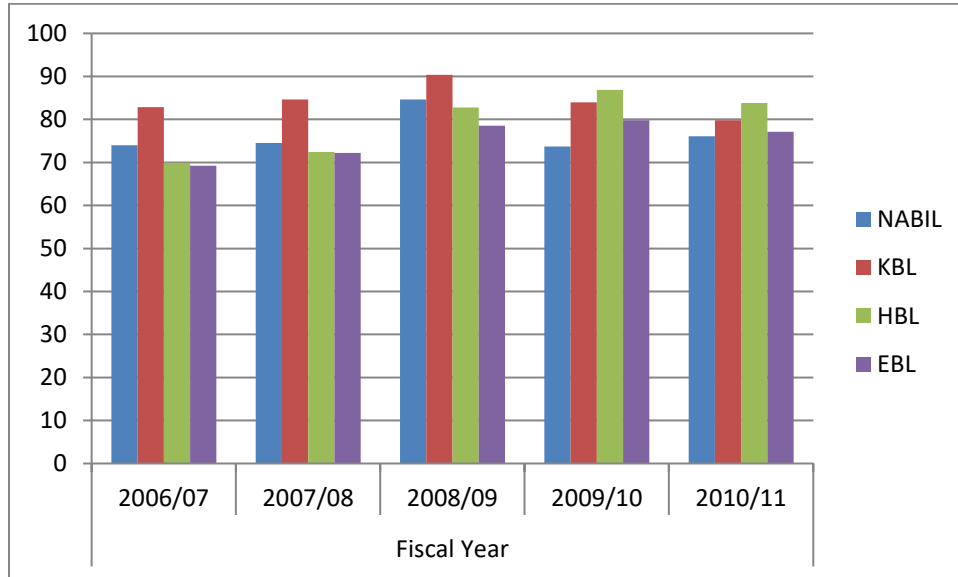
Banks	Fiscal Year					Mean	S.D	C.V (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	74.00	74.50	84.64	73.71	76.11	76.58	4.12	5.4
KBL	82.88	84.67	90.39	83.99	79.83	84.35	3.44	4.08
HBL	69.90	72.41	82.80	86.90	83.82	79.16	6.72	8.48
EBL	69.22	72.22	78.56	79.80	77.1	75.37	4	5.31

Sources: Appendix 1(iv)

Above table 4.4 exhibits that loan and advances to current assets ratio of NABIL has highest and lowest ratio is 84.64 in 2008/09 and 73.71 in 2009/10. Similarly, KBL has highest and lowest ratio 90.39 in 2008/09 and 79.83 in 2010/11. HBL has highest and lowest ratio 86.90 in 2009/10

and 69.90 in 2006/07 and EBL has highest and lowest ratio 79.80 in 2009/10 and 69.22 in 2006/07 respectively.

Figure 4.4
Loan & Advances to Current Assets Ratio (%)



Overall the mean value of KBL has 84.35 which is highest mean value among four banks. Similarly the standard deviation and CV is 3.44 and 4.08% respectively. EBL has lowest mean value 75.37 and NABIL and HBL have 76.58 and 79.16 in order. Like wise on the cause of NABIL and HBL have 4.12 and 6.72 SD ratio finally, C.V is 5.4% and 8.48 % respectively.

4.1.2 Assets Management Ratio (Activity Ratio)

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner.

(i) Loan and Advances to Total Deposit Ratio.

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances.

$$= \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

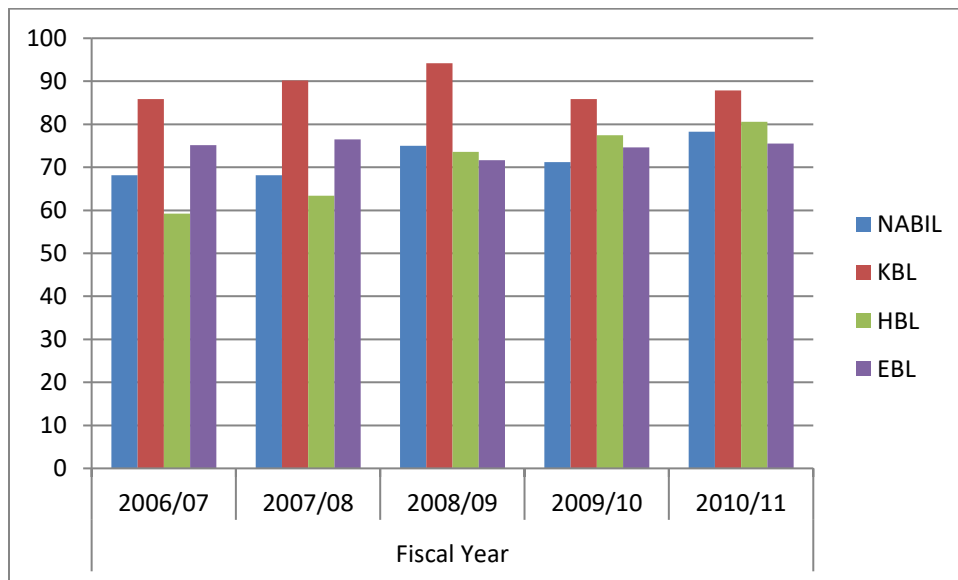
Table 4.5
Loan & Advances to Total Deposit Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	68.13	68.18	74.97	71.17	78.29	72.15	3.96	5.49
KBL	85.84	90.20	94.17	85.85	87.87	88.8	3.14	3.53
HBL	59.22	63.37	73.58	77.43	80.60	70.83	8.20	11.58
EBL	75.13	76.49	71.68	74.61	75.51	74.69	1.62	2.18

Sources: Appendix 1(v)

In the table 4.5 reveals the NABIL has highest and lowest ratio is 78.29 in 2010/11 and 68.13 in 2006/07. Similarly, KBL has highest and lowest ratio 94.17 in 2008/09 and 85.84 in 2006/07. HBL has highest and lowest ratio 80.60 in 2010/11 and 59.22 in 2006/07 and EBL has highest and lowest ratio 75.51 in 2010/11 and 71.68 in 2008/09 respectively.

Figure 4.5
Loan & Advances to Total Deposit Ratio (%)



In the figure 4.5 loan and advance to total deposit ratio all banks have highest mean value but HBL has lowest value EBL>NABIL>KBL>HBL where 74.69>72.15>88.8>70.83 in order. However in the case of standard deviation NABIL and KBL have bit differ in same ratio 3.96

and 3.14 but HBL is sharply higher 8.20 and EBL is smoothly lower 1.62 among four banks. finally, in coefficient of variance HBL has huge percentage 11.58% and EBL has least percentage 2.18, moreover, NABIL and KBL have 5.49% and 3.53% respectively.

(ii) Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposits by investing its fund in different securities issued by government and other financial or non-financial institutions. Now, effort has been made to measure the extent to which the banks are successful in mobilizing the total deposits on investment.

In the process of portfolio management of bank assets, various factors such as availability of fund, liquidity requirement, Central banks norms etc are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice versa.

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

Table 4.6
Total Investment to Total Deposit Ratio (%)

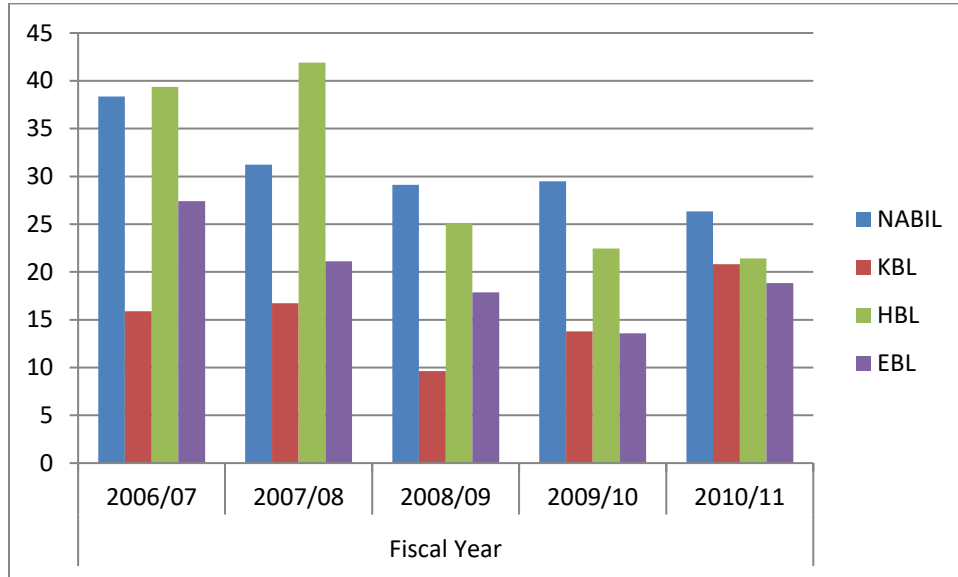
Banks	Fiscal Year					Mean	S.D	C.V (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	38.37	31.23	29.12	29.48	26.33	30.91	4.05	13.1
KBL	15.90	16.74	9.62	13.78	20.80	15.25	3.73	24.45
HBL	39.35	41.90	25.12	22.45	21.43	30.05	8.75	29.13
EBL	27.41	21.10	17.86	13.57	18.83	19.75	4.5	23

Sources: Appendix I(vi)

The above table exhibits that the ratio of total investment to total deposit ratio NABIL has highest ratio than other three banks whereas, KBL has lowest ratio, so the above table 4.6 represent the highest and lowest ratio of all four banks. In the case of NABIL has 38.37 highest ratio in 2006/07 and 26.33 lowest ratio in 2010/11. KBL has 20.80 in 2010/11 highest ratio and 9.62 in 2008/09. Similarly, HBL highest ratio 41.90 in 2007/08 and lowest ratio 21.43 in 2010/11. Lastly, EBL has 27.41 highest ratio in 2006/07 and 13.57 lowest ratio in 2009/10 respectively.

Figure 4.6

Total Investment to Total Deposit Ratio (%)



Overall following the calculation of total investment to total deposit ratio EBL has huge amount of ratio 19.75 and KBL has least number of ratio 19.75 and other two banks have NABIL 30.91 and HBL 30.05 respectively. the SD and CV of HBL is too high then other four banks 8.75 and 29.13% however NABIL has 4.05 SD and 13.1% CV similarly, KBL has SD and CV is 3.73 and 24.45% finally, EBL has 4.5 SD and 23% of CV.

(iii) Loan & Advances to Total Working Fund Ratio

Loan & advances is an important part of total assets (total working fund). Commercial bank must be very careful in mobilizing it total assets. As loan and advances in appropriate level to generate profit this ratio reflects the extent to which the commercial banks are success is mobilizing their assets, loan & advances for the purpose of income generation. A high ratio indicates better is mobilization of funds as loan and advances and vice versa.

$$= \frac{\text{Loan and Advance}}{\text{Total Working Fund}}$$

Table 4.7

Loan & Advances to Total Working Fund Ratio %

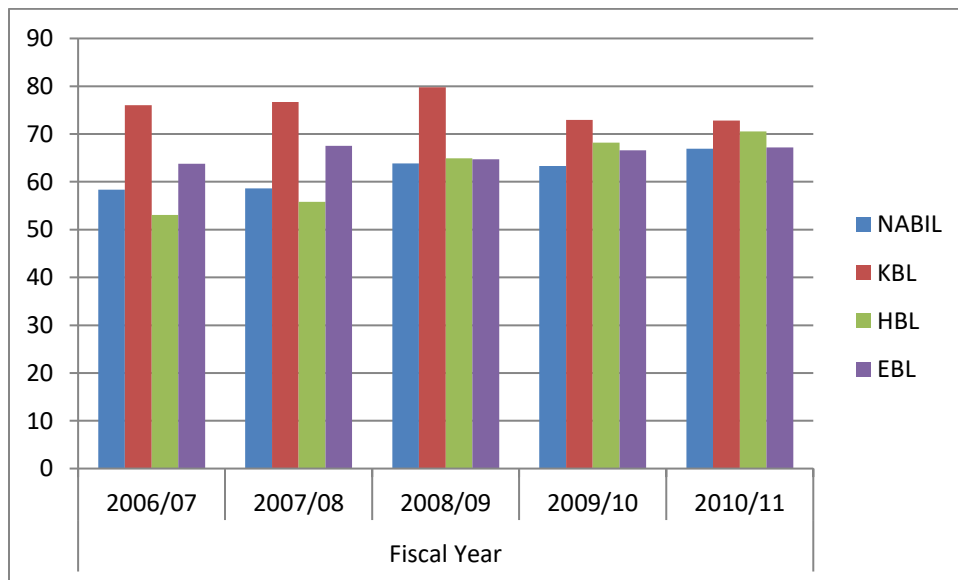
Banks	Fiscal Year					Mean	S.D	C.V (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	58.35	58.60	63.83	63.34	66.92	62.21	3.28	5.28
KBL	76.04	76.68	79.81	72.93	72.84	75.68	2.6	3.44
HBL	53.09	55.78	64.89	68.18	70.54	62.49	6.88	11
EBL	63.75	67.55	64.69	66.60	67.17	65.95	1.47	2.23

Sources: Appendix 1(vii)

The above table exhibits that the ratios of all banks have increasing with some fluctuation trend. KBL has least proportion of loan and advance to working fund ratio. However other banks have bit significant difference then each other. The highest and lowest ratio of NABIL has 66.92 in 2010/11 and 58.35 in 2006/07., KBL has highest and lowest ratio 79.81 in 2008/09 and 72.84 in 2010/11. Similarly, HBL has highest and lowest ratio 70.54 in 2010/11 and 53.09 in 2006/07 finally, EBL has highest and lowest ratio 67.55 in 2007/08 and 63.75 in 2006/07 respectively. r

Figure 4.7

Loan & Advances to Total Working Fund Ratio %



The mean ratio of KBL i.e. 75.68 is higher than three banks like EBL 65.95 and HBL 62.49, NABIL 62.21. On the other hand HBL coefficient of variance is higher i.e. 11%

than other three banks NABIL 5.28%, KBL 3.44% and EBL 2.23% which is least percentage among four banks.

4.1.3 Profitability Ratio

Profit is the back bone of the financial institutions and commercial banks. The main objective of a commercial bank is to earn profit providing different types of banking services to its customers. To meet various objectives like to have a good liquidity position, meet fixed internal obligation, overcome the future contingencies, grab hidden investment opportunities, expend banking transitions in different places and finance government in need of development funds etc, a commercial bank must earn sufficient profit. Profitability ratios are the best indicators of overall efficiency. Here mainly those ratios are presented and analyzed which are related with profit as well as investments. An effort has been made to measure the profit earning capacity of NABIL, SCBNL, HBL & EBL through the following ratios.

(i) Return on Total Working Fund Ratio

It measures the profit earning capacity by utilizing available resources i.e., total assets. Return will be higher if the banks working fund is well managed and are efficiently utilized, maximizing taxes with in legal options available will also improve the return.

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

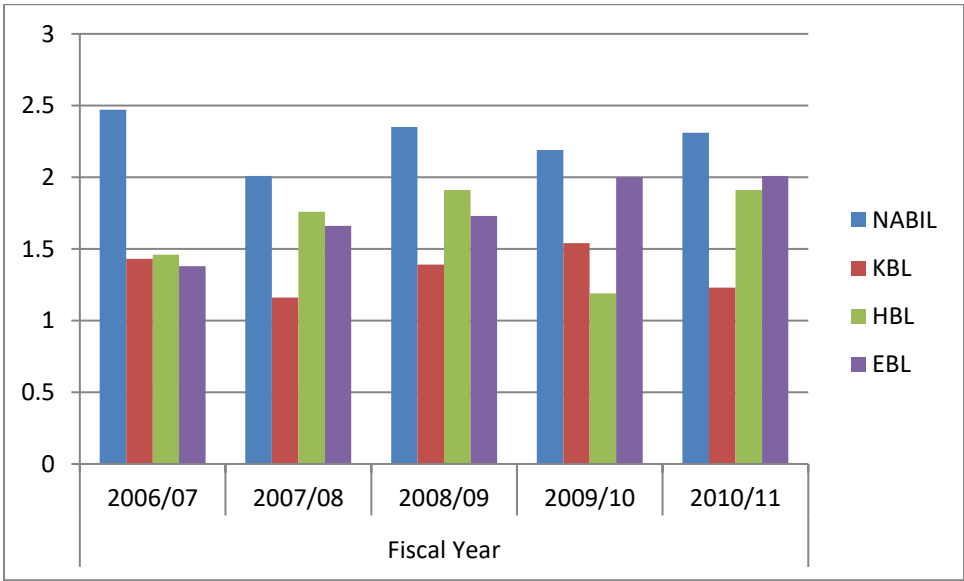
Table 4.8
Return on Total Working Fund Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	2.47	2.01	2.35	2.19	2.31	2.27	0.16	6.93
KBL	1.43	1.16	1.39	1.54	1.23	1.35	0.14	10.21
HBL	1.46	1.76	1.91	1.19	1.91	1.65	0.28	17
EBL	1.38	1.66	1.73	2.00	2.01	1.76	0.24	13.44

Sources: Appendix 1(viii)

The above table 4.8 exhibits that the ratio of return to working fund all four banks have fluctuating trend, thus the result is NABIL has highest and lowest ratio 2.47 in 2006/07 and 2.01 in 2007/08. KBL has highest and lowest ratio 1.54 in 2009/10 and 1.16 in 2007/08. Similarly, HBL has highest ratio in 2008/09 and 2010/11 which has 1.91 and lowest ratio 1.46 in 2006/07 finally, EBL has highest and lowest ratio 2.01 in 2010/11 and 1.38 in 2006/07 respectively.

Figure 4.8
Return on Total Working Fund Ratio (%)



In this figure no 4.8 the highest mean ratio is NABIL which has 2.27 and EBL has 1.76. However , KBL has least mean value 1.35 and HBL has mean is 1.76. Similarly, On the cause of standard deviation and coefficient of variance NABIL has 0.16 and 6.93%, KBL has 0.14 and 10.21%, HBL has 0.28 and 17% and EBL has 0.24 and 13.44% respectively.

(ii) Total Interest Earned to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. A high ratio is an indicator of high earning power of the bank on its total working fund and vice versa.

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

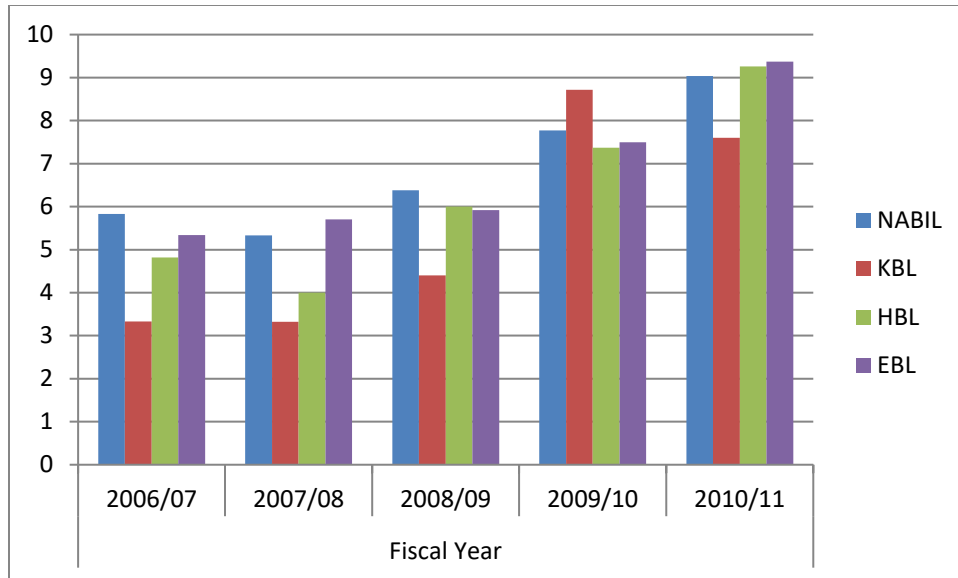
Table 4.9
Total Interest Earned to Total Working Fund Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	5.83	5.33	6.38	7.77	9.04	6.87	1.36	19.74
KBL	6.64	6.37	7.42	9.12	11.00	8.11	1.73	31.34
HBL	4.82	4.00	6.00	7.37	9.26	6.28	1.87	29.77
EBL	5.34	5.70	5.92	7.50	9.37	6.77	1.49	22.08

Sources: Appendix 1(ix)

The table no 4.9 reveals that, KBL has the highest proportion of total interest earned to total working fund. So the result is clear. NABIL has the highest ratio 9.04 in 2010/11 and the lowest ratio 5.33 in 2007/08. KBL has the highest and lowest ratio 11 in 2010/11 and 6.37 in 2007/08. Similarly, HBL has the highest proportion in 2010/11 which has 9.26 and the lowest 4 in 2007/08. Finally, EBL has the highest and lowest ratio 9.37 in 2010/11 and 5.34 in 2006/07. The result is clear about all four banks having an increasing smooth trend from 2006/07 to till 2010/11 however. Only HBL has a bit fall in 2007/08, otherwise all banks increase slowly.

Figure 4.9
Total Interest Earned to Total Working Fund Ratio (%)



In total interest earned to working fund ratio the highest mean value is KBL i.e.8.11 and least value is HBL i.e. 6.28. moreover, NABIL has i.e. 6.87 and EBL has i.e. 6.77. in the cause of standard deviatio HBL has highest value then other three banks like KBL, EBL and NABIL i.e. 1.87>1.73>1.49>1.36 Lastly in coefficient of varience KBL is top one among four banks which have 31.34% and the least one is NABIL i.e. 19.74% similarly, EBL has 22.08% C.V. and HBL has 29.77% of coefficient of varience.

(iii) Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentage of total interest paid against the total working fund. A high ratio indicates the higher interest expenses on total working fund and vice versa.

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

Table 4.10
Total Interest Paid to Total Working Fund Ratio

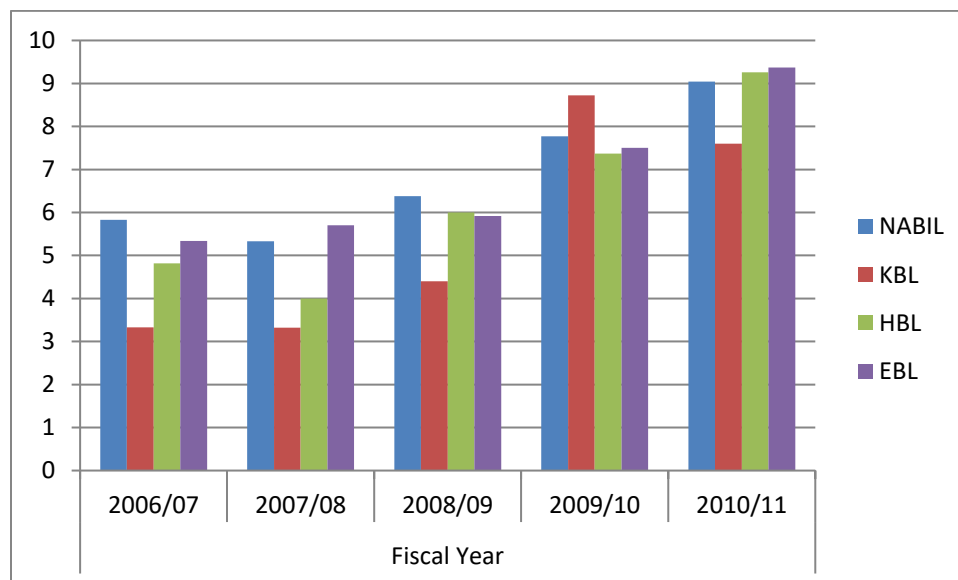
Banks	Fiscal Year					Mean	S.D	C.V (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	2.04	2.04	2.63	3.76	5.08	3.11	1.17	37.59
KBL	3.33	3.32	4.40	8.72	7.6	5.48	2.26	41.3
HBL	2.29	2.28	2.38	3.64	5.17	2.95	1.15	38.96
EBL	2.41	2.33	2.74	3.80	5.48	3.35	1.19	35.43

Sources: Appendix I(x)

The above comparative table reveals that total interest paid to total working fund ratio EBL least proportion of total interest paid to total working fund. So the result is clear. KBL has highest ratio 8.72 in 2009/10 and lowest ratio 3.32 in 2007/08. NABIL has highest and lowest ratio 5.08 in 2010/11 and 2.04 in 2006/07 and 2007/08. Similarly, HBL has highest proportion in 2010/11 which has 5.17 and lowest 2.28 in 2007/08. Finally, EBL has highest and lowest ratio 5.48 in 2010/11 and 2.33 in 2006/07. The result is clear about all four banks having increasing smoothly trend from 2006/07 to till 2010/11 however. Only HBL has bit fell in 2007/08, otherwise all banks increase slowly.

Figure 4.10

Total Interest Paid to Total Working Fund Ratio



The mean ratio of KBL i.e.5.48 is higher than other four banks like EBL i.e. 3.35, NABIL i.e. 3.11 and finally, HBL has i.e 2.95. from standard deviation the least one is

HBL bank which has 1.15 and highest S.D. is KBL bank i.e. 2.26 and other two banks have 1.17 NABIL and 1.15 HBL. finally on the case of coefficient of variance KBL has highest percentage of C.V. i.e. 41.3% and EBL has least percentage i.e. 35.43% and NABIL has i.e. 37.59% and HBL has 38.96% of coefficient of variance..

4.1.4 Miscellaneous Ratio

The miscellaneous ratio calculate the financial performance of listed commercial banks, which included the calculation of earning per share (EPS), Dividend per share (DPS) and Price earning ratio (P/E).

(i) Earning Per Share (EPS)

Profit is the lifeblood of any company. Although the company can run without profit in short period, it cannot run and exist over the long period. Therefore, sufficient earning is necessary for the company to satisfy its owners. Earnings of the shareholders are the residual amount that remains after deducting all the expenses, interest, taxes and dividends to preferred shareholders from the revenue. Earning per share is the amount available to the holders of each share. It is calculated by dividing the total earnings available to common shareholders by the total number of shares outstanding.

EPS is a good measure of performance because it integrates all the major financial ratios and provides holistic information. Overall financial model states EPS as follows:

EPS is the overall result of turnover, profitability, leverage and book value per share. It provides combined result of total assets turnover, return on sales debt and equity position in the capital structure, and the book value per share of the company. Higher EPS shows the better earning capacity of the company. The EPS is thus a good measure of performance of companies. A company with higher earning per share not only can satisfy its existing shareholders and attract potential investors but also contribute to government, society and ultimately to the nation.

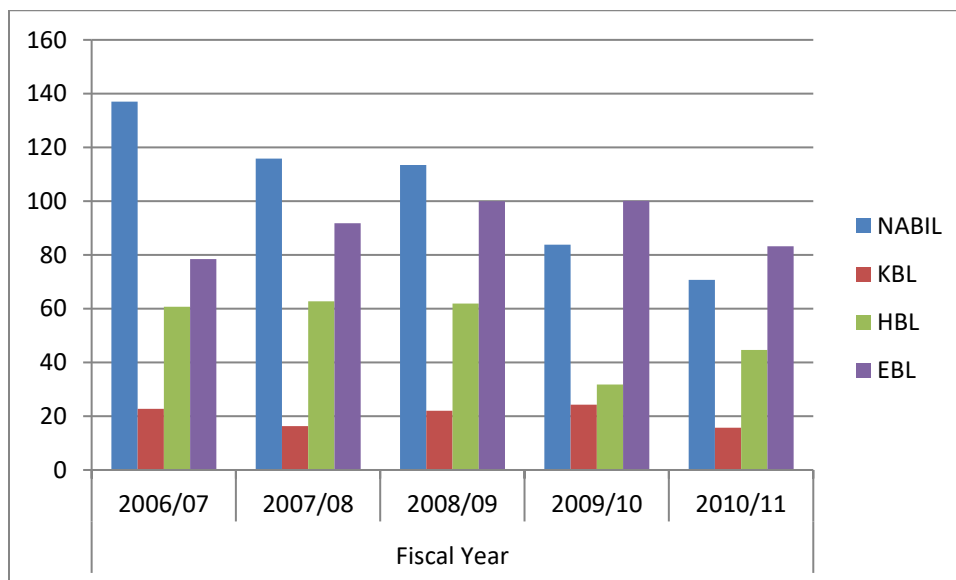
Table 4.11
Earning Per Share

Banks	Fiscal Year					Mean	SD	CV (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	137.08	115.86	113.44	83.81	70.67	104.17	23.84	22.9
KBL	22.7	16.35	22.04	24.24	15.67	20.2	1.57	7.77
HBL	60.66	62.74	61.9	31.8	44.66	52.35	12.24	23.38
EBL	78.42	91.82	99.99	100.16	83.18	90.71	8.77	9.67

Source: Annual Report of Concern Bank Appendix 2 (i)

Representing the table 4.11 all banks EPS have ups and down trend. NABIL has highest EPS in 2006/07 which has 137.08 and lowest EPS in 2010/11 which has 70.67. KBL has highest EPS in 2006/07 which has 22.7 and lowest EPS in 2010/11 which has 15.67. Similarly, HBL has highest EPS in 2007/08 which has 62.74 and lowest EPS in 2009/10 which has 70.67. finally, EBL has highest EPS in 2009/10 which has 100.16 and lowest EPS in 2006/07 which has 78.42 respectively,.

Figure 4.11
Earning Per Share



The mean ratio of earning per share NABIL has highest mean value on EPS which has 104.7 and coefficient of variance is 10.24% however, KBL has lowest mean value on EPS which has 20.2 and coefficient of variance is 7.7% similarly, EBL has 90.71 mean value and 4.32% of coefficient of variance and finally, HBL has mean value is 52.35 and 10.47% of coefficient of variance.

(ii) Dividend Per Share (DPS)

Investors on the common stocks are attracted to the dividends because it is the return on their investment. Not all companies can provide higher dividends to the common stockholders. For this, they need larger amount of profit. From the total earnings available to common stockholders, the company may retain some earnings for planned investment and distribute remaining amount to common stock holders, or the company may distribute dividends at fixed amount or constant pay out ratio as per its dividend policy. Dividend per share is the regular amount availed to the holders of each common stock by the company. Evaluation of performance of listed companies in terms of dividend per share (DPS) is considered as an appropriate measure, which shows the companies' earnings and dividend paying capacity.

DPS is the result of various ratios as follows

Dividend per Share includes dividend decision in earning per share. Although the behavior of companies towards dividend payment is disappointing in Nepal, the joint venture banks, other financial institutions, and some other companies have brought greater revolution in this trend. They are competing for paying larger amount of dividends in recent years.

Table 4.12
Dividend Per Share

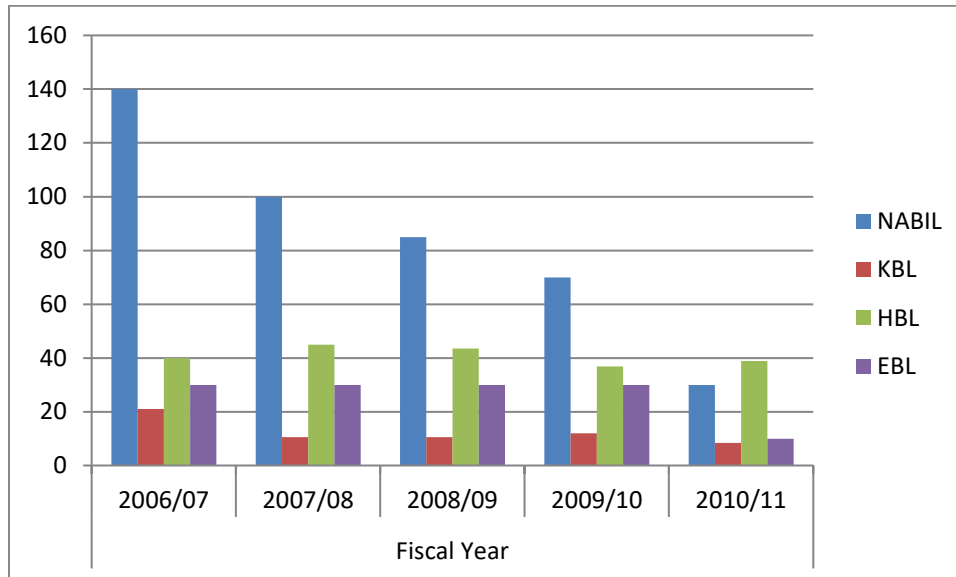
Banks	Fiscal Year					Mean	SD	CV (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	140	100	85	70	30	85	36.06	42.42
KBL	21.05	10.53	10.58	12	8.44	12.52	1.97	15.72
HBL	40	45	43.56	36.84	38.84	40.85	3.014	7.38
EBL	30	30	30	30	10	26	8	30.77

Source: Annual Report of Concern Bank Appendix 2 (ii)

Representing the table 4.12 all banks DPS have decrease trend. NABIL has highest DPS in 2006/07 which has 140 and lowest DPS in 2010/11 which has 30. HBL has highest DPS in 2006/07 which has 43.56 and lowest DPS in 2009/10 which has 36.84. Similarly, EBL has highest DPS from 2006/07 to 2009/10 which has 30 and lowest DPS in 2010/11 which has 10,

finally, KBL has highest DPS in 2006/07 which has 21.05 and lowest DPS in 2010/11 which has 8.44.

Figure 4.12
Dividend Per Share



In figure no 4.12 NABIL has highest mean value i.e 85 and 18.97 % C.V. which has also highest percentage than other three banks. however the lowest mean value had KBL i.e. 12.52 and it has 15.72% of C.V. moreover on the case of HBL has mean value is i.e.40.85 and C.V.is 3.30%. Lastly, EBL mean value is 26 and C.V.is 13.76% which is gradually higher than other four banks.

(iii) Price Earning Ratio (P/E Ratio)

The price-earning ratio is widely used by the security analysts to value the firm's performance as expected by investors. It indicates investors' expectations about the firm's performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines. P/E ratio reflects investor's expectations about the growth in the firm's earnings. Industries differ in their growth prospects accordingly, the P/E ratios fore industries vary widely.

Price- earning ratio is the ratio between market price per share and earning per share. It is also called earning multiplier. The price-earning ratios of the banks under study are presented in table and graph as follows.

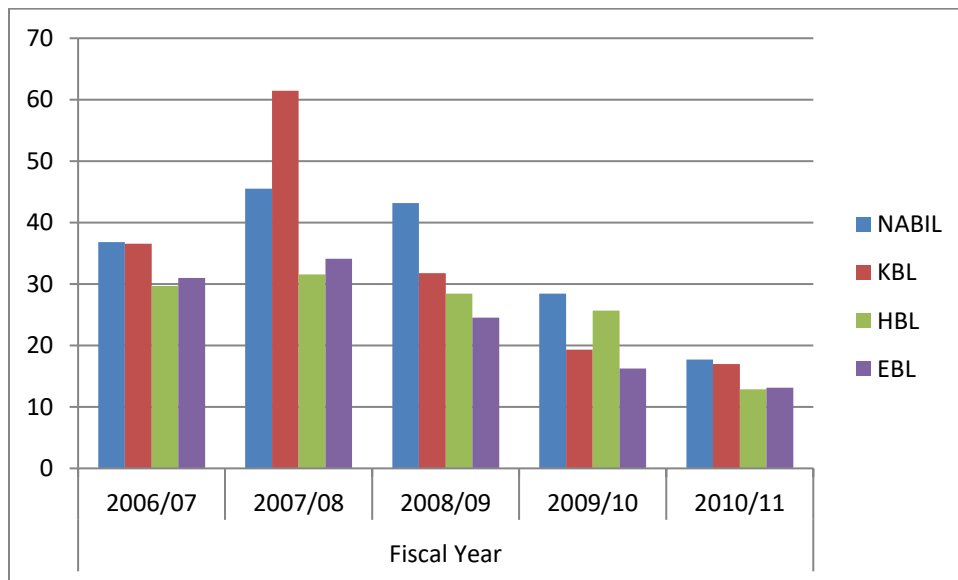
Table 4.13
Price Earning Ratio (%)

Banks	Fiscal Year					Mean	SD	CV (%)
	2006/07	2007/08	2008/09	2009/10	2010/11			
NABIL	36.84	45.53	43.19	28.45	17.71	34.35	10.2	29.7
KBL	36.56	61.47	31.76	19.31	16.98	33.22	7.12	21.44
HBL	29.69	31.56	28.43	25.66	12.88	25.64	6.67	26.01
EBL	30.99	34.11	24.55	16.27	13.15	23.81	8.11	34.06

Source: Annual Report of Concern Bank Appendix 2 (iii)

Representing the table 4.13 all banks price earning P/E have decrease trend. NABIL has highest P/E in 2007/08 which has 45.53 and lowest P/E in 2010/11 which has 17.71. KBL has highest P/E in 2007/08 which has 61.47 and lowest P/E in 2010/11 which has 16.98. Similarly, HBL has highest P/E in 2007/08 which has 31.56 and lowest P/E in 2010/11 which has 12.88, finally, EBL has highest P/E from 2007/08 which has 34.11 and lowest P/E 13.15 in 2010/11 respectively.

Figure 4.13
Price Earning Ratio (%)



In price earning ratio the mean value of NABIL is sharply higher than other four banks which has 34.35 and C.V. is 21.44% and EBL has steady lowest mean value i.e. 23.81

and C.V. is 34.16%. moreover, KBL mean value i.e. 33.22 and C.V percentage is 21.44 and HBL mean value is i.e. 25.64 and C.V. is 26.01% respectively.

4.2 Statistical Tools

Under this heading some statistical tools such as co-efficient of correlation analysis between different variables and trend also calculate in this statistical tools.

4.2.1 Coefficient of Correlation Analysis

Correlation analysis is the relationship between two or more variables such that the change in one tends to be accompanied by the change in other. Correlation is denoted by 'r' and ranges from +1.0 indicating perfect positive correlation to -1.0, indicating perfect negative correlation. If the correlation coefficient is zero, then the factors are independent or un-correlated.

In this chapter, correlation between EPS, DPS and P/E ratio have been calculated. Then results have analyzed and interpreted and then significance of correlation has been tested using Karl Pearson's correlation of co-efficient.

Interpretation of Correlation Co-efficient

It lies always between +1 to -1.

When $r = +1$, there is perfect positive correlation.

When $r = -1$, there is perfect negative correlation.

When $r = 0$, there is no correlation.

When r lies between 0.7 to 0.999, (-0.7 to -0.999) there is a high degree of positive or negative correlation.

When r lies between 0.5 to 0.6999, there is moderate degree of correlation.

When r is less than 0.5, there is a low degree of correlation.

Probable Error

If $r < 6 \text{ P.E}$, then the value of 'r' is not significant.

If $r > 6 \text{ P.E}$, then the value of 'r' is definitely significant.

If the other situations happen, nothing can be concluded with certainty.

(i) Coefficient of Correlation Between EPS and DPS

This table is present to show the relationship between EPS and DPS. It is know that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.14
Correlation Between EPS and DPS

S.N	Banks	Correlation 'r'	Probable Error P.E.(r)	Result
1	NABIL	0.96	0.02365	significant
2	KBL	0.94	0.3511	significant
3	HBL	0.87	0.07333	significant
4	EBL	0.43	0.2458	significant

Source: Appendix 2 (i)

The statistical tools especially correlation between EPS and DPS. NABIL has highest correlation then other three banks like KBL, HBL and EBL which have $0.96 > 0.94 > 0.87$ and > 0.43 and probable error of four banks respectively 0.2365 NABIL, 0.3511 KBL, 0.07333 HBL and 0.2458 EBL. Similarly all four banks have significant result.

(ii) Coefficient of Correlation Between EPS and P/E ratio

This table is present to show the relationship between EPS and P/E ratio. It is known that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.15
Correlation Between EPS and P/E ratio

S.N	Banks	Correlation 'r'	Probable Error P.E.(r)	Result
1	NABIL	0.7988	0.10917	significant
2	KBL	0.2481	0.2831	insignificant
3	HBL	0.54	0.2136	significant
4	EBL	-0.1714	0.2927	insignificant

Source: Appendix 2 (ii)

The statistical table 4.15 clearly shows the result of correlation between EPS and P/E ratio. NABIL has highest correlation then other three banks as well as EPS has negative correlation. So the table represent NABIL has highest correlation than HBL, KBL and EBL thus the result are $0.7988 > 0.54 > 0.2481$ and > -0.1714 . Additionally, probable errors are 0.10917 NABIL, 0.2831 KBL, 0.2136 HBL and 0.2927 EBL respectively. Finally the two banks result is significant (NABIL and HBL) and KBL and EBL have insignificant result.

(iii) Coefficient of Correlation between DPS and P/E ratio

This table is present to show the relationship between DPS and P/E ratio. It is known that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.16
Correlation between DPS and P/E ratio

S.N	Banks	Correlation 'r'	Probable Error P.E.(r)	Result
1	NABIL	0.71	0.1496	significant
2	KBL	0.52	0.220	significant
3	HBL	0.54	0.2136	significant
4	EBL	0.66	0.1702	significant

Source: Appendix 2 (iii)

The statistical table 4.16 correlation between DPS and P/E ratio, NABIL has highest correlation then other three banks like EBL, HBL and KBL thus the result are $0.71 > 0.66 > 0.54$ and > 0.52 . Additionally, probable errors of four banks are 0.1496 NABIL, 0.220 KBL, 0.2136 HBL and 0.1702 EBL. Finally, all four banks have significant result.

4.2.2 Trend Analysis

Trend analysis is utilized to see the movement of upward or downward by the help of given numerical values of some specified period of time. That time period may of five years, ten years etc.

Here, trend analysis of total deposit, loan & advance and net profit of the banks are done. The forecast is made for the next five years. These are based on the following assumptions:

The main assumption is that other things are remaining the same.

The forecast will be true only when a limitation of least square method is carried out.

The bank will run is present position.

The economy will remains in the present stage.

Nepal Rastra Bank will not change its guideline to commercial banks.

Under this topic, an effort has been made to calculate the trend values of total deposit, loan & advances and net profit of NABIL, KBL, HBL and EBL for five years from F/Y 2006/07 to 2010/11 and forecast for next five years till F/Y 2015/16.

Table 4.17

Trend Values of Total Deposit of NABIL, KBL, HBL and EBL

Year	NABIL	KBL	HBL	EBL
2006/07	24301818764	11188790402	29518502363	18941277920
2007/08	31022149602	12940425255	32269785509	24825211227
2008/09	37742480439	14692060109	25021068656	30709144534
2009/10	44462811277	16443694963	37772351802	36593077841
2010/11	51183142114	18195329816	40523634949	42477011148
2011/12	57903472952	19946964670	43274918096	48360944455
2012/13	64623803789	21698599523	46026201242	54244877761
2013/14	71344134627	23450234377	48777484389	60128811068
2014/15	78064465464	25201869231	51528767535	66012744375
2015/16	84784796302	2653504084	54280050682	71896677682

Source: Appendix No. 4 (i)

From the above comparative table it is clear that a trend value of total deposit of all banks like NABIL, KBL HBL and EBL are in an increasing trend. If other things remain unchanged the total deposit of NABIL is highest predicted amount to be Rs.84784796302 in contrast KBL is least expectation amount to be Rs.2653504084. Similarly EBL is second highest prospect amount to be Rs.71896677682 and HBL has followed like Rs.54280050682 in F/Y 2015/16.

Table 4.18

Trend Values of Total Loan & Advance of NABIL, KBL, HBL and EBL

Year	NABIL	KBL	HBL	EBL
2006/07	16064303229	10020217990	17258329343	14099479655
2007/08	21791946889	11537347839	21187652801	18499928661
2008/09	27519590549	13054477688	25116976260	22900377667
2009/10	33247234210	14571607537	29046299719	27300826674
2010/11	38974877870	16088737386	32975623178	31701275680
2011/12	44702521530	17605867235	36904946637	36101724687
2012/13	50430165190	19122997083	40834270095	40502173693
2013/14	56157808850	20640126932	44763593554	44902622699
2014/15	61885452511	22157256781	48692917013	49303071706
2015/16	67613096171	23674386630	52622240472	53703520712

Sources: Appendix No. 4 (ii)

From the above table it is clear that a trend value of total loan & advance of all banks like NABIL, KBL, HBL and EBL are in an increasing trend. If other things remain unchanged the total deposit of NABIL is highest predicted amount to be Rs.67613096171 in contrast KBL has least expectation amount to be Rs.23674386630. Similarly EBL has second highest prospect amount to be Rs.53703520712 and EBL has followed like Rs.23674386630 in F/Y 2015/16.

Table 4.19
Trend Values of Net Profit of NABIL, KBL, HBL and EBL

Year	NABIL	KBL	HBL	EBL
2006/07	640337912	173558280.4	521385069	299818839.6
2007/08	813787300.4	203914304.1	588936484	464852410.9
2008/09	987236688.8	234270327.8	656487899	629885982.2
2009/10	1160686077	264626351.5	724039314	794919553.5
2010/11	1334135466	294982375.2	791590729	959953124.8
2011/12	1507584854	325338398.9	859142144	1124986696
2012/13	1681034242	355694422.6	926693559	1290020267
2013/14	1854483631	386050446.3	994244974	1455053839
2014/15	2027933019	416406470	1061796389	1620087410
2015/16	2201382408	446762493.7	1129347804	1785120981

Sources: Apendix No. 4 (iii)

From the above table it is clear that a trend value net profit of all banks like NABIL, KBL, HBL and EBL are in an increasing trend. If other things remain unchanged the net profit of NABIL has highest predicted amount to be Rs.2201382408 in contrast KBL has least expectation amount to be Rs. 446762493.7. Similarly EBL has second highest prospect amount to be Rs.1785120981 and HBL has followed like Rs.1129347804 in F/Y 2015/16.

4.3 Major Findings of the study

Having completed the basic analysis required for this study, the final and the most important task of the researcher is to enlist the findings. A comprehensive summary of the major findings of the study is presented below.

Liquidity Ratio

From the analysis of current ratio it is found that the mean ratio of KBL is slightly higher than NABIL, HBL and EBL. The mean current ratio of KBL is greater than 1 and NABIL, HBL and EBL mean current ratio is less than 1.

The mean ratio of cash and bank balance to total deposits of EBL is higher than NABIL, KBL and HBL. EBL has better liquidity position than other three banks because of high liquid assets.

The mean ratio of cash and bank balance to current assets of EBL is higher than NABIL, KBL and HBL. The ratios of NABIL, KBL and HBL are less variable and more consistent than EBL.

The mean ratio of loan and advance to current assets of KBL is higher than NABIL, HBL and EBL. It is clear that KBL has more loans and advance in market.

The above findings, we can conclude that the liquidity position of KBL and EBL is comparatively better than NABIL and HBL however NABIL has weak position. KBL has the highest current ratio and loan & advance to current ratio similarly EBL has the highest cash and bank balance to deposit ratio and cash and bank balance to current assets moreover HBL has highest mean ratio of loan & advance to current assets ratio.

Asset Management Ratio

The mean ratio of loan & advances to total deposit ratio of KBL is higher than NABIL, HBL and EBL. In terms of consistency all banks have been stable in their ratio.

The mean ratio of total investment to total deposits of NABIL is higher than KBL, HBL and EBL. The ratios of NABIL are more consistent and less variable than KBL, HBL and EBL.

The mean ratio of loan & advances to total working fund of KBL is higher than NABIL, HBL and EBL.

From the above findings we can conclude that KBL has been more successful in mobilization of its loan & advance to total deposit, loan & advance to working fund ratio. NABIL has been comparative successful in total investment to total deposit.

Profitability Ratio

The mean ratio of return on total working fund of NABIL is higher than KBL, HBL and EBL. The ratios of NABIL are less consistent and more variable than others three banks.

The mean ratio of total interest earned to total working fund of KBL is higher than NABIL, HBL and EBL. The ratio of KBL is more stable and less variable than other three banks.

The mean ratio of total interest paid to total working fund ratio of KBL is higher than other three banks like NABIL, HBL and EBL. The ratio of KBL is more variable than other three banks.

From the above findings we can conclude that NABIL has been more successful in maintaining its higher return on total working fund. KBL has been more successful in total interest earned to working fund and total interest paid to total working fund.

The main findings of the study derived from the analysis of statistical data of NABIL, KBL, HBL and EBL are given below.

Co-efficient of Correlation Analysis

The co-efficient of correlation between earning per share (EPS) and dividend per share (DPS) of KBL is higher than NABIL, HBL and EBL.

The co-efficient of correlation between earning per share (EPS) and price earning ratio (P/E ratio) of NABIL is higher than other three banks. where as EBL has negative correlation.

The co-efficient of correlation between dividend per share (DPS) and price earning ratio (P/E ratio) of KBL is less than NABIL, HBL and EBL.

From the above findings, The all banks have significant relationship between EPS and DPS. Otherhand the relation between EPS and P/E ratio of EBL is insignificant except other three banks. The correlation between DPS and P/E ratio of all banks have significant relation.

Trend Analysis and projection for Next Five Years

The total deposit of all four banks are increasing trend. Moreover the total deposit of NABIL is predicted higher than KBL, HBL and EBL. However KBL has lowest predicted value.

The loan & advance of NABIL, KB L, HBL and EBL is increasing trend. The total deposit of NABIL is predicted higher than KBL, HBL and EBL. KBL has lowest predicted value.

The net profit of all banks are in increasing trend. The total deposit of NABIL is predicted higher than other banks. KBL has lowest predicted value and EBL has second highest predicted value.

In conclusion, NABIL has higher predicted value in the total deposit, loan & advance and net profit than other four banks.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The development of any country depends upon its economic development. Economic development demands transformation of savings or invertible resources into the actual investment formation is the prerequisite in setting the overall pace of the development of a country. It is the financial institutions that transfer funds from surplus spending units to deficit units. The evolution of the organized financial system in Nepal has a more recent history than in other countries of the world. In Nepalese content, the history of development of modern banks started from the establishment of Nepal bank limited in 1937 A.D. nowadays there are 31 CBs operating in Nepal financial market which is in increasing due to the country moved towards economic liberalization, financial scenario has changed, and foreign banks were invited to operate in Nepal. For the better performance of CBs, successful formulation & effective implementation of investment policy is the prime requisite. Nowadays there is a very high competition in the banking industries but very less opportunity to make investment. The opportunities are hidden. Thus these CBs should take initiative action in search of the new opportunities. So that, they can easily survive in this competitive banking business world & earn profit. A bank manager its investment has a lot to do with the economic health of the country because the bank loans support the growth of new business & trade empowering the economic activities of the country. Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector which deals in the process of channeling the available resources in the needed sector. It plays the role of agent between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels. In the absence of such institution it is possible that the saving will not be safely and profitable utilized within the economy. It will be diverted aboard into unproductive sectors.

The primary objectives of the study is to analyze the overall financial performance of NABIL, KBL, HBL and EBL however other objectives are to examine the overall performance of NABIL, KBL, HBL and EBL in terms of liquidity, activity, profitability, miscellaneous to study

the achievement of NABIL, KBL, HBL and EBL, to evaluate the effectiveness of collection of deposit and their utilization to examine the causes of gap existing between deposits and loan, investment etc, to provide suggestion and recommendation for the improvement of future performance and maximum utilization of deposit. At last but not least we can conclude that financial analysis is done to determine the banks financial position in order to identify its current strength and weaknesses and to suggestion that might enable the firm to take advantage of its strengths and correct its weaknesses. The study is about the financial performance of the of NABIL, KBL, HBL and EBL based on its financial data of five years. By using financial and statistical tools, the overall financial performance of the bank has tried to analyze. The various ratios have revealed the financial condition of the bank over the five years. Income and expenditure analysis ahs showed the percentage share of each income and expenses head. Correlation analysis helps to establish the relationship between two variables which can be useful to know how one variable affect the another variable. Likewise trend analysis is used to find out the trend of some very important elements like total deposit, loan and advance, net profit interest income / expenses of NABIL, KBL, HBL and EBL and investment on the basis of the past data of the bank. This can be used in predicting the value of these elements. Analyzing the credit sector and the bank guarantee, the bank is trying to avoid unnecessary risk, thus categorizing itself as risk avert bank. By mobilizing its funds more in loans and advances, the bank could have increased its profit. But form the tabulated figures, it is evident that of NABIL, KBL, HBL and EBL had preferred to invest in secured sectors like government securities in lending. From which various finding have shown in above chapter from that finding conclusion have been drawn which are presented as below?

5.2 Conclusion

This study reveals that the current ratio of KBL and NABIL are greater than 1 and EBL and HBL current ratio is less than 1, which should be considered satisfactory for KBL and NABIL but not satisfactory EBL and HBL. Which KBL and NABIL have mean 1.09 and 1 respectively in contrast EBL and HBL Have 0.96 and 0.95 respectively.

In the cause of cash and bank balance to deposit ratio EBL has highest ratio then other three banks however NABIL has least popular among them it is show that EBL maintain the cash and bank balance with deposit. Similarly, Cash and bank balance to current assets EBL and KBL

have maintain their cash and bank balance however NABIL has not maintain their cash and bank balance but HBL has bit higher maintain cash and bank balance then NABIL. Finally loan and advance to current assets KBL has maintain significantly higher than other three banks. The KBL loan and advance performance is better and high expected then NABIL, HBL and EBL respectively.

Overall, the liquidity position of KBL and EBL have better then NABIL and HBL, however HBL has bit improved than NABIL on the cause of liquidity so NABIL has week position on liquidity.

On the other hand, in assets management ratio (Activity ratio) is used to indicate how efficiency the banks have arranged and invested their limited resources the investment policy is calculate under activity ratio. In loan and advance to deposit ratio KBL has maintained the ratio than other three banks but HBL has maintain week position and other two banks NABIL and HBL have maintain bit low than EBL but significant high then HBL. To show the contrast between KBL and HBL there is unexpected gap between both banks which have mean value of KBL is 88.8 and mean value of HBL is 70.83. thus the result show clearly the HBL has not maintain their loan and advance to deposit. Additionally, in total investment to deposit ratio NABIL has unpredictable higher then KBL and other two banks HBL and EBL have 30.05 and 19.75 respectively. This ratio show the investment of NABIL has higher than EBL and other two banks like HBL and KBL. The investment is main key of banks because without investment banks can't meet their goal i.e. profit so the NABIL has maintain their investment to deposit ratio. Finally, in loan and advance to working fund ratio KBL, EBL and HBL have higher mean ratio than NABIL which represent KBL has 75.68 mean value which is significantly higher than other two banks but unpredictable high than NABIL, EBL has 65.95 mean value which is higher than HBL and HBL has 62.49 mean value. However, NABIL has in low position on loan and advance to working fund which has only 62.21 mean value . it is directly show that NABIL is in week position on loan and advance to working fund.

Overall. In assets management ratio (activity ratio) KBL has maintain their assets and it has in top position with comparison other three banks But NABIL is in week Position in assets management (activity) ratio. HBL and EBL have in medium position in assets. Thus the result is KBL maintain their assets sharply then HBL, EBL and NABIL.

On the case of profitability ratio represent the operation of a firm on the term of profit. This implies that higher the profitability ratio better the financial performance. in the cause of return to total working fund NABIL, HBL and EBL have significant higher ratio however KBL has least popular ratio among the four banks. The ratio of return to working fund NABIL mean value is 2.27. EBL mean value is 1.76 and HBL mean value is 1.65 however only 1.35 mean value of KBL in this ratio. Thus the net profit of KBL has significant lower then sample banks.

In the case of interest earning KBL has super interest earned however the HBL has poor interest earned. And NABIL and EBL has bit lower than KBL earned. Interest is the key point of each and every banks so the HBL is weak in their interest earned. Additionally in the cause of interest paid to working fund HBL has lowest interest payer banks among the sample banks like KBL, EBL and NABIL. The high interest payer is KBL which has mean interest paid to working fund value is 5.48 which is the significant higher then HBL and bit tall than EBL and NABIL.

Overall, in the cause of profitability KBL has good interest earner and good interest payer and NABIL has good in return to working fund. Thus the result is KBL has maintained their profitability among four banks.

In additionally, in miscellaneous ratio, NABIL performance is better than other four banks on the case of EPS, DPS and P/E ratio NABIL has super higher then EBL, HBL and KBL. In EPS of NABIL has 104.17 mean value and KBL has only 20.2 mean value and HBL and EBL have satisfactory value. NABIL has pay highest dividend per share which have mean value is 85 however KBL has pay lowest DPS which has 12.52 mean value and HBL and EBL has satisfactory in DPS. Finally, in P/E ratio NABIL has highest ratio of P/E which has peak point on P/E ratio however EBL has least ratio 23.81 mean value and KBL and HBL has satisfactory in P/E ratio.

Overall, in miscellaneous ratio NABIL captured top position among four banks and KBL has not maintain the ratio and HBL and EBL is in medium position of miscellaneous ratio.

On the cause of evaluation by statistical tools the coefficient of correlation between EPS and DPS all four banks like NABIL, KBL, HBL and EBL have significant result, coefficient of correlation between EPS and P/E NABIL and HBL have significant result and KBL and EBL have insignificant result however, EBL has negative correlation on EPS and P/E. finally coefficient of correlation between DPS and P/E all four banks like NABIL, KBL, HBL and EBL have significant result. Thus the result is NABIL and HBL have significant result.

5.3 Recommendation

On the basis of analysis, findings, following recommendations are made. The banks can make use of these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall financial analysis.

Current ratios of the banks were found HBL and EBL below the standard. So it is recommended that the bank should increase the current assets to meet the short-term obligation of the bank. Otherwise there may arise question to the creditworthiness of the bank at any point of time.

Cash and bank balance of total deposit ratio of the banks were fluctuation order. Since it is the most liquid assets some provisions regarding on this should be made to have consistency. It is recommended to have moderate level of cash and bank balance to meet unanticipated calls on current Savings call and other deposits. I suggest to KBL to improve loan and advance and for EBL issue most amount on investment because without investment banks should not earn profit so I suggest to all banks to improve investment.

Based on the research work, the researcher has reached the following recommendations The main source of commercial banks is collecting deposit from public who don't need that fund recently. So, it is recommended to collect more amounts as deposits through large variety of deposits schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift, free internet, news papers , free ATM, extra amount added, cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many more exclusive gifts . Market performance of the banking sector is very strong. The investors always think about profit and without risk they earn money from investing. Investors assuming any strategy will not regret if invested in this sector. A continuous flow of information should be made available to the investors, which will help the investors to accurately value the return to investor's. Good management uplifted the performance of company on investment and profit maximization. Management is answerable to investors through directors. Hence for the best performance board should design appropriate policies and monitor the performance of the managers in implementing them. Investors are unaware of financial markets. Programs creating awareness among the investors should be conducted. Only performing well is not an end, in an efficient market the basic goal is to make the market aware of the performance. So, certain steps which can bring their performance idea in the investors mind are very necessary. It is recommended to carry out further research study on financial

performance and its impact in the profit, furthermore to educate the investors regarding the relevancy of financial performance. There is a crying need of a separate body made up of financial experts and chartist to provide financial suggestions to public investors. Finally, I suggest to all banks to transform their branches in rural and himali region because in rural and himali's people have unrespectable money and they have not idea about investing on various sources so if the banks are transform their branches to rural and himali region they get more investors from it. In this F/Y 2010/11 there are 32 commercial banks are operate in Nepalese market so the result is if banks are growing such a way in few time the number of commercial banks stroke the sky.

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APPENDIX COVER PAGE

Formula are using in Appendix

$$\text{Calculating the man } (\bar{x}) = \frac{(\Sigma X)}{N}$$

$$\text{Calculating the standard deviation } (\sigma) = \sqrt{\frac{\Sigma(X-x)^2}{N}}$$

$$\text{Calculating the coefficient of variance (C.V.)} = \frac{\sigma}{(\bar{X})} \times 100$$

$$\text{Calculating the correlation } (r) = \frac{N\Sigma XY - \Sigma X.\Sigma Y}{\sqrt{N\Sigma x^2 - (\Sigma X)^2} \sqrt{N\Sigma Y^2 - (\Sigma Y)^2}}$$

$$\text{Coefficient of determination } r^2 = (r)^2$$

$$\text{Probable Error P.E. } (r) = 0.67456 \times \frac{1 - r^2}{\sqrt{N}}$$

$$\text{Calculating the Trend value: } Y_c = a + bx \therefore a = \frac{\Sigma y}{N} \quad b = \frac{\Sigma xy}{\Sigma x^2}$$

Where

Σ_x represent total amount

N represent total year from 2006/07 to 2010/11 $N = 5$

x^2 represent the sum of average year

Y_c represent dependent variables

a represent intercept and b represent slop.

APPENDIX NO : 3

i) Correlation between EPS and DPS

**Nabil
Bank**

F/Y	EPS= (X)	DPS= (Y)	XY	X2	Y2
2006/07	137.08	140	19191.2	18790.9264	19600
2007/08	115.86	100	11586	13423.5396	10000
2008/09	113.44	85	9642.4	12868.6336	7225
2009/10	83.81	70	5866.7	7024.1161	4900
2010/11	70.67	30	2120.1	4994.2489	900
Total	520.86	425	48406.4	57101.4646	42625

Kumari Bank

F/Y	EPS= (X)	DPS= (Y)	XY	X2	Y2
2006/07	22.7	21.05	477.835	515.29	443.1025
2007/08	16.35	10.53	172.1655	267.3225	110.8809
2008/09	22.04	10.58	233.1832	485.7616	111.9364
2009/10	24.24	12	290.88	587.5776	144
2010/11	15.67	8.44	132.2548	245.5489	71.2336
Total	101	62.6	1306.3185	2101.5006	881.1534

Himalayan Bank

F/Y	EPS= (X)	DPS= (Y)	XY	X2	Y2
2006/07	60.66	40	2426.4	3679.6356	1600
2007/08	62.74	45	2823.3	3936.3076	2025
2008/09	61.9	43.56	2696.364	3831.61	1897.4736
2009/10	31.8	36.84	1171.512	1011.24	1357.1856
2010/11	44.66	38.84	1734.5944	1994.5156	1508.5456
Total	261.76	204.24	10852.1704	14453.3088	8388.2048

Everest Bank

F/Y	EPS= (X)	DPS= (Y)	XY	X2	Y2
2006/07	78.42	30	2352.6	6149.6964	900
2007/08	91.82	30	2754.6	8430.9124	900
2008/09	99.99	30	2999.7	9998.0001	900
2009/10	100.16	30	3004.8	10032.0256	900
2010/11	83.18	10	831.8	6918.9124	100
Total	453.57	130	11943.5	41529.5469	3700

ii) correlation between EPS and P/E

**Nabil
Bank**

F/Y	EPS= (X)	P/E= (Y)	XY	X2	Y2
2006/07	137.08	36.84	5050.0272	18790.9264	1357.1856
2007/08	115.86	45.53	5275.1058	13423.5396	2072.9809
2008/09	113.44	43.19	4899.4736	12868.6336	1865.3761
2009/10	83.81	28.45	2384.3945	7024.1161	809.4025
2010/11	70.67	17.72	1252.2724	4994.2489	313.9984
Total	520.86	171.73	18861.2735	57101.4646	6418.9435

Kumari Bank

F/Y	EPS= (X)	P/E= (Y)	XY	X2	Y2
2006/07	22.7	36.56	829.912	515.29	1336.6336
2007/08	16.35	61.47	1005.0345	267.3225	3778.5609
2008/09	22.04	31.76	699.9904	485.7616	1008.6976
2009/10	24.24	19.31	468.0744	587.5776	372.8761
2010/11	15.67	16.98	266.0766	245.5489	288.3204
Total	101	166.08	3269.0879	2101.5006	6785.0886

Himalayan Bank

F/Y	EPS= (X)	P/E= (Y)	XY	X2	Y2
2006/07	60.66	29.69	1800.9954	3679.6356	881.4961
2007/08	62.74	31.56	1980.0744	3936.3076	996.0336
2008/09	61.9	28.43	1759.817	3831.61	808.2649
2009/10	31.8	25.66	815.988	1011.24	658.4356
2010/11	44.66	12.88	575.2208	1994.5156	165.8944
Total	261.76	128.22	6932.0956	14453.3088	3510.1246

Everest Bank

F/Y	EPS= (X)	P/E= (Y)	XY	X2	Y2
2006/07	78.42	30.99	2430.2358	6149.6964	960.3801
2007/08	91.82	34.11	3131.9802	8430.9124	1163.4921
2008/09	99.99	24.55	2454.7545	9998.0001	602.7025
2009/10	100.16	16.27	1629.6032	10032.0256	264.7129
2010/11	83.18	13.15	1093.817	6918.9124	172.9225
Total	453.57	119.07	10740.3907	41529.5469	3164.2101

iii) correlation between DPS and P/E

Nabil Bank

F/Y	DPS= (Y)	P/E= (Y)	XY	X2	Y2
2006/07	140	36.84	5157.6	19600	1357.1856
2007/08	100	45.53	4553	10000	2072.9809
2008/09	85	43.19	3671.15	7225	1865.3761
2009/10	70	28.45	1991.5	4900	809.4025

2010/11	30	17.72	531.6	900	313.9984
Total	425	171.73	15904.85	42625	6418.9435

Kumari Bank

F/Y	DPS= (Y)	P/E= (Y)	XY	X2	Y2
2006/07	21.05	36.56	769.588	443.1025	1336.6336
2007/08	10.53	61.47	647.2791	110.8809	3778.5609
2008/09	10.58	31.76	336.0208	111.9364	1008.6976
2009/10	12	19.31	231.72	144	372.8761
2010/11	8.44	16.98	143.3112	71.2336	288.3204
Total	62.6	166.08	2127.9191	881.1534	6785.0886

Himalayan Bank

F/Y	DPS= (Y)	P/E= (Y)	XY	X2	Y2
2006/07	40	29.69	1187.6	1600	881.4961
2007/08	45	31.56	1420.2	2025	996.0336
2008/09	43.56	28.43	1238.4108	1897.4736	808.2649
2009/10	36.84	25.66	945.3144	1357.1856	658.4356
2010/11	38.84	12.88	500.2592	1508.5456	165.8944
Total	204.24	128.22	5291.7844	8388.2048	3510.1246

Everest Bank

F/Y	DPS= (Y)	P/E= (Y)	XY	X2	Y2
2006/07	30	30.99	929.7	900	960.3801
2007/08	30	34.11	1023.3	900	1163.4921
2008/09	30	24.55	736.5	900	602.7025
2009/10	30	16.27	488.1	900	264.7129
2010/11	10	13.15	131.5	100	172.9225
Total	130	119.07	3309.1	3700	3164.2101