A THESIS

ON

FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NEPAL

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Master of Business Studies (MBS)

By:

Renuka Dhakal

(T.U. Regd. No.: 7352469)

Bhairahawa Multiple Campus

Siddharthanagar, Rupandehi, Nepal

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RECOMMENDATION

This is to certify that the thesis:

Submitted by

RENUKA DHAKAL

Entitled

Financial Performance of Commercial Banks in Nepal

has been prepared, as approved by this Department in the prescribed format of Faculty of Management.

This thesis is forwarded for examination.

_____	_____
Mr. Lucky Prasad Joshi	**Mr. Narendra Raj Pandey**
Thesis Supervisor	**MBS Programme Coordinator**
_____	_____
Dr. Keshav Raj Joshi	**Mr. Kapil Lamichhane**
Head of Research Department	**Campus Chief**

Date: ……

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

RENUKA DHAKAL

Entitled

Financial Performance of Commercial Banks in Nepal

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

Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Head of Research Department: _____

Member (Thesis Supervisor): _____

Member (External Expert): _____

Date: ……

DECLARATION

I hereby declare that this thesis entitled "Financial Performance of Commercial Banks in Nepal" submitted to Bhairahawa Multiple Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS) under the supervision and guidance of **Mr. Lucky Prasad Joshi**, Faculty of Management, Tribhuvan University.

Date :

_____

Renuka Dhakal

Bhairahawa Multiple Campus

Bhairahawa

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LIST OF ABBREVIATIONS AND SYMBOLS

P/L	=	Profit & Loss
Ltd.	=	Limited
JVBs	=	Joint Venture Banks
NABIL	=	Nepal Arab Bank Limited
HBL	=	Himalayan Bank Limited
NIBL	=	Nepal Investment Bank Limited
P/E	=	Price Earning
EPS	=	Earning Per Share
DPS	=	Dividend Per Share
FY	=	Fiscal Year
B/S	=	Balance Sheet
CV	=	Coefficient of Variation
Rs	=	Rupees
Est.	=	Established
NRB	=	Nepal Rastra Bank
P.E	=	Probable Error
S.D.	=	Standard Deviation
Etc	=	Etcetera
i.e.	=	that is
NPAT	=	Net Profit After Tax

CR	=	Current Ratio
r	=	Karl Pearson's Coefficient of correlation
CRR	=	Cash Reserve Ratio
DPR	=	Dividend Payout Ratio
T.U.	=	Tribhuvan University

CHAPTER-i

INTRODUCTION

1.1 Background

The dynamic growth and structural change of the world economy is shaping the economic policy and development paradigm of developing countries including Nepal. Growing economic liberalization, global financial integration, trade and investment interdependence and revolution in information and communication technology are influencing macro-economic policy decisions to address emerging challenges in the global economy.

Commercial banks are the heart of financial sector, which occupy important place in the framework of economy. They pool together the savings of community and make arrangement for their productive usage. They supply the financial needs of modern business by various means. They provide working capital needs not only of trade industry but also of agricultural sectors. In fact, the economic development of a country is only possible with sound system of commercial banking.

The Nepalese economy has been passing through very difficult times over the last few years. New industries have not come up. Agriculture production has remained more or less static. Foreign aid, which used to take the form of outright grants, has mostly turned into loans that

have to be repaid. Debt repayment is eating up and increasing portion of the budget. The tourism sector has suffered serious blows. In such an adverse economic climate, the banking sector in general, has not only survived but also has been able to make reasonable operating profit. So, in an under developed country like Nepal, commercial banks through varieties of services and function have contributed to over growing economies enlistment of the country. It cannot be denied without the development of commercial banks, the development like, agriculture, industry, trade and commerce would be paralyzed and the economy as a whole would remain stagnant. Nepal like other developing countries has been facing the problem of accelerating the pace of economic development. So the role of commercial banks in this country plays vital role in growth of economic development

Financial analysis is the process of analyzing various items of financial statement of a firm to ensure its comparative strength and weakness. In other words financial analysis involves analyzing financial statement prepared in accordance with generally accepted principles to ascertain information concerning the magnitude timing and risk of future cash flow.

Financial analysis is equally fruitful to internal and external parties of a corporate firm. As insiders, both management and board of directors show greater concern about the overall financial strengths and weakness of the firm. Similarly, shareholders analyses the financial statement to have information about earnings of the company. Not only shareholders but also the creditors, government, institutional lenders, bondholders etc of the banks are equally concerned with the analysis of financial statements. Creditors carry out financial analysis to have knowledge about the current debt paying capacity. Similarly other institutional lenders and bondholders are concerned with fixed change paying capacity of the firm. Thus, the type of financial analysis undertaken varies according to specific interest of the concerned parties.

Financial performance is key tool for financial decision. All the organization is directly influenced by the financial policies in their growth and development. Rational evaluation of the financial performance of the organization is essential to set sound financial policies.

Banks have today gained paramount trust of the public. Banking industry offers a wide range of services encompassing the needs of the public in different walk of life. At present, a large number of banks are operating in Nepal. Naturally, they are rendering a wide range of services. They are trying to keep up with the changes taking place in the world. But quality does not count for quantity. This study will focus on the comparative financial performances of these three joint ventures banks regarding profitability, liquidity, leverage position etc.

1.1.1 Commercial Banks:

The bank of Venice established in Italy in 1157 AD was the first bank in the world. Later on "Bank of Barcelona" and "Bank of Genoa" were established in 1401 and 1407 respectively.

However Nepal's banking history had begun with the establishment of Nepal Bank Limited in 1994 B.S. Later on, another commercial banks like Rastriya Banijya Bank (2013 B.S.), Agricultural development bank (2024 B.S.) were established to continue the banking sectors development. Commercial banks are established under "Company Act 2021" and are governed by "Commercial Bank Act 2031". Though the commercial bank is formally registered in Company Registrar's Office, Nepal Rastra Bank (Central Bank) prior approval is essential.

As per Commercial Bank Act 2031 "A commercial bank means the bank which deals in exchanging currency, accepting deposit, giving loans and doing commercial transactions".

Commercial banks plays a vital role in pace of economic growth of any country. Today the task of banks is very dynamic, complex and risky. Many researcher and studies have revealed that banks and economic advancements are two side of a coin. A sound banking system depends partly on the control exercised by the central bank and to a large extent on trust of its customers or clients. The banks have a major responsibility to behave like good citizen in a business with profitability as a major consideration.

The inception of Nepal Arab Bank Limited (renamed as NABIL bank Limited since 1st January 2002) in 1984 is a first joint venture bank proved to be a milestone in the history of banking. After this Nepal investment Bank limited in B.S. 2042/10/16 and standard chartered Bank Limited in B.S. 2043/10/16 were established. After democratically elected, government adopted the liberal and market oriented economic policy, the number of joint venture bank has increased dramatically. Joint venture banks are established by joining different forces and ability to achieve a common goal with each of the partners. They are efficient and effective monetary financial institutions in modern banking that provide the excess amount of funds to fulfill the demand of the investors and better allocation of financial resource and to encourage economic growth in the economy.

1.1.2 Joint Venture Bank:

With the adaptation of a policy of gradual liberalization by the government following the restoration of democracy in 1990 and subsequent assumption of the political power by the democratic government in 1991, a number of reforms have been pursued in the financial

sector. The reforms were mainly targeted to allow the market forces to play a bigger role in the financial sector and also encouraging private sector participation in the country's development endeavors.

The reform brought in the promotion of a number of joint venture banks. Development of capital markets and the introduction of a number of finance companies were realized. The policy of complete deregulation of interest rate and abolishment of statutory liquidity ratio acted as strong instruments in achieving a considerable progress in channelizing the resources of the banking sector to the private sector. The joint venture concept has become more acceptable these days. In general joint venture banks in Nepal refers to a bank in partnership with a foreign bank. Any new bank for its operation requires assistance of a well established bank. For this purpose a new bank and an established bank enters into an agreement known as "Technical Services Agreement". According to this agreement the established bank provides its channel of global network to the new bank. Furthermore, the old bank deputes its experts to the new bank for substantial period to help the new bank in technical aspects.

At present there are twenty five commercial banks operating in Nepal. Among them Nepal Investment Bank Ltd, Himalayan Bank Ltd and Nepal Arab Bank Ltd have been chosen for the purpose of this study.

1.2 Focus of the Study:

Financial management is essential to utilize and manage scarce financial resources efficiently. Therefore, the main focus of the study is analysis of financial performance of the listed joint venture banks of Nepal in finding the facts and recommendation for correction

measures, pointing the problems so that they can perform their roles to the best of their capacity.

1.3 Statement of the Problem:

Establishment of the private joint venture banks has continued in response to the economic liberalization policies of the government. Because of the liberalization policies, establishment of the commercial banks grow rapidly and face a competition.

A sound banking system with wide coverage throughout the country with varieties of banking services to fulfill commercial, trading, industrial and agricultural needs of the country is of absolute importance to Nepal. The structural as well as functional reforms in the banking system are needed to enable the banks perform a developmental role in underdeveloped countries like Nepal.

Economic liberalization policy of government has provided better opportunity for foreign investors, due to which joint venture banks and financial institution have been established or incorporated rapidly in Nepal. Consequently, they are facing a stiff competition. This study will seek the answer of the following questions relating to listed joint ventures banks of Nepal.

- How the banks have been managing their liquidity position?
- How far the JV banks are able to accumulate and utilize deposits?
- What is the position of income and expenditure?
- In which way the banks are able or unable to generate profit for their sustainability or otherwise?
- In which trend did the bank grow to reach the present status?
- How efficient are they? And which bank is performing better?
- How encouraging and attractive is the profitability position? What are the operational results of their profitability?
- What is the rate of return in investment of the selected commercial banks?

In conclusion, this study aims to find out the area of differences between the selected JV banks in terms of deposits collection, resources mobilization, liquidity position, profitability and others. This study will also predict the special strength and weakness, fluctuations of ratios, trends and correlation between relevant variables of the selected banks. As a result the areas of improvement could be identified and necessary suggestions could be given to improve those areas.

1.4 Objectives of the study:

The main objective is to analyze, examine and interpret the financial position of the selected joint venture banks.

The main objectives of this study are as follows:

- To analyze, examine and interpret the financial position of the selected banks, with the help of ratio analysis and other financial tools.
- To evaluate liquidity, leverage, turnover and profitability position of the selected banks.
- To examine the trend of total deposit, total investment, net worth, net profit and growth of the banks.
- To examine the value position of the banks.
- To make relevant suggestions and practical ideas and materialize recommendations based on the analysis of data.

1.5 Importance of the study

The main significance of this study is:

- **To the shareholders**

It helps them by creating awareness regarding the financial performance of their banks. The comparison will help them to identify the productivity of their limited resources.

- **To the general public**

The study will be beneficial to the general public coz they provide the financial performance of the banks from which they can make their own decision whether to invest or not, finance or not.

- **To the management of joint venture banks**

The study will be helpful to go deeply into the various matters as to why the performance of their banks is better or worse than their competitors. The management will know about their weakness, gap which can be improved and corrected.

- **To the financial users.**

The study will help different financial users. As they cannot analyze the risk and return associated with the investment, this study provides relevant indications of ongoing organization.

1.6 Limitations of the Study

The study has the following limitation:

- The study covers only certain joint venture banks (Nepal Investment Bank Limited, Himalayan Bank Limited and Nepal Arab Bank Limited).
- The study covers the analysis of only five years data from Fiscal year 2003/04 to 2007/08.
- The study relies mostly on secondary data.
- The data available in the published annual reports and internet web site of Nepal Stock Exchange, www.nepalstock.com, is assumed to be correct and true.

- This study deal with certain statistical as well as financial tools (Coefficient of Variation, Ratio Analysis, Trend Analysis, Profitability Ratio etc).

1.7 Organization of the study

This study has been organized into five chapters, each devoted to some aspects of financial performance of joint venture commercial bank. The titles of each of these chapters are summarized and the contents of each of these chapters of this study are briefly mentioned here:

Chapter I Introduction

Chapter II Review of Literature

Chapter III Research Methodology

Chapter IV Presentation and Analysis Of Data

Chapter V Summary, Conclusion and Recommendation

Chapter I. Introduction

This Chapter is introductory and deals with subject matter of the study including general background of the study, problem of the study, objectives of the study, significance of the study, limitation of the study, organization of the study, etc.

Chapter II Review of Literature

This chapter contains the profound review of available literature related to the area of this study. It is directed towards the review of conceptual framework and review of major related studies

Chapter III Research Methodology

This chapter describes the research methodology used to conduct the present research. It deals with research design, sources of data, data processing procedures, population and sample, period of the study, method of analysis and financial and statistical tools.

Chapter IV Presentation and Analysis Of Data

This chapter presents the systematic analysis and presentation of data by using various methods of statistical and financial tools. Tables, pie charts, etc. will be used accordingly. This chapter is the key chapter for the present study, which also presents the results relating to financial performance.

Chapter V Summary, Conclusion and Recommendation

This chapter is concerned with the summary of main findings, conclusion, recommendation and suggestions for future performance of the banks.

CHAPTER-II

REVIEW OF LITERATURE

The review of literature is one of the important aspects of planning of the study. Review of different relevant sections are made in this chapter to sort out what works are done and not done in the field of research. Various source of literature such as books, journals, research papers and other studies related to the financial performance analysis of commercial banks have been reviewed. The chapter is divided into two subtopics.

2.1 Conceptual Review

2.2 Review of related study

2.3 Review of Journals and Articles

2.1 Conceptual Review

2.1.1 Financial Statements

Financial statements are annual documents prepared by the organization. They are prepared for periodical review on the progress made and results achieved during the period under review. They generally refer to Income Statement, Profit and Loss Account, and Statement of Affairs, i.e. Balance Sheet, drawn at the end of each financial year. Financial Statements provide the information pertaining.

- the adequacy of earning to be able to attract potential investors,
- the profitability of the firm ,company or institution,
- Liquidity position of the firm, company or institution.

Financial Statements are prepared from the accounting records maintained by the firm. The generally accepted accounting principles and procedure are followed to prepare these statements. The basic objective of financial statements is to assist in decision –making process.

The definition of financial Statements by American Institute of Public Accounts will be worthwhile to quote here:

"Financial statements are prepared for the purpose of presenting periodical review or report on the progress by the management. They deal with the status of management in the business as also with the result achieved during the period. They reflect a combination of recorded facts, accounting conventions and personal judgments. And the judgments and conventions applied affect them materially. The soundness of judgment necessarily depends upon the competence and integrity of those who make them and on their adherence to generally accepted accounting principles and conventions."

2.1.2 Financial Statements Analysis

"Financial Analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statement. The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The analyst is attempting to measure the firm's liquidity, profitability and other indications that business is conducted in a rational and orderly way. If a firm doesn't achieve financial norms for its industry or relationships among

data that seen reasonable, the analyst note the deviations. The burden of explaining the apparent problems may then be placed upon management" (Hampton; 2006:98).

A business enterprise communicates financial information to the users through financial statements and reports. The financial statements contain systematically organized summarized information of the enterprise's financial affairs. They represent the firm's financial situation. As investors and financial analyst examine the firm's performance in order to make investment decisions based on these statements they should be carefully prepared and should be as much informative as possible. Financial statements are prepared with the help of financial transactions undergone during the financial year to provide the financial information. However, the information provided in there financial statements alone cannot give meaningful conclusion. The information provided in financial statements is useful in making decision only through analysis and interpretation .Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of financial statements.

Management is interested in the analysis of financial statements for measuring the effectiveness of its own policies and decisions .The analysis reveals them the facts and figures of the short as well as long term solvency position, profitability in relation to turnover and investment, and liquidity position of the business. Shareholders are vigilant over the financial statement analysis so as to know the profitability and the safety of their investment .They are very keen on the operating profitability and potential of growth .Likewise, financial analysis is helpful to regulatory bodies, like Nepal Rastra Bank, to formulate plans and policies and implement them effectively.

2.1.3 Importance of Financial Statement Analysis

The importance of analysis of financial statement can be generally outlined as follows:

- Financial Statement analysis measures the firm's liquidity and solvency position.
- Financial statement analysis illustrates and solvency of the firm.
- Financial statement analysis provides sufficient information to the management in order to organize objectives, devise plans, formulate policies an implement them effectively.
- Financial statement analysis furnishes necessary information to fulfill needs of current as well as potential investors and regulatory authorities.
- Financial statements analysis shows the true and fair picture of the firm.

2.1.4 Limitations of Financial Statement Analysis

The Findings and interpretations of financial statement analysis are of high importance. However, it is not devoid of any shortcomings.

The major limitations of financial analysis can be summarized as;

- Financial analysis is based on the financial statement comprised of historical data. Therefore, it fails to disclose the current worth of the concerned firm or enterprise.
- Financial analysis is based on facts and figures contained on financial statements. Henceforth, the limitations of financial statements such as influence of personal judgment, disclosure of monetary facts only are also carried over as the limitations or handicaps of financial analysis.
- Financial analysis portrays only quantitative, not qualitative, information.

2.1.5 Balance Sheet

Balance sheet is the most significant financial statement .It is the statement of assets and liabilities depicting the financial position of the firm atp a particular moment of time. I contains information about economic resources and obligations of the business entity and about its owners' equity in the business at a particular point of time. To sum it all, the balance sheet projects the financial positions of the firm as at the end closure of its accounting period.

2.1.6 Income Statement

Bankers and other lenders consider the balance sheet as a very significant statement because it indicates the firm's financial strength, as measured by its resources and obligations

.However, creditors, particularly bankers in Nepal and India, and financial analyst have recently started paying more attention to the firm's earning capacity as a measure of its financial strength .The Income Statement or the Profit and Loss Account reflects the earning capacity and potential of the firm. The profit and loss account is the "Score –board" of the firm's performance during a particular period of time. The generally accepted convention is to show one year's events in the profit and loss account (also called P/L A/C) .Since the P/L A/C reflects the results of operations for a period of time., it is a flow statement .In contrast, the balance sheet is a stock, or status statements it shows assets, liabilities and owners' equity at a point of time. Analysis of P/L A/C for several years may reveal desirable trends in the profit earning capacity of a business enterprise .The P/L A/C presents the summary of revenues , expenses and net income (or net loss) of a firm for a period of time. Revenues are benefits which customers contributes to the firm in exchange for goods or services provided by the firm. The costs of the economic resources used in providing goods or services to the customers are called expenses. So expenses are costs incurred for generating revenues and are therefore related to the operations of a business firm. The excess of earned revenues over the incurred expenses in a specific period is called profit or income which results increase in owners' equity .If expenses exceed revenues the difference is called a loss resulting in net decrease in owners' equity.

2.1.7 Assets and Liabilities of Commercial Banks as per NRB directives

Balance sheet of the bank mainly comprises of the items as listed below in the assets and the liabilities side.

2.1.7.1 Assets of a Bank

Brief discussion of the assets of a commercial bank is done hereunder which could be helpful during the course of study.

Cash

Cash is the first asset in the portfolio of a commercial bank. Cash is completely liquid form of asset which refers to cash in hand, and cash with the central bank. Cash is held to meet the demands of the customers. Cash is the primary reserves of the bank and the bank knows by its experience that it must keep a certain percentage of its deposits liabilities in the form of cash for its contingent reasons. The structure of the cash of a commercial bank will be in the form of cash in its vault ,with central bank and some portion with other banks are equally good as cash lying in its vault.

The success of a bank depends on the maintenance of adequate cash reserves required to honor the cheques presented by the customers .A bank usually synchronizes the deposits and withdrawals through investigations and researches .A commercial bank has to manage these two in such a way that the good banker always keeps an extra amount of cash for the sake of safety .However, the bank must avoid excessive holding of cash since it is an idle asset and do not generate any income.

Money at call and short Notice

The amount of all interest bearing placements with other banks(local or foreign)with maturity period of not exceeding 7 days with stipulated condition for payment at call or at short notice (48 hours) are exhibited under this head.

Bills Discounted and Purchased

Commercial banks prefer to invest in bills for several reasons. The bills are negotiable and can be bought and sold easily. Bills may be promissory notes, bills of exchange or treasury bills. Commercial banks prefer to have this type of assets due to its liquid nature .That is, they can be easily marketed and they also bring some revenue to the bank. Most of the bills are eligible for rediscount at the central bank. This enhances the liquidity of the bills. They are regarded as ideal bank assets because they satisfy the principles of liquidity, safety and profitability.

Investments

Investments constitute the banker's third line of defense, after cash and bills discounted. Investment yield a higher return than that obtained from liquid assets but is less than loans and advances .Banks invest a large proportion of their funds in governments securities and other gilt-edged securities. These securities can be converted into cash easily without much loss of value .But the banks do not prefer to invest their funds in corporate shares and debentures due to risk involved in them. The commercial banks of Nepal also make considerable amount of investments in government treasury bills and bonds.

Loans and Advances, Cash Credits and Overdrafts

Loans and advances are most profitable of all these assets of a commercial bank .This is the primary source of income and the most profitable of all the assets of the banks .Loans and Advances account for the largest part of the revenue of the bank .Therefore, a bank is always willing to lend as much of its funds as possible. But it has to be careful about the safety of such advances as well. If the bank is too liberal, it may be influenced by bad debts whereas its timidity may fail to obtain adequate returns from the allocated funds for it. In the mean time, they are the least liquid of all the assets .In other words, it is very difficult to realize

them at short notice except those which are repayable on demand. Therefore, a bank cannot rely on such funds at the time of emergency.

Fixed Assets

All assets of long- term nature (fixed) owned by bank are accounted and exhibited under this head at written down value after deducting the depreciation from the total cost. In case of disposal of assets, sold or written off, for the purpose of determining profit/loss on such sale or writing off, the (fixed) Assets Account will be credited with the amount equivalent to the written down value, and the difference in cash receipt will be adjusted to Profit &loss A/C .Fixed assets are the least liquid assets of the bank such as land & buildings, vehicles, machinery owned by the bank.

Other Assets

Other Assets of the bank include any other tangible and intangible assets ,not mentioned above, stationery stock ,Accrued interest on Investment, Accrued interest on loan, Sundry Debtors , Assets-in-transit ,Non –Banking-Assets ,Expenses not written off like prepaid expenses etc .which are exhibited under this head.

2.1.7.2 Liabilities of a Bank

The liabilities of a commercial bank represent the sources of its funds which are employed by the bank in the ordinary course of its business. The items that appear in the liabilities side of the Balance Sheet are as follows:

Capital

The authorized capital is the maximum amount of capital that a bank can issue under its Memorandum of Association. The issued capital is that capital which is issued for public for subscription .Subscribed capital may be the whole of issued capital or its part . Called up capital is the amount that the shareholders are required to pay. Paid up capital is the actual amount that the shareholders have paid. So the paid up capital is the actual cash capital of the bank. The difference between the called up capital and paid up capital is known as uncalled capital .ity is an additional margin of safety for the depositors and creditors of the bank in case of their doubt about the financial situation of the bank .

Reserve fund

Reserve fund is the presentation of accumulation of profits appropriated over a period over a period of time. The objective of the reserve fund is to meet the unforeseen contingencies. It is not made for the original capital of shareholders but by the profit generated by the bank .Generally, the amount of reserve fund is invested in first classes securities .At the time of heavy losses by banks, this fund is used. In other words, the figure of the reserve presents an additional security of the banks to their customer's .Under this head, General Reserve Fund, Share Premium, other Reserves and Funds and accumulated Profit /Loss are presented.

Deposits

This item represents the liability of the bank. Since the deposits are the borrowed amount from the depositors or from general public, it is the largest portion of liability of the banks .A bank can collect deposits in various forms –savings, time, current or demand depositors, etc.

Today different types of deposits are being offered by banks in Nepal .Banks usually adopt different policy of the withdrawals or money from bank by the depositors .Similarly ,different interest rates are entitled for different types of deposits.

Deposits are the main source of fund which the banks usually use for the generation of profit .Therefore, the efficiency of the banks depends on its ability to attract deposits.

Borrowing from Other Banks

It includes the amount which a bank has borrowed from other banks during the course of operation .For this bank pays certain amount of interest to the lending bank.

Bills Payable

Under this head, the outstanding amounts pertaining to draft, T.T, Mail Transfer and pay orders issued by one branch to another branch of the bank, as well as bills drawn on the bank by other local and foreign banks are accounted.

Other liabilities

Other than the capital and liabilities accounts mentioned above, all other liabilities of whatsoever nature such as pension fund, Insurance fund, unclaimed dividends, un-expired discounts, etc. are included under this heading.

Profit and Loss Account

It is the balance of profits left after making all adjustment which also appears in the liability side of the balance sheet.

2.1.8 Tools and Techniques of financial Analysis

Various tools and techniques are used in the analysis of financial statements. Tools and techniques most commonly in use are briefly discussed hereunder.

Ratio Analysis

Ratio analysis is a significant tool of performance analysis. It is one of the techniques of measuring the financial activities of a firm. Ratio Analysis is defined as the systematic use of ratio to interpret the financial statement, so as to determine the strengths and weakness of a firm as well as its historical performance and current performance. Ratio analysis uses the data and information from the financial statement and summarizes the key relationships in order to appraise the financial performance.

The ratios can be classified mainly into four groups:

- **Liquidity ratio:**

  Liquidity ratio is the relationship between current assets and current liabilities. There is compulsion in banking sector to maintain cash and bank balance as directed by NRB bank. Liquidity ratio examines the adequacy of funds, the solvency of the firm and the firm's ability to pay its obligations.

- **Activity ratio**

Through this ratio it is known whether the funds employed have been used efficiently in the business activity or not. This ratio is also called turnover ratio because it indicates the speed of collection of funds and utilization of those funds to increase revenue by providing loans and advances, investments and other services rendered by banks.

- **Profitability ratio**

Profitability ratio indicates the degree of success in achieving desired profit. Profit is the major aspect which influences entire decision making process. The measurement of profit of JVB's operating in Nepal can be given greatest weightage since it s probably best indicator of overall efficiency. The bank should earn profit to survive and grow over a longer period of time and also to contribute towards the welfare of the society.

- **Value ratio**

Price earning ratio, dividend pay-out ratio, market value to book value per share and so on are the different value ratios which contribute in measuring the financial performance of a bank.

2.2 Review of related study

Previous studies relating to Nepalese banking sector have been the most relevant sources and assistants for this study. This thesis reviews the important and relevant aspect of banking, which has been conducted by some thesis researchers and some of students in this particular topic.

Mr. Sanjeeb Shrestha (2000), in his thesis " Profitability of Joint Venture Foreign Banks with reference to Nepal Arab Bank Ltd, Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd" concludes that NABL is providing better salary and facilities to its employees compared to HBL and NB Bank. NABL also pays largest amount of tax to government than the other two banks. However on the downbeat, NABL have not maintained the CRR as per the NRB directives.

Rajiv Raj Joshi (2001), conducted a study entitled "Comparative Study on Financial Performance of Nepal Arab Bank Limited and Nepal Grindlays Bank limited" concludes the overall profitability of NGBL is better than that of NABL, because it pays comparatively less interest to its depositors in comparison to the interest earned. Another reason for higher profitability of NGBL is that operating expenses to net interest ratio is lower in NGBL than in NABL. It reveals that NGBL pays less operating expenses out of its net interest. NGBL also has efficiently utilized its shareholders fund in generating profit, the profitability per share basis of NGBL is higher than that of NABL and has a very right future..

Narayan Prasad Subedi (2002), conducted his thesis on "A Comparative Study of Financial Performance Between Himalayan Bank Ltd. and Everest Bank Ltd", with the

objectives of examining and comparing the financial performance of two joint ventures and has concluded that the current ratio of EBL is greater than that of HBL. The variability of the ratio of HBL is more uniform than that of EBL. The liquidity of bank may be affected by external internal factors such as interest rate supply and demand position of loan balance to total deposit considerably lower than that of EBL. Comparatively HBL's profitability ratios like return on total assets, return on total deposit is not satisfactory in the both banks. HBL has lower capital adequacy ratio in comparison to directives issued by NRB. HBL loan and advances to total deposit ratio are significant to lower than that of EBL.

Mrs. Brinda Shrestha (2003), had conducted a research on a topic "A Comparative Analysis of financial performance of the selected joint venture banks". She had mainly focused her research on comparative examining the overall performance of NABIL, HBL and NB bank through financial analysis.

Time period covered by the research was five years from 1997/1998 to 2001/2002. Necessary data and other information had been collected mainly from the secondary sources of data. Mrs. Shrestha had pointed out various findings. Some remarkable findings of the research were:

- Liquidity analysis indicates better liquidity position of NB Bank. Although liquidity position of HBL and NABIL are lower, they were still able to meet their current obligations.
- Activity/turnover analysis shows that the loan and advances to total deposit and to saving deposit ratio of NB bank was highest with NABIL in the second place while that of HBL was the least. This implied NB bank was efficiently utilizing its deposit on loan and advances.

- Leverage capital structure analysis indicated the long term debt to net worth ratio of NB bank was the highest and NABIL was the lowest. An unbalanced capital structure was the common situation in all the commercial banks. The banks were using excessive debt capital.
- Capital adequacy ratio calculated for these banks below the prescribed ratio by NRB.
- Profitability of these were reflected by the determination of return on investment, return on shareholder equity, interest earned to total assets ratio, interest income to interest expenses ratio.
- The market value ratio such as price-earning ratio, dividend payout ratio of NABIL was the highest and HBL was the second highest.

Sudhan Khadka (2004), conducted a study entitled "A Comparative Study of Financial Performance of Standard Chartered Bank Nepal Limited and Nepal SBI Bank Limited" concludes that liquidity position of both banks as satisfactory. It further outlines that SCBN has slightly stronger liquidity position as compared to that of NSBL, which reflects the SCBN' s capability to meet its current obligations more efficiently than NSBL. However, looking up more funds in form of current assets is not wise because of its adverse impact on overall profitability. It further states that the overall capital structure of SCBN appears to be slightly levered than that of NSBIL. Debt servicing capacity of NSBL appears to be poor but its capital adequacy position appears to be slightly stronger than that of SCBN ().

Mr. Ishwori Prasad Panta (2005), had conducted a research on a topic "A comparative study of Everest bank Ltd. and Nepal Industrial and Commercial Bank Ltd.". He had mainly focused on his study in comparing and analyzing liquidity, profitability, solvency and activity ratio analysis as well as so other major ratio such as weighted average interest rate spread, FX-fluctuation gain to total income ratio etc.

Time period covered by the research was six years data from FY 1998/99 to 2003/04. Necessary data and other information has been collected from the secondary sources of data. In this research, Mr. Panta had pointed out various remarkable findings were:

- CRR of the banks were maintained as per the directives of NRB.
- Both banks had maintained NRB balance to deposit ratio remarkable higher than the standard prescribed by the NRB.
- Both banks were maintaining lower capital adequacy ratio. The total assets, net worth to total deposit and net worth to total credit seemed less satisfactory.
- They should encourage to small, medium and large-scale organizations to avail their services.
- Both banks were suggested to review their overall structured and investment portfolio to make better mix in capital structure as well as investment portfolio.

Sunil Maharjan (2006), conducted his thesis on "A comparative study of financial performance of commercial bank (with reference to Himalyan Bank Ltd, Nepal Investment Bank Ltd and Everest Bank Ltd." had main objective to identify the relationship between net profit with respect to deposit, loan and advance and investment and to analyze financial performance of sample banks in terms of liquidity, profitability, growth, leverage and capital adequacy and reached to the conclusion, the overall performance of sample banks found to be satisfactory. All sample banks are not strong in all performance. Some are strong in liquidity point of view, EBL found to be comparatively better than sample banks because HBL and NIBL has aggressive working policy. All the sample banks are comparatively successful in assets and deposits in profitable sectors in form of loan and advances, investment in government securities and shares and debentures.

2.3 Review of Journals and Articles

The opinions or views expressed regarding commercial banks and their activities on journal, book and booklets and magazines etc are focused as follows:

F. Morris **(Morris, 1990: 81).** in the discussion paper has concluded that “most of the banks concentrated a compliance with central bank rules on reserve requirements, credit allocation and interest rate. While analyzing loan portfolio quality operating efficiency and soundness of bank investment management has largely been overlooked. The huge loosed now found in the banks portfolio in many developing countries are testimony to the poor quality of this oversight investment function.

He further adds that mismanagement in financial institutions has involved inadequate and over optimistic loan appraisal, tax loan recovery, high risk diversification of landing and investment high risk concentration, concocted and insider landing, loans mismatching. This has led many banks of developing countries the failure of 1980s"

Hodlock and James (2002), in "Do Banks Provide Financial Slack?" states that the banks ability to accurately price financial claim, thus including a preference for undervalued firms to chose bank debt as their managerial financial source. They refers to this motivation for using bank debt as the information benefit will be weighted against a variety of contracting cost in a firm's ultimate financing choice.

Mr. Raj Kumar K.C. (June 6, 2003), in his article "Financial Sector Reforms-Still a Long Way to Go" published in the "The Rising Nepal" concluded that the financial sector has a direct impact in the national economy. It is oblivious that any slight change in the financial

sector triggers a significant impact in the economy. Following the implementation of the financial sector reform policy, the country's economy has experienced a sea change.

Diamound and Rajan (2005), in "Liquidity Shortage and Banking Crises" concluded that how liquidity shortages and solvency problem in banks interacts and how each can caused the other. Interestingly, the possibility of the contagion of banking failures arises precisely because of the structure of banks to deals with commitment problem; they finance illiquid assets with demandable claims. But if deposits cannot be made perfectly state, contingent this structure can cause or exacerbate a liquidity shortage when depositor losses are unavoidable, each depositor demand payments. This can force banks to foreclose on loans that otherwise would soon produce real liquidity.

Boyd and Nicolo (2005), in "The theory of Bank Risk Taking and Competition Revisited" explained that when confronted with increasing competition moral hazard is exacerbated and bank intentionally take on more risk, shown that a positive relationship between the number of bank competitors and risk seeking is fragile. In particular it makes an enormous difference when one allows for the existence of loan markets and requires that there be the same number of banks competing for both deposits and for loan. They assumed that borrower entirely determine project risk conditional on the loan rate set by banks. In effects bank raised portfolio problem and transform it into a contracting problem with moral hazard. Without structure, banks use increasing market power to raised loan rates and when confronted with increased funding cost, borrowers optimally choose higher risk projects.

Pant (2006), in "Nepal Membership in WTO and Financial Service Sector" explain that globalization and liberalization have flounced across the world no longer it is choice but

reality. A financial service is the key sector that underpins global economic growth and plays major role in the development of infrastructure for trade in goods and services. Liberalization of trade in goods and services, when undertaken in conjunction with transparent and strong regulatory regimes, benefits countries in many ways, with this said, there is mammoth proportion to gain for Nepal from the liberalization of the financial sector. But insurgency and the political instability have raised the risk for foreign investors to invest in the country. Risk rating of Nepal is at highest degree.

Norris (2007), in "Be Cautious While Licensing a New Foreign Bank" studied about the possible impact of foreign banks setting up their branches here said if proper regulations are not made by Nepal Rastra Bank, then the Nepali banks stand to lose a lot. Banks have been assuming that when foreign banks come in, they will only be interest in wholesale lending. But if the right rules are not set in place, nothing will stop foreign bank, going into the retail sector. They might do bank going into the retail sector. They might do it just to kill off competition and monopolies' the Nepali retail sectors which is profitable given the number of bank making profit in retail business currently. The solution suggested is to adopt policies to prohibit foreign banks from entering the retail sector.

2.4 Concluding Remarks

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purposive. There are various researches conducted on financial performance of commercial banks, but only comparing few banks, comparison with two or maximum three, which is not sufficient to compare in an overall macro level. Regarding the income and expenditure analysis the researcher presented is not sufficient in macro level.

They just have presented analysis of few banks. Most of the researchers have failed through analysis. They did not predict any assumption, which are meaningful during the analysis. Therefore the research attempts to study in this area.

So, this study will be fruitful to those interested person parties scholars, professor, students, businessman and government for academically as well as policy perspective.

CHAPTER - III

RESEARCH METHODOLOGY

Research is the systematic way of finding out the solution to a problem whereas research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain object in view. It may be understood as the submission of methods, techniques and the ways of study and analysis of data for solving the research problem. Research methodology depends on the various aspects of the research project. The size of the project, the objective of the project, impact, importance of the project, time frame of the project, impact of the project in various aspects of the human life etc. are the project in various that determine the research methodology of the particular project. However, the following steps provide a useful procedural guidance so far as research methodology is concerned:

1. Tentative selection of the problem (i.e. topic of the research)
2. Initial survey of literature.
3. Defining or electing the research problem
4. Extensive literature survey
5. Design of the research project
6. Sample design
7. Collection of data/ construction of questionnaire
8. Execution of the project
9. Analysis of data
10. Arriving at generalization and
11. Preparation of the report (i.e. stating or writing down the results) (Kothari, 1994: pp. 19-20)

Main aim of this research is to evaluate and analyze the financial strengths and weakness of the selected banks.

3.1 Research Design

"Research design is the plan, structure and strategy of investigation, conceived so as to obtain answer to research question and to control variance." (C. R. Kothari, 1991, p.10). It provides a way to research objectives.

The primary objective of this study is to asses the financial performance of the selected joint venture banks. In order to achieve the objective of the study a descriptive cum analytical research design has been employed. The study is descriptive in that the study attempts to describe the financial performance of the selected banks on the basis of available data and the study is analytical in that the data have been analyzed in order to draw a true picture of financial performance.

3.2 Sources of Data

The researcher uses mainly two sources of data collections:

- Primary data
- Secondary data

The data presented in the study are secondary type. The annual reports of the concerned banks are the major sources of the data for the study. However, besides the annual reports of the subjected banks the following source of data shall also be used in the respective corner of the study.

1. NRB reports
2. Various publications dealing in the subject matter of the study
3. Various articles published in the News papers

Besides the above, any kind of other sources such as assertion, interviews, remarked by the specialist of those are capable improvising valuable data and conclusion, shall be considered in the study.

3.3. Population and sample:

Population refers to the totality of the observations that have selected for the study. Sample refers to the part chosen from the population. There are 25 commercial banks operating in the country. Due to the time limitation, to study all the banks will take a long time. In our study 3 banks each from the public and joint venture are taken as sample.

All the commercial banks in Nepal are the population of the study. The commercial banks are as follows.

Table 3.1

Lists of Commercial Banks in Nepal

Name of the Commercial banks	Date of establishment
1. Nepal Bank Ltd.	1937
2. Rastriya Banijya Bank Ltd.	1966
3. Agriculture Bank Ltd.	1968
4. Nabil Bank Ltd.	1984
5. Nepal Investment Bank Ltd.	1986
6. Standard Chartered Bank Ltd.	1987
7. Himalayan Bank Ltd.	1993
8. Nepal SBI Bank Ltd.	1993
9. NB Bank Ltd.	1994
10. Everest Bank Ltd.	1994
11. Bank of Kathmandu Ltd.	1995
12. NCC Bank Ltd.	1996
13. Lumbini Bank Ltd.	1998
14. NIC Bank Ltd.	1988
15. Machapuchhre Bank Ltd.	2000
16. Kumari bank Ltd.	2001
17. Laxmi Bank Ltd.	2002
18. Siddhartha Bank Ltd.	2002
19. Citizen Bank Ltd.	2007
20. Global Bank Ltd	2007

21. Prime Bank Ltd	2007
22. Bank of Asia Ltd	2007
23. Sunrise Bank Ltd	2007
24. Development Credit Bank Ltd	2007
25. Nepal Merchant Bank Ltd.	2007

The sample taken from the commercial banks are follows

Total population	Sample taken
25 commercial banks	Nepal Investment Bank Ltd (NIB) Himalayan Bank Ltd (HBL) Nepal Arab Bank Ltd(NABIL)

3.4 A Profile of Sample Commercial Banks:

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. A brief profile of the following three joint venture banks is given below:

3.4.1 Nepal Investment Bank Ltd (NIBL)

Nepal Investment Bank ltd. (NIBL), previously Nepal Indosuez Bank ltd., was established in 1986 as a joint venture between Nepalese and French partners. the French partner (holding 50% of the capital) was Credit Agricole Indosuez, a subsidiary of one the largest banking groups in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, in April 2002, acquired 50% of the holdings of Credit Agricole Indosuez in Nepal Indosuez Bank.

The name of the bank was changed to Nepal Investment Bank Ltd. upon approval of the Bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office.

The shareholding structure comprises of:

- A group of companies holding 50% of the Capital
- Rastriya Banijya Bank holding 15% of the Capital.
- Rastriya Beema Sansthan holding 15% of the Capital.
- the general public holding 20% of the Capital.

3.4.2 Himalayan Bank Ltd (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan with initial paid up capital of Rs. 60 million. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL.

The ownership composition or the holding pattern of share capital of the bank is as follows:

- Habib Bank of Pakistan 20%
- Nepali Promoters 51%
- Employees Provident Fund 14%
- Public shareholders 15 %

3.4.3 Nepal Arab Bank Ltd (NABIL)

Nabil Bank Limited, the first foreign joint venture bank of Nepal with Emirates Bank Limited (EBIL), Dubai, started its operation in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Later, Bangladesh National Bank Limited, Bangladesh is managing the bank in accordance with the technical services agreement signed between NABIL and the bank on June 1995. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

The ownership composition or the holding pattern of share capital of the bank is as follows:

- National Bank Limited, Bangladesh 50%
- Nepalese Financial Institution 20%
- Public shareholders 30 %

3.5 Method of Data Analysis

To analyze and interpret the financial data, various financial and statistical tools and techniques have been used in the study, which are as follows:

- Financial Tools
- Statistical Tools

3.5.1 Financial Tools:

Ratio Analysis

A ratio analysis is simply one number expressed in terms of another and as such it express the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as coefficient. The technique of ratio analysis is a part of the whole process of analysis of financial statements of any business of industrial concern especially to take output and credit decision. Through this technique, a comparative study can be made between different statistics concerning varied facts of a business different statistics concerning varied facts of business units. Just as the blood pressure, pulse and temperatures are the measures of the health of an individual, so does ratio analysis measure the economic financial health of a business concern? Thus, the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity profitability and the quality of the business and industrial concerns. (Kothari, 1994: 169)

Therefore, ratio helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance. Financial ratios used in the study are briefly dealt with and are listed as follows:

3.5.1.1 Liquidity Ratio:

Liquidity ratio refers to the ability of a firm to meet current short term obligations of a firm. Liquidity ratio examines the adequacy of funds, the solvency of the firms ability to pay its obligations when due. "A firm should ensure that it does not suffer from lack of

liquidity, and also that it does not have excess liquidity. A very high degree of liquidity is also bad; idle assets earn nothing. The firm's funds will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity." (I.M. Pandey, 2000).

In this study following ratios are analyzed to measure the liquidity position of a firm:

a) Current Ratio

Current Ratio shows the short-term solvency of the firms. It establishes the relationship between current assets and current liabilities which is expressed as:

$$CurrentRatio(CR)\ \mathrm{X}\frac{CurrentAssets(CA)}{CurrentLiabilities(CL)}$$

Current assets are those which can be converted into cash within a year. It includes cash and bank, investment in treasury bills, bills receivable, sundry debtors, marketable securities, work in progress, prepaid expenses, loan and advances.

Current liabilities are those which are obliged to be paid within a year. It includes bills payable, sundry creditors, outstanding expenses, cash credit, income tax payable, bank overdraft and so.

b) Cash and Bank Balance to Total Deposit Ratio:

This ratio is applied to measure whether cash and bank balance is sufficient to cover its current call margin including deposits. It is calculated by dividing cash and bank balance in bank by total deposits.

Cash and bank balance to total deposit ratio = Cash and bank balance ÷ total deposits

Cash and bank balance is composed of cash on hand including foreign cheques, other cash items; balance with domestic banks and abroad. Deposits include current deposits, saving

deposits, fixed deposits and other types of deposits. Higher ratio signifies higher liquidity and the ability to cover against the demands of depositors and vice versa.

c) Loan and advances to current assets ratio:

Bank must maintain its loan and advances in appropriate level to find out portion of current assets which is granted as loan and advances. Loan and advances also included in the current assets of commercial banks because generally it provides short term loan and advances, overdrafts, cash, credit, local and foreign bill purchased and discounted.

Loan and advances to current assets ratio= Loan and advances ÷ current assets

3.5.1.2 Activity Ratio

Activity ratios are concerned with measuring the efficiency in assets management. These ratios are also termed as efficiency ratios, assets utilization and turnover ratios. They indicate the speed of collection and utilization of funds in order to increase revenue from loans and advances, investment and other services rendered by a bank. Greater rate of turnover signifies efficient utilization and management of assets and therefore proper balance on sales and assets is very vital to any firm. Various turnover ratios are used to compute the efficiency of a firm which are briefly discussed as under:

a. Loans and Advances to Total Deposits Ratio:

This ratio shows whether the banks are efficient in utilization of the outsider's fund (i.e. total deposits) for the purpose of profit generation on the Loans and Advances. This ratio is computed by dividing the total amount of Loans and advances by Total Funds Deposited.

Loan and Advances to Total Deposit Ratio = Loan and Advances ÷ Total Deposits

Loan and Advances refer to the total amount of loan and advances and overdraft (in local as well as convertible foreign currencies) and Total Deposits refers to total of all kinds of deposits.

b. Total Investment to Total Deposits Ratio:

This ratio measures the percentage amount of mobilization of Total Deposits on Total Investment. It is calculated by dividing the amount of Total Investment by the amount of Total Deposits. This ratio is affected by the concerned financial policy which is based on implementation aspect of deposits.

Total Investment to Total Deposits Ratio = Total Investments ÷ Total Deposits

3.5.1.3 Profitability Ratio:

Bank is a business institution whose objective is to earn profit. Profit is the difference between revenue and expenses over a period of time. A company must earn sufficient income to meet its running cost, to make payment of interest on deposits and to yield reasonable return for the owners. Moreover profits provide money for repaying the debt incurred to finance the project and resources for the internal financing expansion. The profitability of a firm can be measured by its profitability ratio. Profitability ratio essentially related to the profit earned by a firm during a particular period to various parameters like sales, shareholders equity, capital employed and total assets. Profit is essential survive in any business field for successful operation and future expansion and growth.

Profitability ratio can be determined on the basis of investment. Some of the important profitability ratios used is as follows:

a. Net Profit to Total Assets Ratio:

Total deposits are accumulated in banks through various types of saving, current deposits. These are the funds banks are liable to pay interest on. Therefore, after hoarding some for everyday business transaction and for some unanticipated calls, rest of it should be utilized to generate some income. The higher ratio calculated denotes better deployment of funds with banks.

This ratio measures the degree of NPAT earned by using total deposits. In other words, it reveals the relationship between net profit after tax and total deposits with an explanation of the ability of management in efficient utilization of deposits. This ratio is mirror of banks

overall financial performance as well as its success in profit generation. The reason is that deposits and earnings by utilizing these are the main aspects of joint venture commercial banks. The formula used for computing this ratio is :

Net Profit After Tax ÷ Total Assets

b. Net Profit to Total Deposit Ratio:

This ratio is used for measuring the internal rate of return from deposits. It is computed dividing the net profit by total deposits. Higher ratio indicates that the return from investment on loans and advances are desirable and lower ratio indicates the funds are not properly mobilizing.

Net Profit After Tax ÷ Total Deposits

c. Return on Loan and Advances:

The ratio measures the percentage of net profit against loan and advances. It is calculated as :

Net Profit after Tax ÷ Loan and Advances

3.5.1.4 Leverage/ Capital Structure Ratio

"The use of finance is referred by financial leverage. When a firm borrows money, it promises to make series of fixed payment, which create financial leverage." (R.Brealy & S. Myers, 1991, p.677).

These ratios are also called solvency ratios or capital structure ratio. These ratios indicate mix of fund provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm leverage ratios are calculated. This ratio highlights the long-term financial health, debt servicing capacity and strength and weaknesses of the firm. The following ratios are included under leverage ratios:

a. Total Debts (Liabilities) to Total Assets Ratio:

It shows the financial portion of total assets contributed at outsider and owners on total assets of the firm. It also measures the financial security to the outsiders. Generally creditors prefers a low debt ratio and owner's prefer high debt ratio in order to magnify their earnings on the one hand to maintain their concentrated control over the firm on the other. A high ratio indicates a bank's success in exploiting debts to be more profitable as well as riskier capital structure. It is calculated as

Total Debt / Total Assets

Conventionally a ratio of 1:2 is considered to be satisfactory, although no hard and fast rule exists. In this study total debt includes short term loans, long term loans and all kind of deposits similarly total assets includes all the assets shown on the right hand side of the balance sheet.

b. Total Debt to Shareholder's Equity Ratio:

The ratio is appraised as borrowing fund and owner's capital that is popularly measure the long term financing solvency of the firm. It is reflected to relative claims creditors and shareholders against the assets of its.

Usually a ratio of 50:50 is considered good but not for all type of organization.

Total Debt / Total Shareholder's Equity

c. Shareholders Fund to Total Deposit Ratio:

This ratio indicated the maintaining of adequate amount of shareholders fund in compare to amount of their total deposits by the bank. It is calculated as:

Shareholder's Fund / Total Deposit

3.5.1.5 Other Indicators by Miscellaneous Ratio

a. Earning Per Share:

Earning per share is one of the most widely quoted statistics when there is a discussion of a company's performance or share value. Earning Per Share is a measure of return on unit share of a bank. This ratio is derived from earning available to common stock holders by total number of common shares outstanding

Earning Per Share = Net Profit After Tax ÷ Number of Shares

b. Dividend Per Share

Dividend is the part of earnings, which distributed to the shareholders as a price of their investment in common stocks. Dividend is return to equity capital which consist price of time and price of risk taking by the investors. The total amount of dividend out of earning available to the shareholders, if distributed, the common stock's portion said dividend per share. Here the expression taking place as follows.

Total amount of dividend paid/ Number of common stocks outstanding

c. Dividend Payout Ratio

Dividend payout ratio expresses the relationship between a company's earning and cash paid out in dividend. In other words, this ratio shows what proportion of earnings is paid out as dividend and how much is retained preferred by shareholders although companies adopt dividend policies to suit their business needs. Fast growing companies have a great need for cash and they payout little. On the other hand stable or low growth companies pay out a high percentage of earning. The ratio can be calculated by applying the following formula :

Dividend per share ÷Earning per share

3.5.2 Statistical tools:

Statistic may be defined as the collection, presentation, analysis and interpretation of the numerical data. For any statistical investigation, the data must be collected and those obtained from different source are organized. Then these are presented systematically so that they can be presented in various form of table, diagrammatically form or graphic form. These data are analyzed and then interpreted. Likewise, in this report, an attempt has been made to make use of some statistical tools to analyze the data of the banks. Statistical tools like Arithmetic mean, Standard deviation (S.D), coefficient of variation (CV), Karl Pearson's correlation coefficient, probable error(PE), etc. have also been used.

Correlation analysis helps in determining the extent to which the two variables are correlated positively, negatively or unrelated. Probable error is the measure of testing the reliability of the calculated value of correlation coefficient whether it is significant or not. Coefficient of variation helps in analyzing if data are consistence over a period of time. It is calculated by dividing SD by mean or average of data.

a. Karl Pearson's Correlation Coefficient (r)

Correlation is a statistical tools that measures the relationship/covariation between variables. The Karl Pearson's method, popularly known as Pearsonian coefficient of correlation, is the most widely and advocated method of measuring correlation between the two variables. It is denoted by the symbol 'r' . The formula is:

$$r = \frac{N \Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{[N \Sigma X^2 - (\Sigma X)^2}\ \sqrt{[N\Sigma Y^2 - (\Sigma Y)^2}}$$

where

r = coefficient of correlation between variable X & Y

N = number of pairs in observation

ΣXY = sum of products of the variables X & Y

ΣX = sum of the X

ΣY = sum of the Y

ΣX^2 = sum of the squares of X

ΣY^2 = sum of the squares of Y

If r = 0, there is no relationship between the variables.

If r = +1, there is perfectly positive relationship between the two variables.

If r = -1, there is perfectly negative relationship between the two variables.

Nearer the value of r to +1, closer will be the relationship between two variables and nearer the value of r to 0, lesser will be the relationship.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 General

This chapter deals with the presentation, analysis and interpretation of relevant data of selected commercial banks in order to fulfill the objectives of this study. In this chapter data collected from secondary sources are presented and analyzed by using financial and statistical tools and techniques. The available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. To obtain best result, the data have been analyzed according to the research methodology tools, ratio analysis and statistical tools like correlation and trend analysis as mentioned in third chapter.

4.2 Financial Analysis

Financial analysis means "A general term referring to the process of extracting and studying information in a financial statement for the use in management decision making. Financial analysis typically involves the use of ratio, comparisons with prior periods and with the budget and other such procedures". (B.N. Ahuja, p. 120)

In financial analysis, financial statements such as balance sheet and profit and loss (P&L) account are primarily analyzed through different tools and techniques.

"Financial analysis is a process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account". (I.M. Pandey, 1992, p.109)

Balance sheet, profit and loss account and funds flow statement will give some information but don't give the full picture. So it is necessary to analyze the financial statement in order to obtain all the information required for the study.

4.2.1 Ratio Analysis

Ratio analysis provides a basis to examine different accounting parameters, which reflects the norms of business operation. Ratio refers to the numerical or quantitative relationship between two items/ variables. In this study ratio analysis has been grouped into liquidity ratio, activity ratio, profitability ratio and value ratio.

4.2.1.1 Liquidity Ratio:

In each and every large business organization liquidity is known as life blood of the organization because the whole operation is related to this factor. Both excess amount of liquidity as well as inadequate amount hampers the entire business. So liquidity of a firm refers to the sound solvency position of a firm to meet its obligations. Liquidity ratio measures the ability of a firm to meet its short term obligations.

Bank's liquidity constitutes cash and bank balance as the primary reserve. Cash and bank balance are idle assets which can be placed and invested, thereby earning some interest but not to the extent of loans and advance. Liquidity ratio is the relationship between current assets and current liabilities.

a) Current Ratio:

This is a crude measurement of liquidity ratio. It measures the ratio between total current assets and total current liabilities. Current ratio indicates the ability of the bank to meet its current obligation.

Current assets are those assets which can be converted into cash with one accounting period and current liabilities are those liabilities which should be paid within one accounting period.

Current ratio = Total current assets / Total current liabilities

TABLE NO. 4.1

COMPUTATION OF CURRENT RATIO OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

NIBL

Rs in million

Year	CA	CL	CR
2003/2004	13214.10	12527.10	1.055
2004/2005	15742.96	14583.37	1.080
2005/2006	20986.69	19364.70	1.084
2006/2007	26831.4	24912.73	1.077
2007/2008	37903.22	35136.52	1.079
Combined Mean			**1.075**
Standard Deviation			**0.01026**
CV			**0.95**

HBL

Year	CA	CL	CR
2003/2004	25061.24	`	1.069
2004/2005	27122.33	25516.41	1.063
2005/2006	28919.56	27334.21	1.058
2006/2007	32945.08	31012.65	1.062
2007/2008	36650.44	33985.23	1.078
Combined Mean			**1.066**
Standard Deviation			**0.0070**

CV	**0.66**

NABIL

Year	CA	CL	CR
2003/2004	16407.4	15263.80	1.07
2004/2005	16702.9	15406.44	1.08
2005/2006	22010.9	20454.98	1.08
2006/2007	26966.5	25196.35	1.07
2007/2008	36534.7	34455.66	1.06
Combined Mean			**1.073**
Standard Deviation			**0.00755**
CV			**0.70**

Interpretation:

	NIBL	HBL	NABIL
	Current Ratio	**Current Ratio**	**Current Ratio**
2003/2004	1.05	1.07	1.07
2004/2005	1.08	1.06	1.08
2005/2006	1.08	1.06	1.08
2006/2007	1.08	1.06	1.07
2007/2008	1.08	1.08	1.06
combined mean	**1.075**	**1.066**	**1.073**
standard deviation	**0.01026**	**0.0070**	**0.00755**
CV	**0.95**	**0.66**	**0.70**

Table 4.1 has outlined current ratio of the sample banks. The current ratio of NIBL is consistent during the period from 2004/05 to 2007/08. Similarly current ratio of HBL is consistent during the period from 2004/05 to 2006/07 while it has the higher current ratio in F/Y 2007/08. The current ratio of NABIL is fluctuating. During the fiscal year 2003/04 NABIL and HBL had a highest current ratio of 1.07 followed by NIBL 1.05 respectively. Similarly in FY 2004/05 NIBL and NABIL both has ratio of 1.08 while HBL has the ratio 1.06. During the fiscal year 2005/06 NIBL and NABIL both have the ratio of 1.08 followed by HBL 1.06. Here the ratio level is same as the previous year. During the fiscal year 2006/07 NIBL has the highest current ratio of 1.08 followed by NABIL 1.07 and HBL 1.06 respectively. During the fiscal year 2007/08 NIBL and HBL has the highest current ratio of

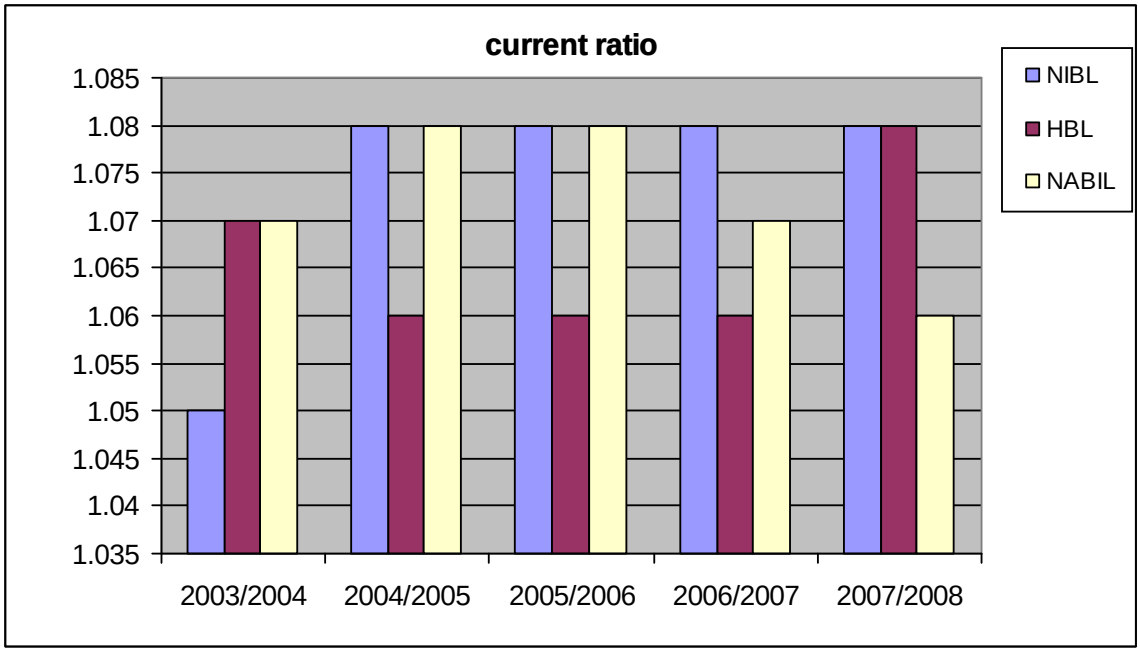
1.08 followed by NABIL 1.06. While comparing these three banks current ratio of HBL is at lowest over the whole period of analysis.

Looking all of the fiscal year we found that no any bank here has met the ideal standard level of. 2:1. with view to the nature of assets and liabilities of the commercial banks, the ratio below the stated standard may be accepted as satisfactory but it signifies that the bank has poor liquidity position. In such cases, it may face the lack of working capital as a consequence it may loose the creditworthiness and creditors confidence. So it is strongly suggested to the banks to raise the ratio.

Similarly during the reviewed period NIBL had the highest Mean ratio for current ratio with 1.075, NABIL 1.073 and HBL 1.066 respectively. During the reviewed period NIBL had the highest consistency in current ratio i.e. coefficient of variation with 0.95 and it is followed by NABIL 0.70 & HBL 0.66 respectively.

Figure 4.1

Graphical presentation of Current Ratio of selected Private commercial banks:



From the graph it is concluded that current ratio of each banks are fluctuating. NIBL current ratio is little constant in comparison with NABIL & HBL but not in an ideal standard.

b) Cash and Bank Balance to Total Deposit Ratio:

Cash & Bank balance consists of cash on hand; foreign currencies, cheques as well as other cash items and balance with domestic banks. The ratio measures the availability of banks highly liquid or immediate fund to meet its unanticipated calls on all types of deposits. This ratio is calculated as .....

Cash & Bank Balance / Total Deposit

TABLE NO. 4.2

COMPUTATION OF CASH AND BANK BALANCE TO TOTAL DEPOSIT RATIO OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

NIBL

Year	C&B Balance	Total Deposit	C&B balance to total deposit ratio (%)
2003/2004	1,226.90	11,525.40	10.65
2004/2005	1154.51	14254.57	8.10
2005/2006	2088.63	18927.31	11.04
2006/2007	2145.34	24488.86	8.76
2007/2008	3284.49	34451.73	9.53
Combined Mean			9.61
SD			1.108
CV			11.53%

HBL

Year	C&B Balance	Total Deposit	C&B balance to total deposit ratio
2003/2004	2001.184	22,010.33	9.09
2004/2005	1890.68	24814.01	7.62
2005/2006	1401.68	26490.85	5.29
2006/2007	1449.79	30048.42	4.82

2007/2008	1396.72	31939.87	4.37
Combined Mean			6.24
SD			1.81
CV			29.06%

NABIL

Year	C&B Balance	Total Deposit	C&B balance to total deposit ratio
2003/2004	970.486	14119.03	6.87
2004/2005	536.06	14586.61	3.68
2005/2006	556.18	19347.40	2.87
2006/2007	1383.82	23342.29	5.93
2007/2008	2340.9	31915.05	7.33
Combined Mean			5.34
SD			1.76
CV			32.98%

Interpretation

C&B balance to total deposit ratio

Year	NIBL	HBL	NABIL
2003/2004	10.65	9.09	6.87
2004/2005	8.10	7.62	3.68
2005/2006	11.04	5.29	2.87
2006/2007	8.76	4.82	5.93
2007/2008	9.53	4.37	7.33

Combined Mean	9.61	6.24	5.34
SD	1.11	1.81	1.76
CV	11.53%	29.06%	32.98%

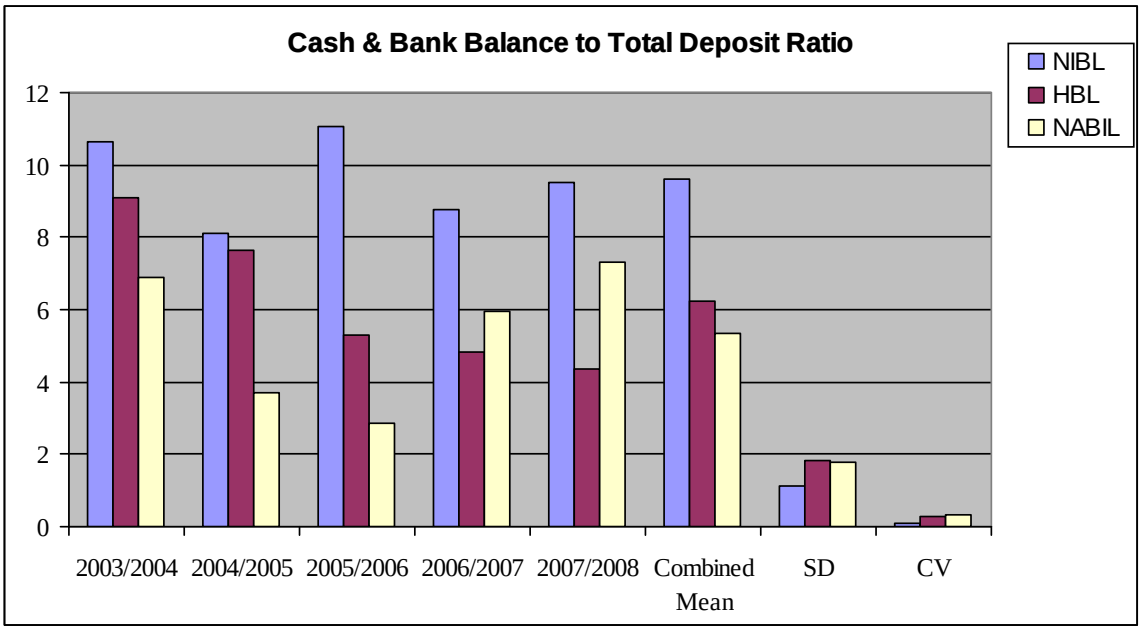
Table ..... shows that Cash and Bank Balance to Total Deposit ratio of NIBL and NABIL is in fluctuating trend and HBL has decreasing trend during the study period. NIBL has the highest ratio of 11.04% in F/Y 2005/06 and lowest of 8.10% in 2004/05. Similarly HBL has a high of 9.09% in F/Y 2003/04 and a low of 4.37% in F/Y 2007/08. And NABIL has a high of 7.33% in 2007/08 and a low of 2.87% in 2005/06. The ratios of all banks are in decreasing trend and this reflects negligence in maintaining this ratio by all three banks.

Similarly the average mean ratio of NIBL is higher than HBL & NABIL i.e. 9.61%. This shows NIBL readiness to meet customer requirement better than other two banks.

During the period the coefficient of variation of NIBL is lower than NABIL and HBL i.e. CV of NABIL 32.98%, HBL 29.06% & NIBL 11.53%. On its basis it can be concluded that NABIL & HBL had the highest consistency for cash reserve ratio i.e. coefficient of variation

Figure 4.2

Graphical presentation of Cash & Bank balance to Total Deposit Ratio of selected commercial banks:



From the figure although the above ratio implies a slightly better liquidity position of NIBL, a high ratio of non earning cash and bank balance indicates the bank unavailability to invest its funds in income generation areas that might have helped it to improve its profitability.

c) Loan and Advances to Current Assets Ratio

Loan and Advances are the main source of income of commercial bank. This ratio determines the proportion of loan and advances outflows with respects to its current assets so as to generate the effective income. This ratio reflects the extent on which the banks are successful in mobilizing their current assets on loan and advances for the purpose of income generation. Income from loan and advances is one of the most profit contributing source of banks. The formula for calculating this ratio is:

Loan & Advances / Current Assets

TABLE NO. 4.3

COMPUTATION OF LOAN AND ADVANCES TO CURRENT ASSETS RATIO OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

NIBL

Year	Loan & Adv.	CA	ratio %
2003/2004	7,338.50	13214.10	55.54
2004/2005	10126.06	15742.96	64.32
2005/2006	12776.21	20986.69	60.88
2006/2007	17286.43	26831.4	64.43
2007/2008	26996.65	37903.22	71.23
Combined Mean			63.28
SD			5.12
CV			8.10

HBL

Year	Loan & Adv.	CA	ratio %
2003/2004	12919.631	25061.24	51.55
2004/2005	12424.52	27122.33	45.81
2005/2006	14642.56	28919.56	50.63
2006/2007	16998	32945.08	51.59
2007/2008	20179.61	36650.44	55.06
Combined Mean			50.93
SD			2.97

CV	5.84

NABIL

Year	Loan & Adv.	CA	ratio %
2003/2004	8189.99	16407.35	49.92
2004/2005	10586.17	16702.85	63.38
2005/2006	12922.54	22010.89	58.71
2006/2007	15545.78	26966.5	57.65
2007/2008	21365.05	36534.72	58.48
Combined Mean			57.63
SD			4.35
CV			7.54

Interpretation

Loan and Advances to Current Assets Ratio

Year	NIBL	HBL	NABIL
2003/2004	55.54	51.55	49.92
2004/2005	64.32	45.81	63.38
2005/2006	60.88	50.63	58.71
2006/2007	64.43	51.59	57.65
2007/2008	71.23	55.06	58.48
Mean	**63.28**	**50.93**	**57.63**
SD	**5.12**	**2.97**	**4.35**
CV	**8.10**	**5.84**	**7.54**

the above figure reveals that NIBL had the highest Loan and Advances to Current Assets ratio of 55.54% in the F/Y 2003/04 followed by HBL 51.55% and NABIL 49.92% respectively. Similarly during the F/Y 2004/05 NIBL again had the highest ratio of 64.32%, NABIL 63.48% and HBL 45.81% respectively. During F/Y 2005/06 NIBL had the highest ratio of 60.88% followed by NABIL 58.71% and HBL 50.63%. Again the ratio of NIBL is higher i.e. 64.43% in F/Y 2006/07 with NABIL 57.65% and HBL51.59% respectively. Similarly during F/Y 2007/08 NIBL had the highest ratio of 71.23%, NABIL 58.48% and HBL 55.06%.

This ratio measures the ultimate uses of its current assets over loan and advances. The figure shows that NIBL could utilize its current assets at its best compare to other banks. Further it is suggested to HBL that it can still increase its loan and advances in order to utilize its funds.

During the reviewed period NIBL mean ratio had seemed in the highest position for loans and advances to current assets ratio with 63.28% followed by NABIL 57.63% and HBL 50.93% respectively.

During the reviewed period NIBL had the highest consistency ratio i.e. coefficient of variation with 8.10% followed by NABIL 7.54% and HBL 5.84% respectively.

Figure 4.3

Graphical presentation of Loan and Advances to Current Assets Ratio of selected commercial banks:

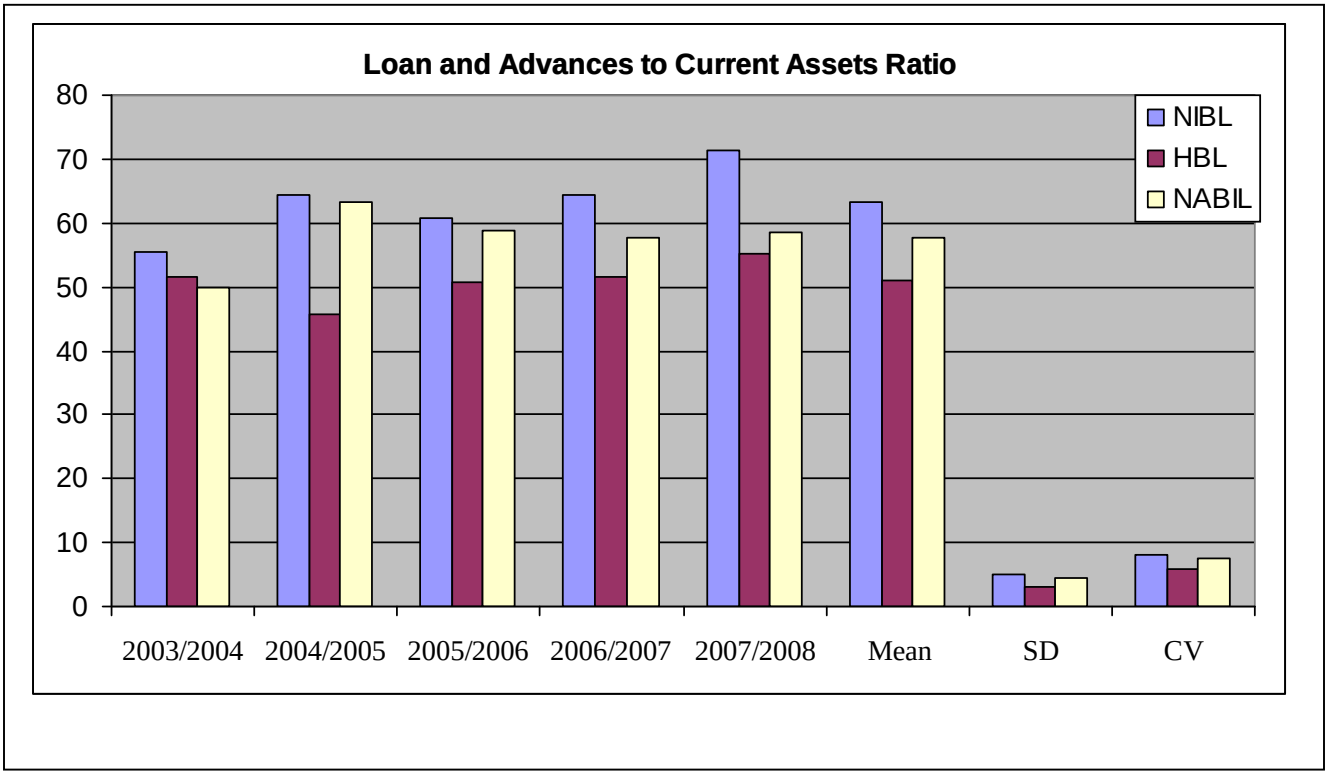


Figure No. 4.3 clearly concluded that NIBL and NABIL is utilizing its current assets properly but it clearly seems that HBL could not be able to utilize its current assets and it is suggested that it should utilize its fund in loan and advances in order to increase its further profit maximization. But in another hand it also reminds that too high ratio also decrease the liquidity capacity as decreasing the amount of current assets of the bank.

4.2.1.2 Activity (Utilization) Ratio:

Activity ratios are employed to evaluate the efficiency with which the firm manage and utilize its assets and resource. These ratios are also called turnover ratio or efficient or assets utilization ratios. Activity ratio indicates the degree of efficiency in Assets Management; hence they are often referred to as efficiency ratios. The better the management of assets the larger is the utilization of the available funds. In this section, some of the efficiency ratios are calculated to assess the commercial banks efficiency in utilizing the available resources. On the other hand if the investment is not sufficient then adequate production and sales cannot be made and profitability decrease, so a proper balance between sales and assets generally reflects that assets are managed well.

In this section some of the efficient ratio are computed to assets the banks efficiency in utilizing available resource.

a) Loans and Advance s to Total Deposit Ratio

This ratio helps us showing the relationship between loans and advances which are granted and the total deposit collected by the bank. This ratio measures the extent to which the banks are successful to mobilize the outsider's fund. Hence this ratio shows how successfully the banks are utilizing their total deposits for profit generating purpose. A high ratio indicates better mobilization of collected deposit and vice-versa. It should be noted that too high may not be better from liquidity point of view. This ratio is calculated by dividing loans and advances by total deposits.

Loan and Advances to Total Deposit Ratio = Loan and Advances / Total Deposit

TABLE NO. 4.4

COMPUTATION OF LOAN AND ADVANCES TO TOTAL DEPOSIT RATIO OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

NIBL			
Year	Loans and Advances	Total Deposit	Ratio %
2003/2004	7,338.50	11,525.40	63.67
2004/2005	10126.06	14254.57	71.04
2005/2006	12776.21	18927.31	67.50
2006/2007	17286.43	24488.86	70.59
2007/2008	26996.65	34451.73	78.36
Combined Mean			70.23
SD			4.84
CV			6.90

HBL

Year	Loans and Advances	Total Deposit	Ratio %
2003/2004	12919.631	22,010.33	58.70
2004/2005	12424.52	24814.01	50.07
2005/2006	14642.56	26490.85	55.27
2006/2007	16998	30048.42	56.57
2007/2008	20179.61	31939.87	63.18
Combined Mean			56.76
SD			4.29
CV			7.56

NABIL

Year	Loans and Advances	Total Deposit	Ratio %
2003/2004	8189.99	14119.03	58.01
2004/2005	10586.17	14586.61	72.57
2005/2006	12922.54	19347.40	66.79
2006/2007	15545.78	23342.29	66.60
2007/2008	21365.05	31915.05	66.94
Combined Mean			66.18
SD			4.66
CV			7.05

Interpretation

Loan and Advances to Total Deposit Ratio

Year	NIBL	HBL	NABIL
2003/2004	63.67	58.70	58.01
2004/2005	71.04	50.07	72.57
2005/2006	67.50	55.27	66.79
2006/2007	70.59	56.57	66.60
2007/2008	78.36	63.18	66.94
Mean	**70.23**	**56.76**	**66.18**
SD	**4.84**	**4.29**	**4.66**
CV	**6.90**	**7.56**	**7.05**

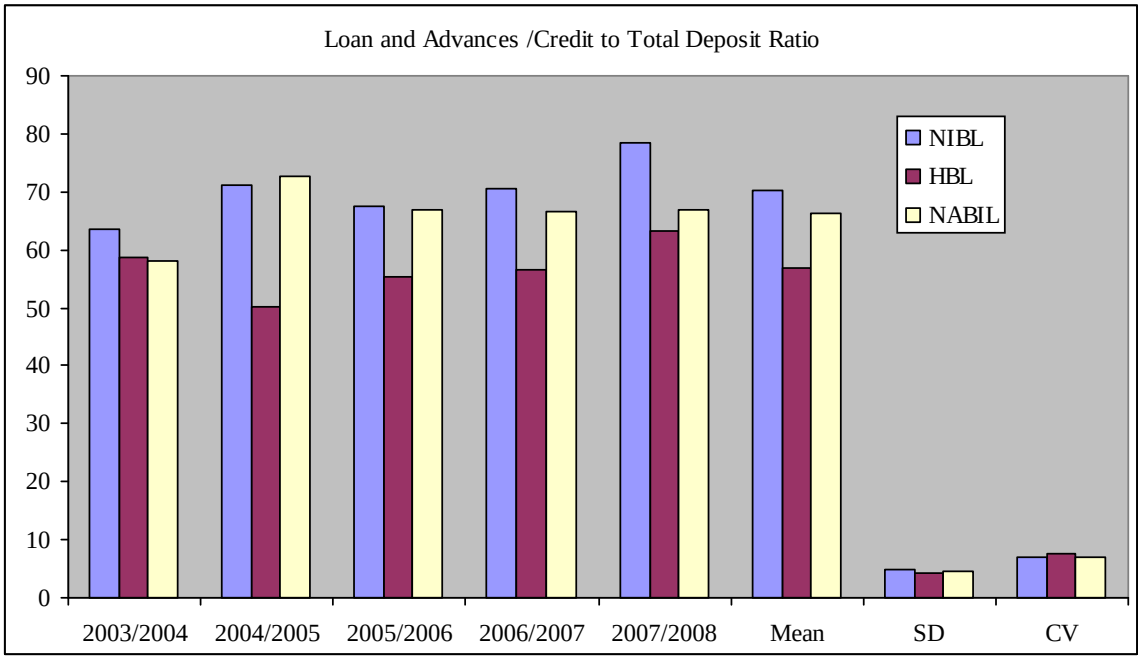
The above table shows that the loans and advances to total deposit ratio of NIBL and HBL is fluctuating while ratio of NABIL is nearly consistent during the period from 2005/06 to 2007/08. NIBL has high ratio of 78.36% during the period 2007/08 and lower of 63.67% in 2003/04. Similarly HBL has highest ratio of 63.18% during 2007/08 and lower of 50.07% during 2004/05. And NABIL has higher ratio of 72.57% during the period 2004/05 and lower of 58.01% during the period 2003/04.

The mean ratio of NIBL is higher i.e. 70.23% followed by NABIL 66.18% and HBL 56.76%. NIBL seems to be strong in terms of mobilization of total deposit as loan and advances when compared to other two banks.

Similarly during the reviewed period HBL has the highest consistency ratio for total credits to total deposit ratio i.e. coefficient of variation with 7.56% and it is followed by NABIL 7.05% and NIBL 6.90% respectively.

Figure 4.4

Graphical presentation of Loan and Advances to Total Deposit Ratio of selected commercial banks:



From above figure it can be concluded that NIBL has been more successful in mobilizing its total deposits as loans and advances than the other two banks. On the contrary a high ratio should not be perceived as a better state of affairs from the point of view of liquidity as loans and advances are not as liquid as cash and bank balance and other investment. In portfolio management of bank various factors such as availability of funds, liquidity management, central bank norms need to be taken in account.

b) Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investment of its fund in different securities issued by government and other financial and non-financial companies. Now efforts has been made to measure the extent to which the bank are successful in mobilizing the total deposit on investment. In the process of portfolio management of banks various factors such as availability of fund, liquidity requirements, central bank norms etc are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund investment and vice-versa. Total investment includes investment on government securities, priority deprive sector, loan to industries and business houses, personal loans etc. It is calculated as :

Total Investment to Total Deposit = Total Investment / Total Deposit

TABLE NO. 4.5

COMPUTATION OF TOTAL INVESTMENT TO TOTAL DEPOSIT RATIO OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

NIBL			
Year	Total Investment	Total Deposit	Ratio %
2003/2004	4,172.50	11,525.40	36.20
2004/2005	4260.16	14254.57	29.89
2005/2006	5920.76	18927.31	31.28
2006/2007	7164.83	24488.86	29.26
2007/2008	7344.48	34451.73	21.32
		Combined Mean	29.59
		SD	4.8
		CV	16.22

HBL

Year	Total Investment	Total Deposit	Ratio %
2003/2004	9,292.10	22,010.33	42.22
2004/2005	12257.21	24814.01	49.40
2005/2006	12209.98	26490.85	46.09
2006/2007	13840.56	30048.42	46.06
2007/2008	13858.71	31939.87	43.39
		Combined Mean	45.43
		SD	2.49
		CV	5.48

NABIL

Year	Total Investment	Total Deposit	Ratio %
2003/2004	6754.68	14119.03	47.84
2004/2005	5167.28	14586.61	35.42
2005/2006	7987.5	19347.40	41.28
2006/2007	9524.85	23342.29	40.81
2007/2008	12222.38	31915.05	38.30
		Combined Mean	40.73
		SD	4.12
		CV	10.12

Interpretation

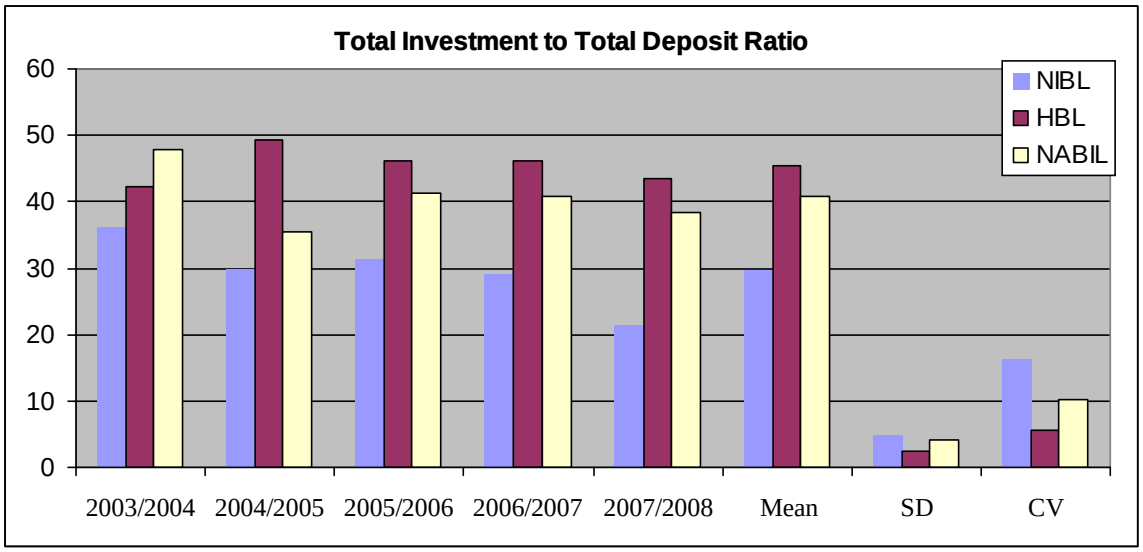
Total Investment to Total Deposit Ratio

Year	NIBL	HBL	NABIL
2003/2004	36.20	42.22	47.84
2004/2005	29.89	49.40	35.42
2005/2006	31.28	46.09	41.28
2006/2007	29.26	46.06	40.81
2007/2008	21.32	43.39	38.30
Mean	**29.59**	**45.43**	**40.73**
SD	**4.8**	**2.49**	**4.12**
CV	**16.22**	**5.48**	**10.12**

The above table shows fluctuating trend in total investment to total deposit ratio of NIBL, HBL & NABIL. NIBL has a high ratio of 36.20% in F/Y 2003/04 and a low ratio of 21.32% in F/Y 2007/08. Likewise HBL has a high ratio of 49.40% in F/Y 2004/05 and a low ratio of 42.22% in F/Y 2003/04. Similarly NABIL has a high ratio of 47.84% during F/Y 2003/04 and a low ratio of 35.42% during F/Y 2004/05.

Figure 4.5

Graphical presentation of Total Investment to Total Deposit Ratio of selected commercial banks:



From mean ratio perspective HBL has the higher mean ratio of 45.43% followed by NABIL 40.73% and NIBL 29.59% respectively. High ratio indicates management efficiency regarding the utilization of deposits and low ratio is less efficiency in use of fund. Because of high investment and low deposits amount in HBL its ratio were high which means HBL has been more successful in mobilization of deposits on various forms of investments in comparison with other two banks.

From CV view point all the sample banks have been inconsistence, with HBL being little better in terms of consistency than NIBL & NABIL.

In conclusion the above analysis reveals that HBL has been more successful in mobilizing its resources in various forms of investment.

4.2.1.3 Profitability Ratios:

Profit is the difference between revenues and expenses over a period of time. The main objective of a commercial bank is to earn profit by providing different types of banking services to its customer. To meet various objectives like maintaining good position, meet

fixed internal obligations, overcome the future contingencies, grab hidden investment in need of development funds etc., banks have to earn sufficient profit. But profit earning is not the ultimate aim of the company and it should never be earned at the cost of employees, customers and society. However it is very important for their survival in this competitive market for their future growth.

Of course the profitability ratios are the best indicators of overall efficiency. Here mainly those major ratios are presented and analyzed through which the effort has been made to measure the profit earning capacity.

a. Return on Total Deposits

One of the major sources of funds to the banks is from deposits and this fund has to be utilized properly in order to maximize their return on deposits. This ratio is very much crucial for measuring the profitability of funds invested in the banks assets. It measures the return on assets. The ratio shows the relation of net profit earned by bank with total deposit accomplished. Higher net profit to total deposit ratio signifies better utilization of deposits. It is calculated as:

Return on Total Deposit = Net profit after tax (NPAT) / Total Deposits

TABLE NO. 4.6

COMPUTATION OF RETURN TO TOTAL DEPOSIT RATIO OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

Net Profit After Tax to Total Deposit Ratio

NIBL			
Year	Net Profit after Tax	Total Deposit	Ratio %
2003/2004	152.6	11,525.40	1.32
2004/2005	232.15	14254.57	1.63
2005/2006	350.54	18927.31	1.85
2006/2007	501.4	24488.86	2.05
2007/2008	696.73	34451.73	2.02
		Combined Mean	1.77
		SD	0.27
		CV	15.37

HBL

Year	Net Profit after Tax	Total Deposit	Ratio %
2003/2004	263.052	22,010.33	1.20
2004/2005	308.28	24814.01	1.24
2005/2006	457.46	26490.85	1.73
2006/2007	491.82	30048.42	1.64
2007/2008	654.39	31939.87	2.05
		Combined Mean	1.57
		SD	0.32
		CV	20.19

NABIL

Year	Net Profit after Tax	Total Deposit	Ratio %
2003/2004	455.32	14119.03	3.22
2004/2005	520.11	14586.61	3.57
2005/2006	635.26	19347.40	3.28
2006/2007	673.96	23342.29	2.89
2007/2008	746.47	31915.05	2.34
		Combined Mean	3.06
		SD	0.42
		CV	13.72

Interpretation

Return on Total Deposit Ratio

Year	NIBL	HBL	NABIL
2003/2004	1.32	1.20	3.22
2004/2005	1.63	1.24	3.57
2005/2006	1.85	1.73	3.28
2006/2007	2.05	1.64	2.89
2007/2008	2.02	2.05	2.34
Mean	1.77	1.57	3.06
SD	0.27	0.32	0.42

CV	15.37	20.19	13.72

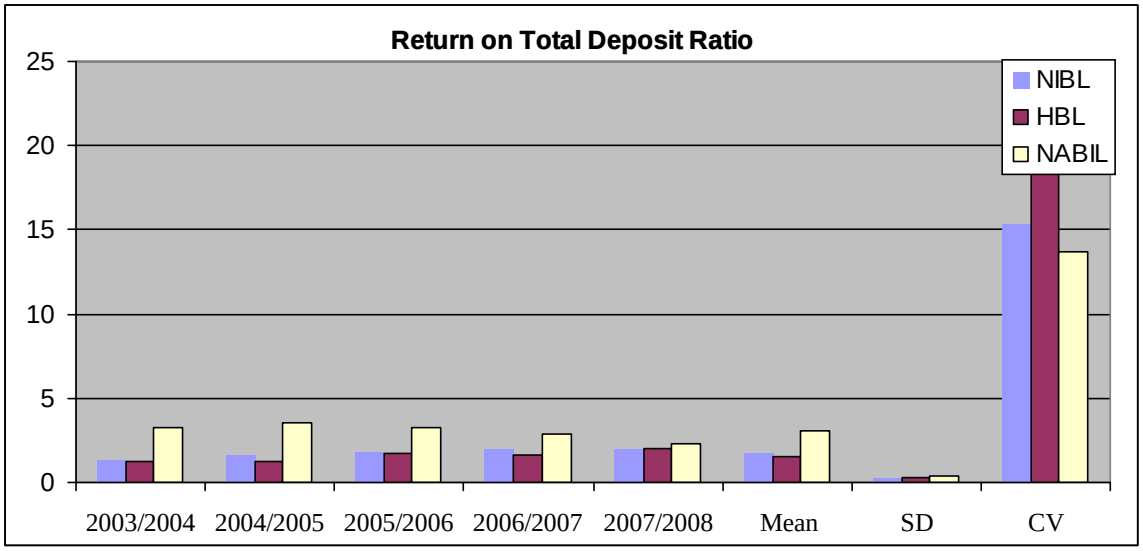
The table shows that the ratio of NIBL is in fluctuating trend whereas ratio of HBL is in increasing trend and ratio of NABIL is in decreasing trend.

Mean of the ratio was higher in NABIL 3.06% followed by NIBL 1.77% and HBL 1.57% respectively. It signifies that the profitability of NABIL is stronger than that of the other two banks.

CV of the ratios appeared greater in HBL 20.19% which indicates that its ratios were respectively less uniform throughout the review period.

Figure 4.6

Graphical presentation of Return on Total Deposit Ratio of selected commercial banks:



From the figure it can be concluded that NABIL & NIBL have been successful in utilizing the depositor's fund more efficiently in generating more profit. HBL has not managed the deposit efficiently and thus it has failed to generate more profit over the study period.

b. Return on Total Assets Ratio:

Return on total assets is also known as ROA. This ratio measures the rate of return earned by the bank as a whole for all its investors. Higher the ratio higher the efficiency of the bank in utilization its overall assets and resources and lower the volume of non-performing assets. A firm without good return on assets finds it almost impossible to generate a satisfactory Return on Equity i.e. ROE.

It is calculated as:

Net Profit to Total Assets Ratio = Net Profit / Total Assets

TABLE NO. 4.7

COMPUTATION OF RETURN TO TOTAL ASSETS RATIO OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

Net Profit after Tax to Total Assets Ratio

NIBL			
Year	Net Profit after Tax	Total Assets	Ratio %
2003/2004	152.6	13,463.90	1.13
2004/2005	232.15	16063.54	1.45
2005/2006	350.54	21330.14	1.64
2006/2007	501.4	27590.84	1.82
2007/2008	696.73	38873.31	1.79
		Combined Mean	1.57
		SD	0.255
		CV	16.24

HBL

Year	Net Profit after Tax	Total Assets	Ratio %
2003/2004	263.052	25,360.89	1.04
2004/2005	308.28	27418.16	1.12
2005/2006	457.46	29460.39	1.55
2006/2007	491.82	33519.14	1.47
2007/2008	654.39	37648.34	1.74
		Combined Mean	1.38
		SD	0.263
		CV	19.08

NABIL

Year	Net Profit after Tax	Total Assets	Ratio %
2003/2004	455.32	16745.47	2.72
2004/2005	520.11	17064.08	3.05
2005/2006	635.26	22329.97	2.84
2006/2007	673.96	27253.39	2.47
2007/2008	746.47	37132.76	2.01
		Combined Mean	2.62
		SD	0.36
		CV	13.62

Interpretation

Return on Total Assets Ratio

Year	NIBL	HBL	NABIL
2003/2004	1.13	1.04	2.72
2004/2005	1.45	1.12	3.05
2005/2006	1.64	1.55	2.84
2006/2007	1.82	1.47	2.47
2007/2008	1.79	1.74	2.01
Mean	1.57	1.38	2.62
SD	0.255	0.263	0.36
CV	16.24	19.08	13.62

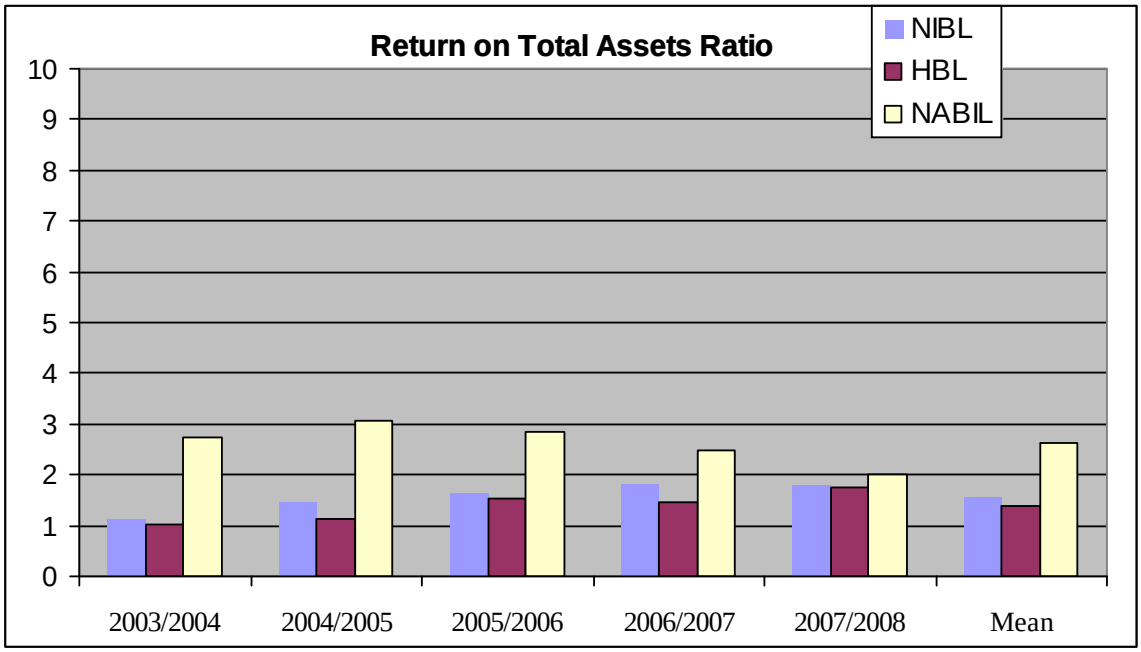
Table shows that the ratios in NIBL remained 1.13%, 1.45%, 1.64%, 1.82%, 1.79% respectively in the respective year of reviewed period. Mean and CV of the ratios appeared 1.57% and 16.24% respectively. Accordingly the ratios of HBL in the corresponding years were 1.04%, 1.12%, 1.55%, 1.47% & 1.74% respectively. Mean and the CV of the ratios appeared 1.38% & 19.08%. Similarly the ratios of NABIL remained 2.72%, 3.05%, 2.84%, 2.47%, 2.01% respectively. Mean of the ratio came 2.62% and CV of the ratio is 13.62%.

The ratio of NIBL shows increasing trend. It reached 1.82% in F/Y 2006/07 at highest point & 1.13% in 2003/04 at lowest. Accordingly the ratio of HBL is in increasing trend. It was highest in F/Y 2007/08 i.e. 1.74% and lowest in F/Y 2003/04 i.e. 1.04%. Similarly the ratios of NABIL are in decreasing trend from F/Y 2005/06. It has highest point of 3.05% in F/Y 2004/05 and lowest of 2.01% in F/Y 2007/08. From the above analysis overall profitability of

NABIL is better than other two banks and whole credit goes to good management of banking sectors. The mean ratio was considerably higher in NABIL than that of NIBL and HBL which signifies that profitability position of NABIL in relation to this ratio is better than that of other two banks. If the bank earns high profit it will increase its goodwill in competitive market as it can give attractive bonus and dividend to staffs and shareholders respectively.

Figure 4.7

Graphical presentation of Return on Total Assets Ratio of selected commercial banks:



The above figure reveals that NIBL & HBL has lower ratio in comparison with NABIL. Both banks need to exert more effort in mobilizing its assets more efficiently. From viewpoint of C.V. all three banks are in satisfactory level.

c. Return on Loans and Advances

Return on loans and advances shows how efficiently the bank has utilized their resources to earn good return from provided loans and advances. Higher the ratio better is the situation because it shows that the bank is able to disburse good loans in a higher proportion. The ratio is calculated as:

Return on Loan and Advances Ratio = Net Profit / Loan and Advances

TABLE NO. 4.8

COMPUTATION OF RETURN TO LOANS AND ADVANCES RATIO OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

NIBL			
Year	Net Profit after Tax	Loan and Advances	Ratio %
2003/2004	152.6	7,338.50	2.08
2004/2005	232.15	10126.06	2.29
2005/2006	350.54	12776.21	2.74
2006/2007	501.4	17286.43	2.90
2007/2008	696.73	26996.65	2.58
		Combined Mean	2.52
		SD	0.298
		CV	11.82

HBL

Year	Net Profit after Tax	Loan and Advances	Ratio %
2003/2004	263.052	12919.631	2.04

2004/2005	308.28	12424.52	2.48
2005/2006	457.46	14642.56	3.12
2006/2007	491.82	16998	2.89
2007/2008	654.39	20179.61	3.24
		Combined Mean	2.76
		SD	0.443
		CV	16.04

NABIL

Year	Net Profit after Tax	Loan and Advances	Ratio %
2003/2004	455.32	8189.99	5.56
2004/2005	520.11	10586.17	4.91
2005/2006	635.26	12922.54	4.92
2006/2007	673.96	15545.78	4.34
2007/2008	746.47	21365.05	3.49
		Combined Mean	4.64
		SD	0.69
		CV	14.94

Interpretation

Return on Loan and Advances Ratio

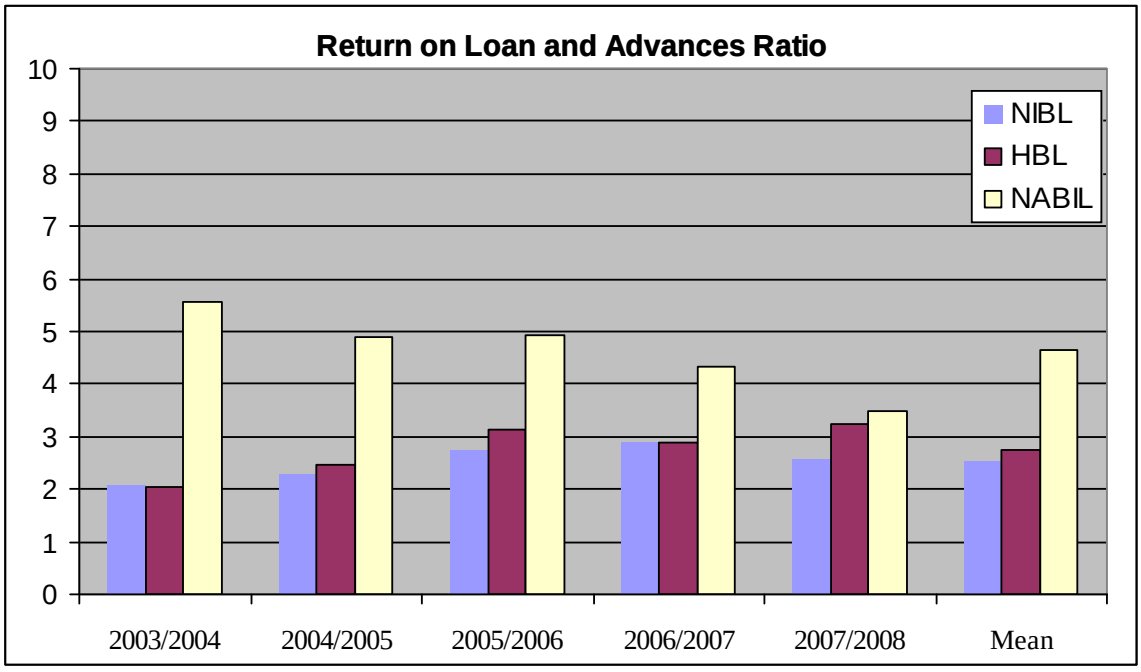
Year	NIBL	HBL	NABIL
2003/2004	2.08	2.04	5.56
2004/2005	2.29	2.48	4.91

2005/2006	2.74	3.12	4.92
2006/2007	2.90	2.89	4.34
2007/2008	2.58	3.24	3.49
Mean	**2.52**	**2.76**	**4.64**
SD	**0.298**	**0.443**	**0.69**
CV	**11.82**	**16.04**	**14.94**

The above table shows that the ratio of return on loan and advances of NABIL is better than NIBL & HBL in all F/Y. NABIL has recorded a high ratio of 5.56% in F/Y 2003/04 and a low ratio of 3.49% in F/Y 2007/08. Accordingly HBL has higher ratio of 3.24% in F/Y 2007/08 and lower ratio of 2.04% in F/Y 2003/04. Similarly NIBL has higher ratio of 2.90% in F/Y 2006/07 and lower ratio of 2.08% in F/Y 2003/04.

Figure 4.8

Graphical presentation of Return on Loan and Advances Ratio of selected commercial banks:



The comparison of mean ratio reveals that NABIL has a higher ratio of 4.64% followed by HBL 2.76% and NIBL 2.52%. This shows that NABIL has been more successful in maintaining its higher return on loan and advances than the other two banks.

CV of NIBL is lower than HBL & NABIL. It proves that NIBL has higher variability of ratio than other two banks. In conclusion it can be said that NIBL & HBL profit earning capacity by utilizing available resources is weaker compared to NABIL, but nevertheless NIBL & HBL is making significant improvement in this regard.

4.2.1.4 Leverage Ratio / Capital Structure Ratio

These leverage ratios are concerned with the long term solvency of the bank and show the proportion of 'Outsider's Fund' and 'Shareholders Fund' of the bank. Capital structure ratio also known as Leverage Ratio indicates the proportionate relationship between debt and equity. As a general rule there should be an appropriate mix of debt and owner equity in financing the firm's assets.

An institution should have short-term liquidity as well as Long-term solvency. Since liquidity relates to the short term solvency and capital structure ratio is concerned with long term solvency. As the short term creditors are interested to know about the liquidity or short term financing position of the firm, long-term creditors are interested to know the long term financial position of the firm and this is reflected only through capital structure ratio. Capital structure ratios are calculated to measure long term financial position, solvency/debt servicing capacity and strength and weaknesses of the bank.

a. Total Debts (Liabilities) to Total Assets Ratio:

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider.

High debt ratio implies a bank's success in exploiting debt to be more profitable as well as its riskier capital structure. Creditors prefer a low ratio because it provides sufficient security cushion against losses in the event of liquidation but despite of the higher risk, owners or shareholders prefer a high debt ratio because it magnifies their earning on one hand and enables on the other hand.

Very low ratio is not favorable to shareholders when a firm earns to a rate higher than the interest rate on the invested funds. But generally very high debt to equity ratio is also unfavorable to the business because the debt gives third parties legal claims for repayment on the company if the firm becomes unable to pay interest and principal in time which can force the firm into liquidation. This ratio is calculated by:

Total debt / Total Assets

TABLE NO. 4.9

COMPUTATION OF TOTAL DEBT TO TOTAL ASSETS RATIO OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

NIBL			
Year	Total Debt	Total Assets	Ratio %
2003/2004	12527.10	13,463.90	93.04
2004/2005	14583.37	16063.54	90.79
2005/2006	19364.70	21330.14	90.79
2006/2007	24912.73	27590.84	90.29
2007/2008	35136.52	38873.31	90.39
Combined Mean			91.06
SD			1.011
CV			1.11

HBL

Year	Total Debt	Total Assets	Ratio %
2003/2004	23437.86	25,360.89	92.42
2004/2005	25516.41	27418.16	93.06
2005/2006	27334.21	29460.39	92.78
2006/2007	31012.65	33519.14	92.52
2007/2008	33985.23	37648.34	90.27
		Combined Mean	92.21
		SD	0.996
		CV	1.08

NABIL

Year	Total Debt	Total Assets	Ratio %
2003/2004	15263.80	16745.47	91.15
2004/2005	15406.44	17064.08	90.29
2005/2006	20454.98	22329.97	91.60
2006/2007	25196.35	27253.39	92.45
2007/2008	34455.66	37132.76	92.79
Combined Mean			91.66
SD			0.90
CV			0.98

Interpretation

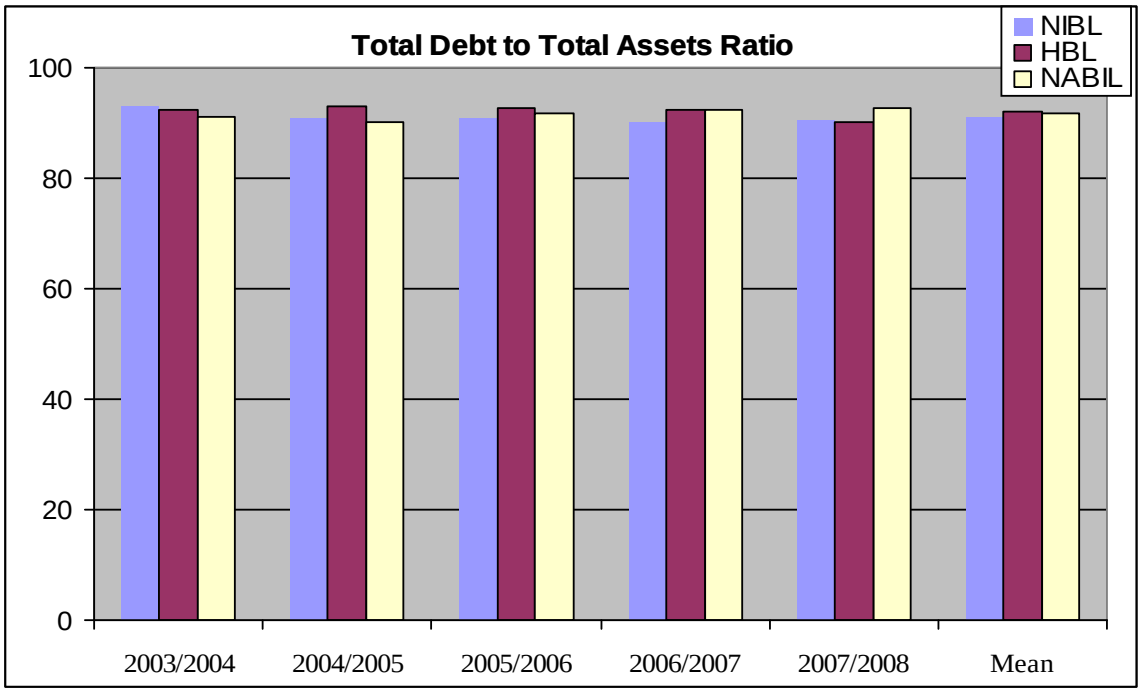
Total Debt to Total Assets Ratio

Year	NIBL	HBL	NABIL
2003/2004	93.04	92.42	91.15
2004/2005	90.79	93.06	90.29
2005/2006	90.79	92.78	91.60
2006/2007	90.29	92.52	92.45
2007/2008	90.39	90.27	92.79
Mean	91.06	92.21	91.66
SD	1.011	0.996	0.90
CV	1.11	1.08	0.98

In the above table debt ratio has been derived by dividing total debt by total assets. On an average basis over the study period HBL has highly debt financing. It means the bank borrowed outsider's funds by 92.21%. While the other two banks NABIL and NIBL has an average of 91.66% and 91.06% respectively. The ratio of NIBL was higher in 2003/04 i.e. 93.04% and then after it is in decreasing trend from F/Y 2004/05. Similarly ratio of HBL has higher ratio of 93.06% during F/Y 2004/05 and it has fluctuating trend. In the same way NABIL has higher ratio of 92.79% in F/Y 2007/08 and its ratios are in increasing trend.

Figure 4.9

Graphical presentation of Return on Total Debt to Total Assets Ratio of selected commercial banks:



From SD and CV point of view, NIBL & HBL has highest S.D of 1.11% & 0.99% and NABIL has lowest S.D. of 0.90%. It indicates NIBL & HBL has high fluctuation and NABIL has low fluctuation in using total debts over the study period. NIBL and HBL have highest CV of 1.11% and 1.08% respectively and NABIL has lowest CV of 0.98%. It means NIBL & HBL has high degree of inconsistency in utilizing debt to assets ratio whereas NABIL has consistence debt financing.

b. Total Debt to Shareholder's Equity Ratio:

Debt of the banks refers to those liabilities which have higher obligation. Debt includes borrowing from banks, deposit liabilities, bills payable and other liabilities. Equity is the shareholder's fund. Debt-equity ratio examines the relative claims of creditors and owners against the bank's assets. Alternatively, total debt to equity ratio indicates the contribution of debt-capital and equity capital fund to the total investment. This ratio is presented as:

Debt to Shareholder's Equity = Total Debt / Shareholders Equity

TABLE NO. 4.10

COMPUTATION OF TOTAL DEBT TO SHAREHOLDERS EQUITY RATIO OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

NIBL			
Year	Total Debt	Shareholder's Equity	Ratio
2003/2004	12527.10	729.048	17.18
2004/2005	14583.37	1480.17	9.85
2005/2006	19364.70	1965.44	9.85
2006/2007	24912.73	2678.12	9.30

2007/2008	35136.52	3736.79	9.40
Combined Mean			11.12
SD			3.04
CV			27.33

HBL

Year	Total Debt	Shareholder's Equity	Ratio
2003/2004	23437.86	2291.928	10.23
2004/2005	25516.41	1901.75	13.42
2005/2006	27334.21	2126.18	12.86
2006/2007	31012.65	2506.5	12.37
2007/2008	33985.23	3663.11	9.28
Combined Mean			11.63
SD			1.60
CV			13.73

NABIL

Year	Total Debt	Shareholder's Equity	Ratio
2003/2004	15263.80	1481.681	10.30
2004/2005	15406.44	1657.63	9.29
2005/2006	20454.98	1874.99	10.91
2006/2007	25196.35	2057.05	12.25
2007/2008	34455.66	2677.2	12.87
Combined Mean			11.12
SD			1.30
CV			11.65

Interpretation

Total Debt to Shareholders Equity (Net Worth) Ratio

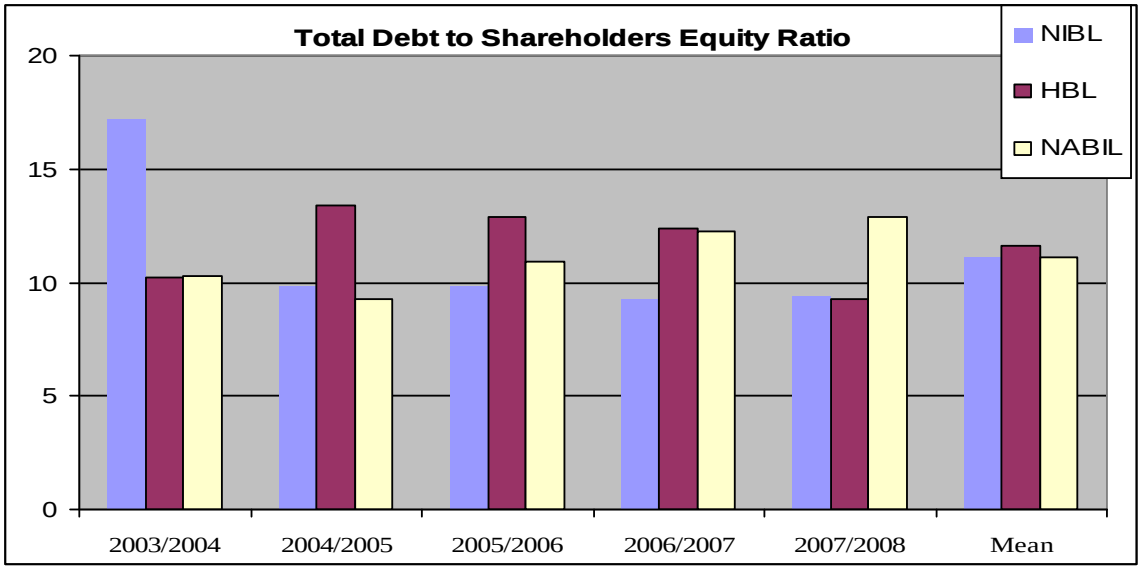
Year	NIBL	HBL	NABIL
2003/2004	17.18	10.23	10.30
2004/2005	9.85	13.42	9.29
2005/2006	9.85	12.86	10.91
2006/2007	9.30	12.37	12.25

2007/2008	9.40	9.28	12.87
Mean	11.12	11.63	11.12
SD	3.04	1.60	1.30
CV	27.33	13.73	11.65

The above table shows that commercial banks have highly leveraged on the basis of equity capital. On an average HBL has the highest ratio of 11.63 times. Next to it there is NIBL & NABIL with an average of 11.12 times. It indicates that HBL has highly leveraged 11.63 times means; debt capital financing is more than 11.63 times of its shareholders equity.

Figure 4.10

Graphical presentation of Total Debt to Shareholder's Equity Ratio of selected commercial banks:



From S.D point of view NIBL has highest S.D. of 3.04 point followed by HBL 1.60 & NABIL 1.30. It implies that NIBL & HBL have high fluctuation with respect to total debt to net worth. Similarly NABIL with lowest S.D 1.30 has low fluctuation with respect to total debt to net worth over the study period.

From CV point of view NIBL has the highest CV of 27.33%. Next to it there is HBL with CV 13.73%. NABIL has the lowest CV of 11.65%. It means, NIBL & HBL have high degree of variability or is inconsistent in maintaining total debt to total equity over the study period.

The efficient capital structure ratio increases shareholders wealth maximization but highly leveraged ratio claims of the outsiders exceed far more than those of the owners over the banks assets. So highly leveraged ratio is risky for the debtors while in liquidation. So it can be concluded that banks must manage proportion of the debt to shareholders equity well to increase wealth maximization.

c. Capital Adequacy Ratio / Shareholders Fund to Total Deposit Ratio:

Capital of a bank constitutes the fund employed by the shareholders and the fund retained in various reserves from its profit. Capital adequacy ratio is a tool that determines the capacity of a bank in terms of meeting liabilities and other risks such as credit risk, operation risk, and interest risk and so on. It helps to decide whether the existing capital is adequate or there is need to reforms. The ratio is tested to ensure the safety and stability of the firm in the long run. Over capitalization and under capitalization both have adverse effect on the firm's profitability. If the capital is excess it remains idle. If the capital is insufficient the firm may not be able to grasp the opportunity from potential profitable sector.

Capital adequacy ratio is calculated as follows:

Capital Adequacy Ratio = Total capital fund/ Total Deposits

TABLE NO. 4.11

COMPUTATION OF CAPITAL ADEQUACY RATIO / SHAREHOLDERS EQUITY TO TOTAL DEPOSIT RATIO OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

NIBL			
Year	Shareholder's Equity	Total Deposit	Ratio
2003/2004	729.048	11,525.40	6.33
2004/2005	1480.17	14254.57	10.38
2005/2006	1965.44	18927.31	10.38
2006/2007	2678.12	24488.86	10.94
2007/2008	3736.79	34451.73	10.85
Combined Mean			9.78

SD	1.74
CV	17.77

HBL

Year	Shareholder's Equity	Total Deposit	Ratio
2003/2004	2291.928	22,010.33	10.41
2004/2005	1901.75	24814.01	7.66
2005/2006	2126.18	26490.85	8.03
2006/2007	2506.5	30048.42	8.34
2007/2008	3663.11	31939.87	11.47
		Combined Mean	9.18
		SD	1.49
		CV	16.22

NABIL			
Year	Shareholder's Equity	Total Deposit	Ratio
2003/2004	1481.681	14119.03	10.49
2004/2005	1657.63	14586.61	11.36
2005/2006	1874.99	19347.40	9.69
2006/2007	2057.05	23342.29	8.81
2007/2008	2677.2	31915.05	8.39
Combined Mean			9.75
SD			1.09
CV			11.13

Interpretation:

Capital Adequacy / Shareholders Fund to Total Deposit ratio

Year	NIBL	HBL	NABIL
2003/2004	6.33	10.41	10.49
2004/2005	10.38	7.66	11.36
2005/2006	10.38	8.03	9.69
2006/2007	10.94	8.34	8.81
2007/2008	10.85	11.47	8.39
Mean	9.78	9.18	9.75
SD	1.74	1.49	1.09
CV	17.77	16.22	11.13

The above table reveals that the ratios of banks are in fluctuating trend. In NIBL it was highest in F/Y 2006/07 i.e. 10.94% and lowest in F/Y 2003/04 i.e. 6.33%. In HBL it ranged

from 10.41% in F/Y 2003/04 to 11.47% in F/Y 2007/08. Similarly the ratio of NABIL ranged from 10.49% in F/Y 2003/04 to 8.39% in F/Y 2007/08. Average ratio of NIBL & NABIL appeared higher than that of HBL, which means the former is better with respect to the capacity adequacy position. Higher CV of the NIBL i.e. 17.77% shows less consistency in maintaining net worth with respect to deposits.

Figure 4.11

Graphical presentation of Capital Adequacy Ratio of selected commercial banks:

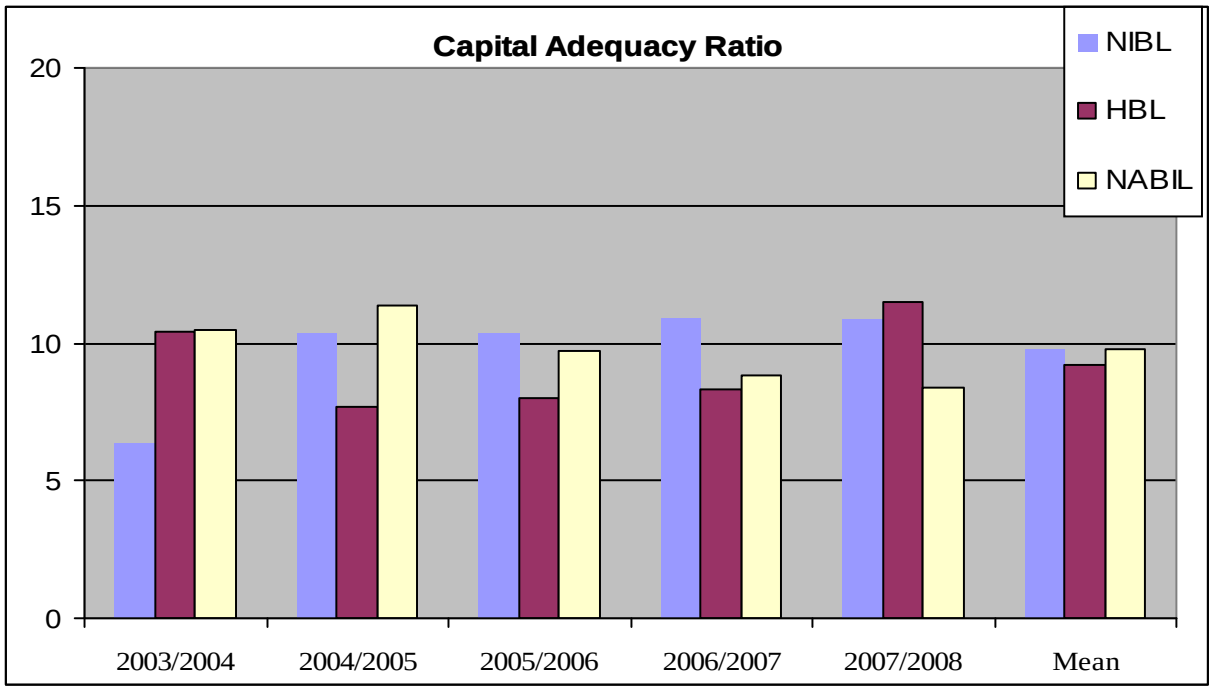


Figure shows that Capital adequacy ratio of NIBL is higher than the other two banks. It indicates that NIBL is protecting its depositors than others. But higher Capital adequacy ratio indicates that NIBL fund is idle.

If the Capital adequacy percentage is higher than the mandatory of minimum capital fund, interests of depositors is safe but in shareholder's point of view it is not better because of idle fund. Bank has to invest that idle capital to get more return to maintain the efficient and effective capital adequacy ratio.

4.2.1.5 Other Financial Indicators:

a. Earning Per Share:

The earning per share is the income of per common shares. It is widely used to judge the earning potentiality if the shareholder's investment in the bank on a per share basis. Higher earning per share indicates the better performance of the bank.

Earning per share is one of the most widely quoted statistics when there is a discussion of company's performance or share value. It is by profit after tax figure that is divided by the number of common share to calculate the value of earning per share. This figure tells how much profit has been earned by the common shareholder for per share basis. A company can decide whether to increase or reduce the number of share issue.

TABLE NO. 4.12

COMPUTATION OF EARNING PER SHARE OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

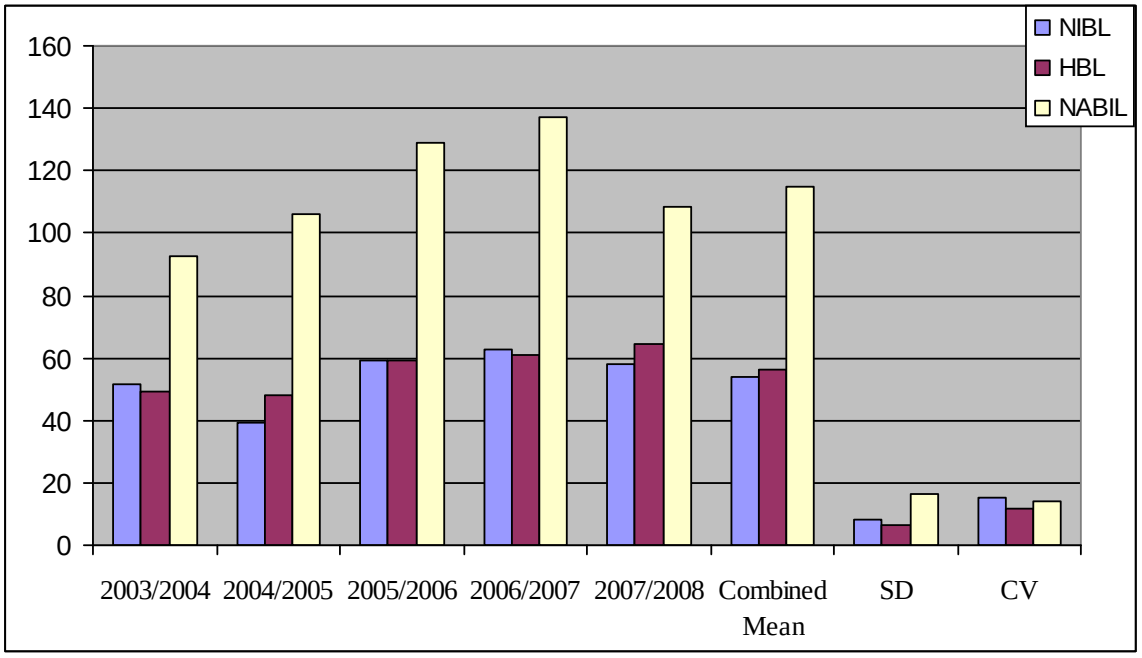
	NIBL	HBL	NABIL
Year	**EPS**		
2003/2004	51.7	49.05	92.61
2004/2005	39.5	47.91	105.79
2005/2006	59.35	59.24	129.21
2006/2007	62.57	60.66	137.08
2007/2008	57.87	64.57	108.31

Combined Mean	54.20	56.29	114.6
SD	8.15	6.62	16.25
CV	15.04	11.76	14.18

From the table we can see that on an average, NABIL has the highest amount of EPS Rs. 114.6. Next to it there is HBL with EPS of Rs. 56.29 among the selected banks. NIBL has the lowest amount of EPS Rs. 54.20 over the study period. It means that NABIL & HBL have been able to provide maximum profit to equity holder on a per share basis.

Figure 4.12

Graphical presentation of Earning Per Share of selected commercial banks:



From S.D point of view NABIL bank has highest S.D. of 16.25 point. Next to it there is NIBL with 8.15 point. HBL has the lowest S.D of 6.62 point. It implies that NABIL bank & NIBL have high fluctuate (less homogeneity) in EPS over the study period. Whereas HBL with lowest SD indicates the low fluctuation (more homogeneity) in EPS.

From C.V point of view, NIBL has the highest CV of 15.04 %, next to it, there is NABIL with CV of 14.18% and HBL with CV 11.76%. It implies that NIBL & NABIL bank have high degree of variability or is inconsistent in EPS amount over the study period. HBL has lowest CV which indicates it has low degree of variability or is consistent in providing EPS amount to the equity holders on a per share basis over the study period.

b. Dividend Per Share

Whatever profit may be earned by the firm may be handled by it basically in two ways:

1. To distribute the profits among the shareholders by way of dividend a per share basis.
2. To retain the profits in the business to be used by it in future.

There are no strict rules and guidelines available to decide as to what portion of the profits should be distributed by way of dividend and what portion should be retained in the business. This all depends upon the management policies. However, in general shareholders desired to have equal pattern of dividend annually including at least of general inflation. So from the point of view of shareholders more DPS is considered good. Many shareholders and potential investors pay very close attention to dividends. They look at the absolute dividend per share

and for a history of stable but growing payments. Usually shareholders expect high percentage of dividend and an institution offering a high DPS is regarded as efficient in fulfilling their expectations. This also helps to increase their credibility of the institution.

Dividend per share is calculated by dividing proposed dividend by no of common shares. However company proposes certain dividend in its annual general meeting to decide actual dividend per share.

Dividend per share= Earning paid to shareholders / Proposed dividend / No. of Shares

TABLE NO. 4.13

COMPUTATION OF DIVIDEND PER SHARE OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

DPS

	NIBL	HBL	NABIL
2003/2004	15	0	65
2004/2005	12.5	11.58	70
2005/2006	20	30	85
2006/2007	5	15	100
2007/2008	0	0	0
Combined Mean	10.50	11.32	64
SD	7.14	11.13	34.26
CV	68.01	98.28	53.54

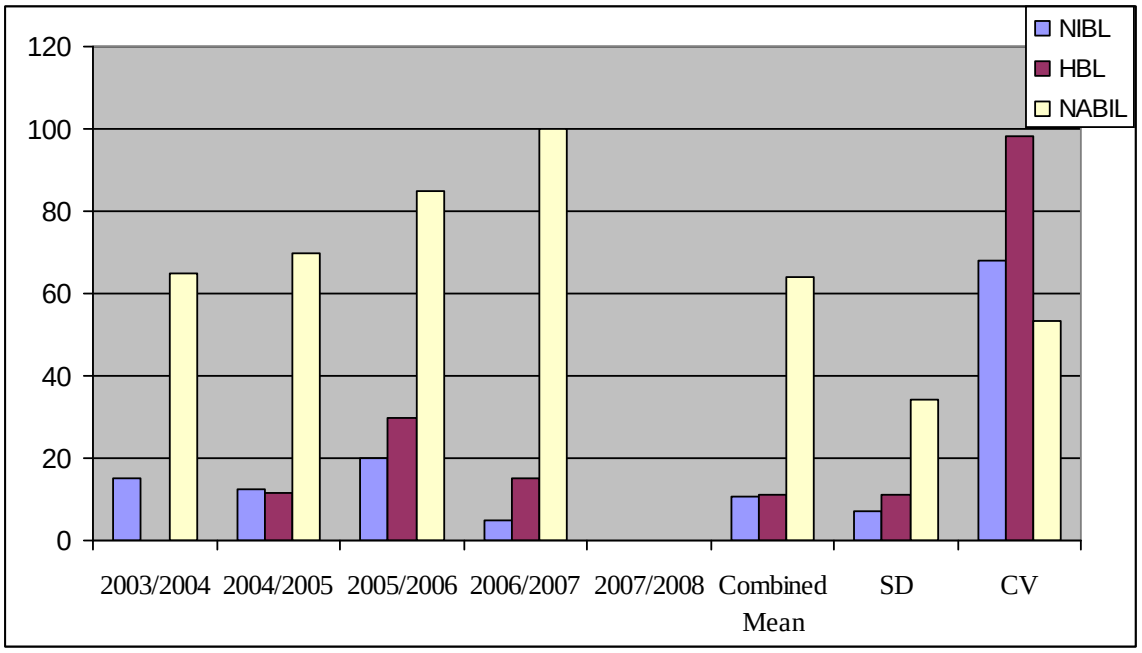
From the above table, analyzing the studied period it is found that NABIL DPS rate is in increasing during F/Y 2003/04 to 2006/07 but no dividend is distributed during F/Y 2007/08. But other bank's DPS rate is decreased due to its diminishing profit. So it can be concluded that except NABIL, other banks DPS rate are highly fluctuated and not being able to maintain its dividend to its total no. of shares.

Similarly during the reviewed period the average DPS of NABIL is higher than that of other i.e by Rs. 64 and it is followed by HBL Rs. 11.13 & NIBL 10.50 respectively.

During the reviewed period HBL had the highest consistency ratio i.e. coefficient of variation with 53.54% and it is followed by NIBL 68.01% and NABIL 53.54% respectively.

Figure 4.13

Graphical presentation of Dividend Per Share of selected commercial banks:



In the above chart we can conclude that NABIL had the highest rate of DPS in a accumulated study of the consecutive year. While other bank's rate is fluctuating which means the banks

are failure to manage its fund properly. In overall, we can conclude that banks profit and the management policy plays a vital role to make the DPS so fluctuated.

c. Dividend Payout Ratio:

Dividend payout ratio measures what percentage / portion pf the net profit after tax and preference dividend is paid out to the equity shareholders as dividend and how much it is retained in the firm for the purpose of expansion and growth in the future.

Higher the dividend payment ratio indicates higher cash dividend to shareholders and the banks doesn't need retain amount or cost of retain is higher either. In mathematical term DPR is calculated by dividing cash dividend per share by earning per share:

Dividend Payout Ratio = Cash Dividend per share / Earning per share

TABLE NO. 4.14

COMPUTATION OF DIVIDEND PAYOUT RATIO OF SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

NIBL			
Year	DPS	EPS	Ratio
2003/2004	15	51.7	29.01
2004/2005	12.5	39.5	31.65
2005/2006	20	59.35	33.70
2006/2007	5	62.57	7.99
2007/2008	0	57.87	0.00

Combined Mean	20.47
SD	13.77
CV	67.25

HBL

Year	DPS	EPS	Ratio
2003/2004	0	49.05	0.00
2004/2005	11.58	47.91	24.17
2005/2006	30	59.24	50.64
2006/2007	15	60.66	24.73
2007/2008	0	64.57	0.00
Combined Mean			19.91
SD			18.86
CV			94.73

NABIL

Year	DPS	EPS	Ratio
2003/2004	65	92.61	70.19
2004/2005	70	105.79	66.17
2005/2006	85	129.21	65.78
2006/2007	100	137.08	72.95
2007/2008	0	108.31	0.00
Combined Mean			55.02
SD			27.64
CV			50.23

Interpretation

DPR

	NIBL	HBL	NABIL
2003/2004	29.01	0.00	70.19
2004/2005	31.65	24.17	66.17
2005/2006	33.70	50.64	65.78
2006/2007	7.99	24.73	72.95
2007/2008	0.00	0.00	0.00
Combined Mean	20.47	19.91	55.02
SD	13.77	18.86	27.64
CV	67.25	94.73	50.23

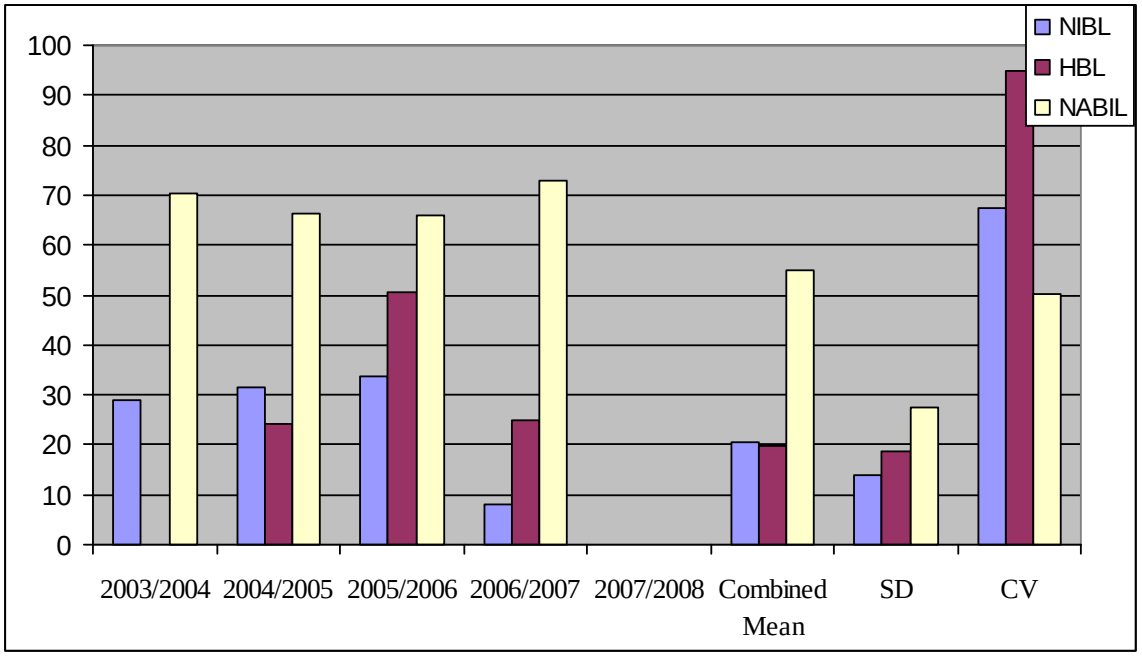
From the table we can see that on an average basis NABIL has the highest percentage of payment ratio with 55.02%. Next to it there is NIBL with 20.47% and likewise HBL has the lowest ratio with 19.91%.

From S.D point of view NABIL bank has the highest SD of 27.64 point and next to it there is HBL with 18.86 point. At last NIBL has the lowest SD of 13.77 point. It implies that NABIL &HBL have high fluctuation in providing dividend throughout the study period. NIBL with lowest SD indicates low fluctuation in providing dividend to its shareholders throughout the study period.

From the CV point of view, HBL has the highest CV of 94.73%. Next to it there is NIBL bank with CV 67.25%. NABIL has the lowest CV of 50.23%. It indicates that HBL and NIBL bank have high degree of variability and NABIL has low degree of variability, is consistent in providing a regular amount as dividend.

Figure 4.14

Graphical presentation of Dividend Payout Ratio of selected commercial banks:



From the figure NABIL seemed to be able to maintain its dividend payout ratio while much instability on the ratio of other banks. It is recommended that banks should provide maintain equilibrium and attractive dividend payout ratio that means constant between dividend and the retain earning as it is one of the main reason of shareholders wealth maximization.

4.2.2 Operating Income and Expenditure Analyses

Income refers the financial return from one business, labor or invested capital. This term is usually reserved for money received by an individual whether earned through work or unearned through dividend, interest etc.

Income and expenditure is one of the important indicators to evaluate financial performance of any organization so it will be relevant to analyze the source of operating income of the selected banks. Under this following analysis it is tried to breakdown the operating income and expenses of selected commercial banks individually. With the help of these analyses banks can determine its income and expenses pattern so that they can improve in future.

4.2.2.1 Operating Income:

The major source of the operating income of the commercial banks are interest received from loan and advances, interest received from overdraft, commission and discount, interest received from government securities, exchange fluctuation income and other miscellaneous income. Maximizing the income implies the better financial performance of the banks. Operating income of the selected banks are calculated as follow:

a. Interest Income to Total Income:

Interest income reflects the operational efficiency of banks, so higher this ratio indicates higher efficiency and vice-versa. The interest income includes interest received from loans, advances & overdrafts, treasury bills, foreign security, NRB bond/debenture, bond of other organization etc but the major source of interest earning is loans and advances.

The ratio has been derived dividing interest income by total operating income.

TABLE NO. 4.15

COMPUTATION OF INTEREST INCOME TO TOTAL OPERATING INCOME OF THE SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

	NIBL		HBL		NABIL	
Year	Interest Income	Total Operating Income	Interest Income	Total Operating Income	Interest Income	Total Operating Income
2003/04	731.40	911.95	1245.9	1516.321	1001.62	1363.82
2004/2005	886.8	1,139.44	1446.47	1757.89	1068.75	1410.89
2005/2006	1172.74	1,461.03	1626.47	2042.37	1310	1716.66
2006/2007	1584.99	1,998.31	1775.58	2160.77	1587.76	2035.85
2007/08	2194.28	2,743.36	1978.29	2435.87	1978.7	2428.85

Interpretation

Interest Earned to Total Operating Income (in %)

	NIBL	HBL	NABIL
2003/2004	80.20	82.17	73.44
2004/2005	77.83	82.28	75.75
2005/2006	80.27	79.64	76.31
2006/2007	79.32	82.17	77.99
2007/2008	79.99	81.21	81.47
Combined Mean	79.52	81.49	76.99
SD	3.19	1.01	2.67
CV	4.01	1.24	3.47

From the table it reveals that interest income has covered the highest portion of operating income for all of the sample banks. This ratio on an average of HBL has the highest with 81.49% which is followed by NIBL 79.52% & NABIL with 76.99% respectively. It shows that income of the bank largely depends upon the interest received.

From S.D point of view NIBL has the highest S.D of 3.19 point and HBL has the lowest of 1.01 point. It indicates that NABIL has high fluctuation in interest income and HBL has low fluctuation in interest income over the study period.

From CV point of view, NIBL has the highest CV of 4.01% and HBL has the lowest CV of 1.24%. It implies that NABIL has high degree of variability and HBL has low degree of variability to earn interest income than other bank over the study period.

Thus the above analysis helps to conclude that the higher ratio of interest earned ratio of the sample bank shows a better operational or efficiency or high level of risk because of the large amount invested on loans and advances.

b. Foreign Exchange Earning

In an average the second source of income is foreign exchange fluctuation gain. It includes the gain on sale of foreign currencies and revaluations gains. NRB gives direction to the banks to retain a fixed portion of the gain from the fluctuation of foreign exchange as profit and show the balance as payable to NRB. NRB also gives instruction to transfer some portion of gain on "foreign exchange fluctuation fund".

TABLE NO. 4.16

COMPUTATION OF FOREIGN EXCHANGE EARNING TO TOTAL OPERATING INCOME OF THE SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

	NIBL		HBL		NABIL	
Year	**Foreign Exchange Earning**	**Total Operating Income**	**Foreign Exchange Earning**	**Total Operating Income**	**Foreign Exchange Earning**	**Total Operating Income**
2003/04	87.98	911.95	112.42	1516.321	184.88	1363.82
2004/2005	102.52	1,139.44	137.3	1757.89	157.33	1410.89
2005/2006	125.75	1,461.03	198.13	2042.37	185.48	1716.66
2006/2007	135.36	1,998.31	151.64	2160.77	209.92	2035.85
2007/08	165.84	2,743.36	192.6	2435.87	196.48	2428.85

Interpretation

Foreign Exchange Earning to Total Operating Income (in %)

	NIBL	HBL	NABIL
2003/2004	9.65	7.41	13.56
2004/2005	9.00	7.81	11.15
2005/2006	8.61	9.70	10.80
2006/2007	6.77	7.02	10.31
2007/2008	6.05	7.91	8.09
Combined Mean	8.01	7.97	10.78

The above table reflects that the degree of foreign exchange earning in case of the selected banks has covered second significant place out of total operating income. Here, the average percentage of NABIL is higher than that of the other that is 10.78% followed by NIBL 8.01% & HBL 7.97%respectively. Here HBL percentage is lesser than the earning of other two banks. Thus the earning from foreign exchange earning seemed for playing a more significant role in generating the operating income of the sample banks that plays a vital role in building a better financial performance.

c. Commission and Discount Earning:

This earning consist the commission and discount received from bills purchased and discounted, commission from letter of credit, guarantee, collection fee, remittance fee, credit cards, share underwriting, government transaction agency commission, exchange fee etc.

TABLE NO. 4.17

COMPUTATION OF COMM. & DISCOUNT TO TOTAL OPERATING INCOME OF THE SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

	NIBL		HBL		NABIL	
Year	**Comm. & Discount**	**Total Operating Income**	**Comm. & Discount**	**Total Operating Income**	**Comm. & Discount**	**Total Operating Income**
2003/04	55.75	911.95	123.93	1516.321	138.57	1363.82
2004/2005	93.55	1,139.44	132.82	1757.89	128.88	1410.89
2005/2006	115.94	1,461.03	165.44	2042.37	138.29	1716.66
2006/2007	163.9	1,998.31	193.22	2160.77	150.6	2035.85
2007/2008	215.29	2,743.36	202.88	2435.87	156.23	2428.85

Interpretation

Comm. & Discount to Total Operating Income (in%)

	NIBL	**HBL**	**NABIL**
2003/2004	6.11	8.17	10.16
2004/2005	8.21	7.56	9.13
2005/2006	7.94	8.10	8.06
2006/2007	8.20	8.94	7.40
2007/2008	7.85	8.33	6.43
Combined Mean	7.66	8.22	8.24

From the table, the analyses of the average rate of the earning of commission and discount helps to conclude that NABIL with 8.24% has the highest percentage of average commission and discount followed by HBL 8.22% and NIBL 7.66% respectively. Here the banks with increasing trend of the earned proofs of the important role of commission

and discount earning of a bank for its better financial performance and also the extending a better services to its customer in the field by the particular bank.

d. Other Income:

The next source of operating income of the commercial bank is other income. It is calculated by dividing other operating income by total operating income.

TABLE NO. 4.18

COMPUTATION OF OTHER INCOME TO TOTAL OPERATING INCOME OF THE SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

	NIBL		HBL		NABIL	
Year	Other income	Total Operating Income	Other income	Total Operating Income	Other income	Total Operating Income
2003/04	36.816	911.95	34.076	1516.321	38.75	1363.82
2004/2005	56.57	1139.44	41.3	1757.89	55.93	1410.89
2005/2006	46.6	1461.03	52.33	2042.37	82.89	1716.66
2006/2007	114.06	1998.31	40.33	2160.77	87.57	2035.85
2007/2008	167.95	2743.36	62.1	2435.87	97.44	2428.85

Interpretation

Other Income to Total Operating Income (in%)

	NIBL	HBL	NABIL
2003/2004	4.04	2.25	2.84
2004/2005	4.96	2.35	3.96
2005/2006	3.19	2.56	4.83
2006/2007	5.71	1.87	4.30
2007/2008	6.12	2.55	4.01
Combined Mean	4.80	2.31	3.99

From the above table the highest percentage in the earning from other income seemed of NIBL with 4.80% bank which is followed by NABIL 3.99% and HBL 2.31% respectively. Mostly banks earning from other income seemed fluctuating. Here the analysis shows that other income has a very nominal contribution in the operating income of the sample banks.

4.2.2.2 Operating Expenses

The total cost have been occurred in producing revenues are called operating expenses. This analysis shows the proportionate expenses under the different operating expenses heading.

The main headings of the operating expenses of the commercial banks are interest expenses on deposits, borrowings, staff expenses, office operating expenses, provision for staff bonus and all other expenses that are directly related with the operation of the banks. Mainly the operating expenses are grouped on the headings are interest and commission paid, salary, allowances and provident fund, provision for bonus and other general expenses for our study purpose.

a. Interest Expenses

The interest and commission paid expenses are the major expenses of banks. Interest expenses coveres high expenses on total operating expenses. In this study interest expenses denotes interest paid on deposit liabilities. On borrowing i.e. overdraft, loan from Nepal Rastra Bank, inter bank borrowing, other loan and refinances.

TABLE NO. 4.19

COMPUTATION OF INTEREST EXPENSES TO TOTAL OPERATING EXPENSES OF THE SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

	NIBL		HBL		NABIL	
Year	**Interest Expenses**	**Total Operating Expenses**	**Interest Expenses**	**Total Operating Expenses**	**Interest Expenses**	**Total Operating Expenses**
2003/2004	326.2	591.14	491.543	901.829	282.94	689.09
2004/2005	354.55	671.554	561.96	1075.99	243.54	717.56
2005/2006	490.95	862.32	648.84	1280.37	357.16	849.44

2006/2007	685.53	1146.67	767.41	1452.94	555.71	1083.55
2007/2008	992.16	1594.46	823.76	1557.83	758.44	1351

Interpretation

Interest Expenses to Total Operating Expenses (in%)

	NIBL	HBL	NABIL
2003/2004	55.18	54.51	41.06
2004/2005	52.80	52.23	33.94
2005/2006	56.93	50.68	42.05
2006/2007	59.78	52.82	51.29
2007/2008	62.23	52.88	56.14
Combined Mean	57.38	52.62	44.89

The above analyses helps to conclude that on an average NIBL and HBL are expending a greater portion of its income for an interest and commission than other that is 57.38% and 52.62%. Likewise the percentage of NABIL is 44.89% and the trend is fluctuating.

b. Staff Expenses

The next important heading under operating expenses is staff expenses. These include salary, allowance contributed to provident fund, training expenses, uniform, medical, insurance, pension and gratuity, provision and other expenses related with other staff.

TABLE NO. 4.20

COMPUTATION OF STAFF EXPENSES TO TOTAL OPERATING EXPENSES OF THE SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

	NIBL		HBL		NABIL	
Year	**Staff Expenses**	**Total Operating Expenses**	**Staff Expenses**	**Total Operating Expenses**	**Staff Expenses**	**Total Operating Expenses**
2003/2004	89.75	591.14	152.509	901.829	180.84	689.09
2004/2005	97.004	671.554	178.59	1075.99	199.52	717.56
2005/2006	120.66	862.32	234.59	1280.37	219.78	849.44
2006/2007	145.37	1146.67	272.23	1452.94	240.16	1083.55
2007/2008	187.15	1594.46	297.26	1557.83	262.91	1351

Interpretation

Staff Expenses to Total Operating Expenses (in%)

	NIBL	HBL	NABIL
2003/2004	15.18	16.91	26.24
2004/2005	14.44	16.60	27.81
2005/2006	13.99	18.32	25.87
2006/2007	12.68	18.74	22.16
2007/2008	11.74	19.08	19.46
Combined Mean	13.61	17.93	24.31

The average expenditure percentage of NABIL with 24.31% is higher than that of HBL & NIBL i.e. 17.93% and 13.61% respectively. By comparatively analyzing, it makes it clear that NABIL is spending a higher portion on its income to its staffs than that of others. The higher ratio also means the banks are paying higher amount for staffs which may motivate them economically.

c. Provision for Bonus

Bonus refers the extra incentive provided to the employees for their efficient services by the banks. Bonus is distributed from the profit earned by the banks for making them prompt and efficient for the next operation. This helps the worker to uplift their moral at the work.

TABLE NO. 4.21

COMPUTATION OF PROVISION FOR BONUS TO TOTAL OPERATING EXPENSES OF THE SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

	NIBL		HBL		NABIL	
Year	**Provision for Bonus**	**Total Operating Expenses**	**Provision for Bonus**	**Total Operating Expenses**	**Provision for Bonus**	**Total Operating Expenses**
2003/2004	25.72	591.14	46.73	901.829	71.94	689.09
2004/2005	37.08	671.554	58.06	1075.99	84.2	717.56
2005/2006	50.49	862.32	67.24	1280.37	89.8	849.4

2006/2007	72.34	1146.67	71.74	1452.94	99.5	1083.55
2007/2008	102	1594.46	95.53	1557.83	108.9	1351

Interpretation

Provision for Bonus to Total Operating Expenses (in%)

	NIBL	HBL	NABIL
2003/2004	4.35	5.18	10.44
2004/2005	5.52	5.40	11.73
2005/2006	5.86	5.25	10.57
2006/2007	6.31	4.94	9.18
2007/2008	6.40	6.13	8.06
Combined Mean	5.69	5.38	10.00

In the above figure, NABIL has distributed high bonus i.e. 10% on an average followed by NIBL 5.69% and HBL 5.38% respectively. Thus the analysis helps to conclude that NABIL is giving high bonus to the staffs than other banks. Staffs motivated to their work on behalf of the banks by which it is increasing the productivity of the bank at last. But also remind another thing is that this policy contradicts with the dividend distribution to the shareholders. Shareholders always want to get more amount as dividends but providing bonus to the staffs reduces their dividends because the bonus payment reduces the degree of dividend payment as both are distributed from profits. So this is a controversial issue and relationship between bonus and dividend. A reform added on bonus act, not to allow giving bonus more than four months basic salary, which would improve the conflicting condition in the coming future.

d. Other Expenses

Expenses directly related to the operation of the bank are grouped as other expense or other general expenses. This expense is the second largest heading for expenditure in the list of expenses.

TABLE NO. 4.22

COMPUTATION OF OTHER EXPENSES TO TOTAL OPERATING EXPENSES OF THE SELECTED BANKS FOR THE PERIOD ENDING 2004 TO 2008

	NIBL		HBL		NABIL	
Year	Other Expenses	Total Operating Expenses	Other Expenses	Total Operating Expenses	Other Expenses	Total Operating Expenses
2003/2004	149.47	591.14	211.047	901.829	153.37	689.09
2004/2005	182.92	671.554	277.38	1075.99	190.3	717.56
2005/2006	200.22	862.32	329.7	1280.37	182.7	849.44
2006/2007	243.43	1146.67	341.56	1452.94	188.18	1083.55
2007/2008	313.15	1594.46	341.28	1557.83	220.75	1351

Interpretation

Other Expenses to Total Operating Expenses (in%)

	NIBL	HBL	NABIL
2003/2004	25.29	23.40	22.26
2004/2005	27.24	25.78	26.52
2005/2006	23.22	25.75	21.51
2006/2007	21.23	23.51	17.37
2007/2008	19.64	21.91	16.34
Combined Mean	23.32	24.07	20.80

In the above figure, HBL other expenses are appearing highest i.e. 24.07% followed by NIBL 23.32% and NABIL 20.80 % respectively. The other expenses of the selected banks are in decreasing trend which shows a positive symbol for decreasing the expenses in the future.

Average Operating Income and Expense of Sample Banks

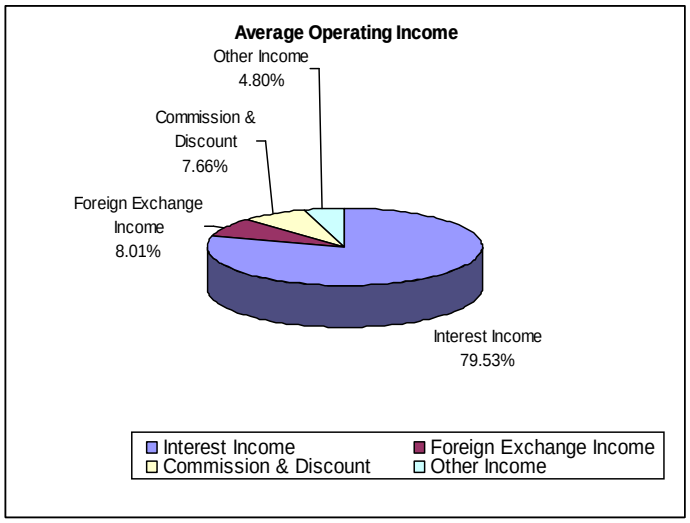
In these analyses, break down the average income and expenses of selected private commercial banks individually. By evaluating through a pie chart, trying to show the operating income and expenses position of the sample banks by which these banks can determine its income and expenses pattern so that they can improve in future.

TABLE NO. 4.23

Average operating income and expenses analysis of NIBL bank from 2003/04 to 2007/08

NIBL

Income	%	Expenses	%
Interest Income	79.52	Interest Expenses	57.38
Foreign Exchange Income	8.01	Staff Expenses	13.61
Commission & Discount	7.66	Provision for Bonus	5.69
Other Income	4.8	Other Expenses	23.32
Total	100	Total	100



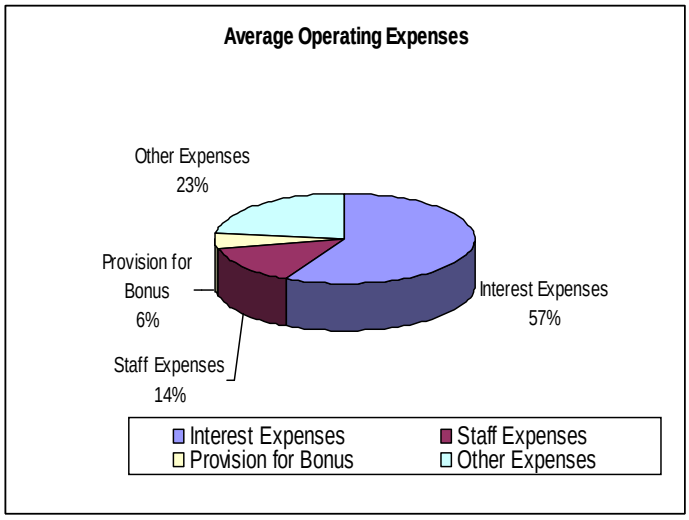


Fig. 4.15 **Fig. 4.16**

NIBL Average Operating Income and Expenses Breakdown

- In the above chart NIBL had 79.53% interest income followed by 8.01% of foreign exchange income, 7.66% of commission & discount and 4.80% of other income respectively.
- Similarly its other interest expenses is 57% followed by other expenses 23%, staff expenses 14% & provision for staff bonus 6% respectively.

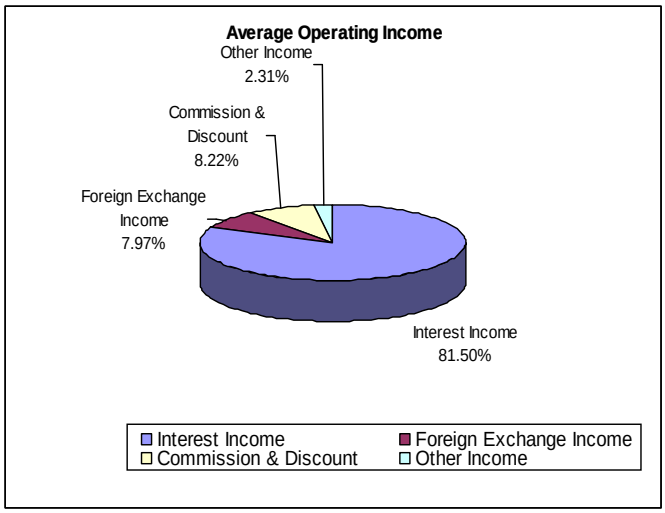
TABLE NO. 4.24

Average operating income and expenses analysis of HBL bank from 2003/04 to 2007/08

HBL

Income	%	Expenses	%
Interest Income	81.49	Interest Expenses	52.62
Foreign Exchange Income	7.97	Staff Expenses	17.93
Commission & Discount	8.22	Provision for Bonus	5.38
Other Income	2.31	Other Expenses	24.07

Total	100	Total	100



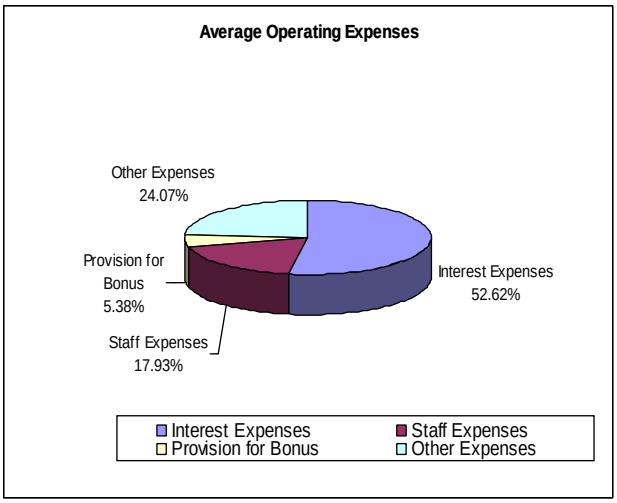


Fig. 4.17 **Fig. 4.18**

HBL Average Operating Income and Expenses Breakdown

- In an average, HBL had 81.49% interest income followed by 8.22% of commission & discount, 7.97% of foreign exchange income and 2.31% of other income respectively.
- Similarly its other interest expenses is 52.62% followed by other expenses 24.07%, staff expenses 17.93% & provision for staff bonus 5.38% respectively.

TABLE NO. 4.25

Average operating income and expenses analysis of NABIL bank from 2003/04 to 2007/08

NABIL

Income	%	Expenses	%
Interest Income	76.99	Interest Expenses	44.89
Foreign Exchange Income	10.78	Staff Expenses	24.31
Commission & Discount	8.24	Provision for Bonus	10
Other Income	3.99	Other Expenses	20.8
Total	100	Total	100

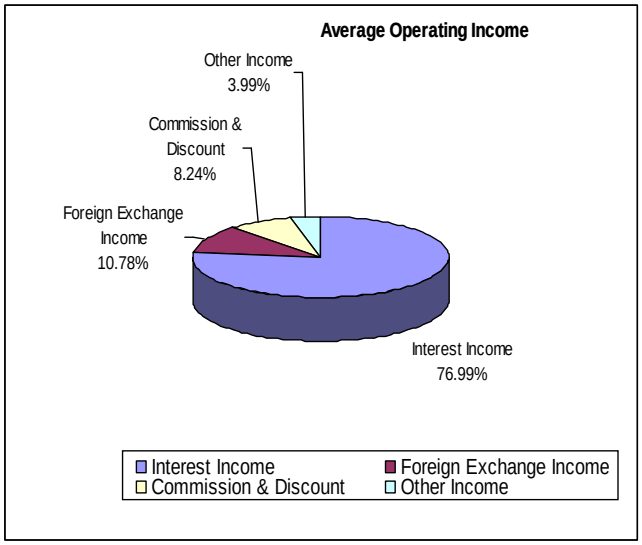


Fig. 4.19

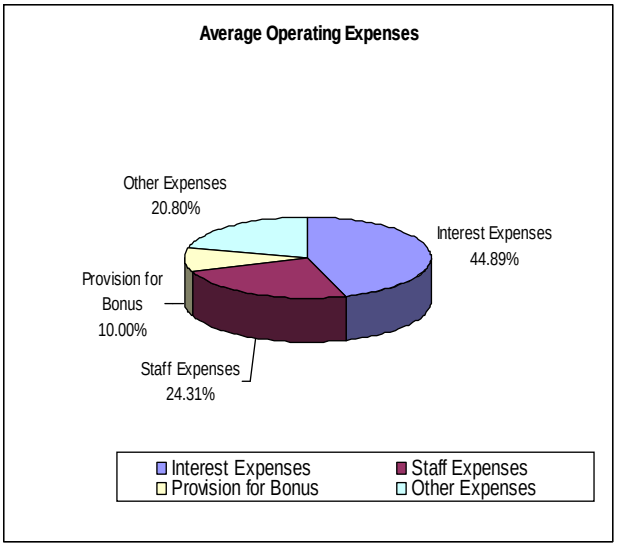


Fig. 4.20

- In an average, NABIL had 76.99% interest income followed by 10.78% of foreign exchange, 8.24% of commission & discount, 3.99% of other income respectively.
- Similarly its other interest expenses is 44.89% followed by other expenses 20.80%, staff expenses 24.31% & provision for staff bonus 10% respectively.

4.3 Statistical Tools

4.3.1. Trend Analysis

Trend Analysis, present or future, is utilized to see the movement of upward or downward by the help of given numerical values of some specified period of time. Trend analysis is a statistical tool which will highlight the previous trend of the financial performance and helps in forecasting the future financial result of these commercial banks. Trend analysis shows the trend of deposit collection and loans and advances of the sample banks for five years. Deposit collection shows bank efficiency in performance and efficient utilization of the same indicates its successes and possibilities.

To analyze the market share of the commercial banks the following analyses of total deposit, total loan and advances and deposit utilization rate are calculated:

4.3.1.1 Trend Analyses of Market Share of Deposit, Loan and Advances and Net Profit:

a. Trend Value of Total Deposit

TABLE NO. 4.26

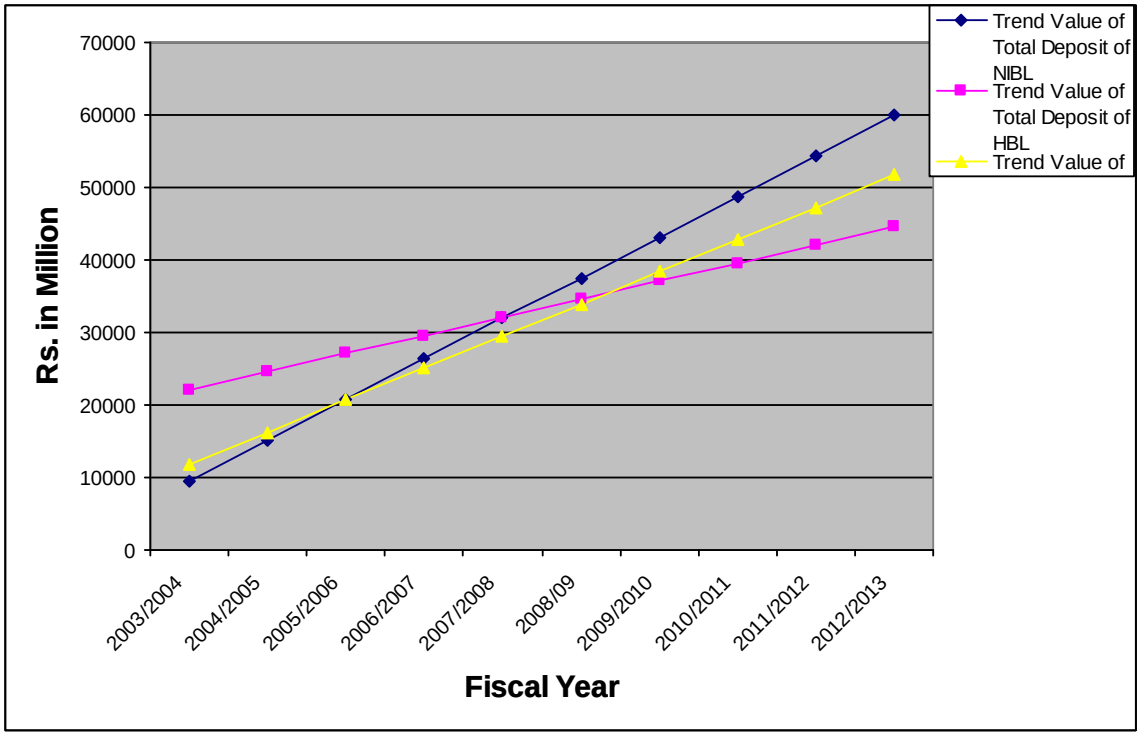
Year	Trend Value of Total Deposit of NIBL	Trend Value of Total Deposit of HBL	Trend Value of Total Deposit of NABIL
2003/2004	9512.184	22042	11792.54
2004/2005	15120.879	24551.35	16227.31

2005/2006	**20729.574**	**27060.7**	**20662.08**
2006/2007	**26338.269**	**29570.05**	**25096.85**
2007/2008	**31946.964**	**32079.4**	**29531.62**
2008/09	**37555.659**	**34588.75**	**33966.39**
2009/2010	**43164.354**	**37098.1**	**38401.16**
2010/2011	**48773.049**	**39607.45**	**42835.93**
2011/2012	**54381.744**	**42116.8**	**47270.7**
2012/2013	**59990.44**	**44626.15**	**51705.47**

From the above table it is clear that a trend value of NIBL & NABIL is in an increasing trend. If other things remain unchanged the total deposit of NIBL is predicted to be Rs. 59990.44 million followed by NABIL Rs. 51705 million and HBL to be less than that of NIBL & NABIL by the end of F/Y 2012/2013 i.e. Rs. 44626.15 million.

Fig. 4.21

Trend value of Total Deposit of NIBL, HBL & NABIL



From the above trend analysis, it is quite obvious that NIBL deposit collection is proportionately much better than NABIL & HBL. The trend values of total deposit of the selected banks are fitted in the trend lines given in the figure.

b. Trend Value of Loans and Advances

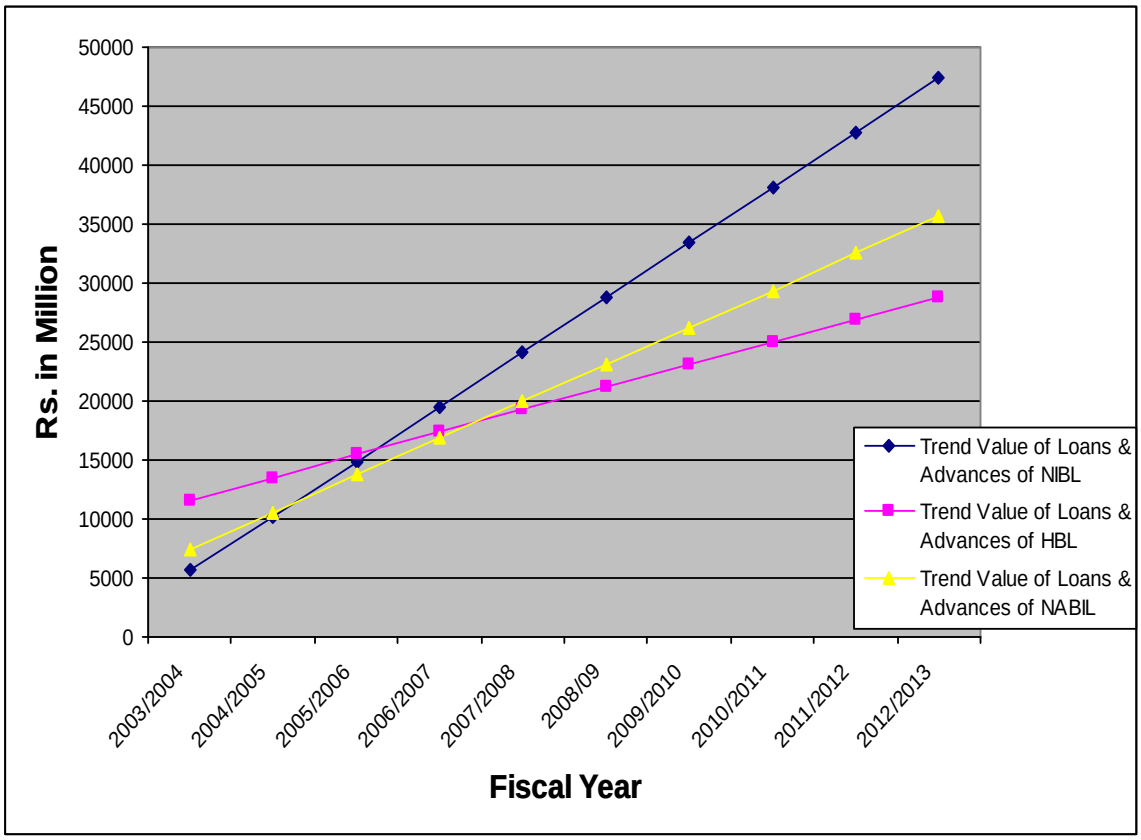
TABLE NO. 4.27

Year	Trend Value of Loans & Advances of NIBL	Trend Value of Loans & Advances of HBL	Trend Value of Loans & Advances of NABIL
2003/2004	5609.43	11614.18	7459.97
2004/2005	10257.1	13523.52	10590.94
2005/2006	14904.77	15432.86	13721.91
2006/2007	19552.44	17342.2	16852.88
2007/2008	24200.11	19251.54	19983.85
2008/09	28847.78	21160.88	23114.82
2009/2010	33495.45	23070.22	26245.79
2010/2011	38143.12	24979.56	29376.76
2011/2012	42790.79	26888.9	32507.73
2012/2013	47438.46	28798.24	35638.7

The above table clearly shows that the loan and advance of the banks are in an increasing trend. Assuming that other things will remain constant, the loan and advances of NIBL at the end of F/Y 2012/2013 is predicted to be Rs. 47438.46 million. Similarly the projection for HBL & NABIL at the end of F/Y 2012/2013 is Rs. 28798.24 and Rs. 35638.7 million respectively.

Fig. 4.22

Trend value of Loan and Advances of NIBL, HBL & NABIL



From the above trend analysis it is quite clear that NIBL loans and advances in relation to HBL & NABIL is comparatively higher through out the trend projection period. The above trend values of NIBL, HBL & NABIL are fitted in the trend line given in the figure.

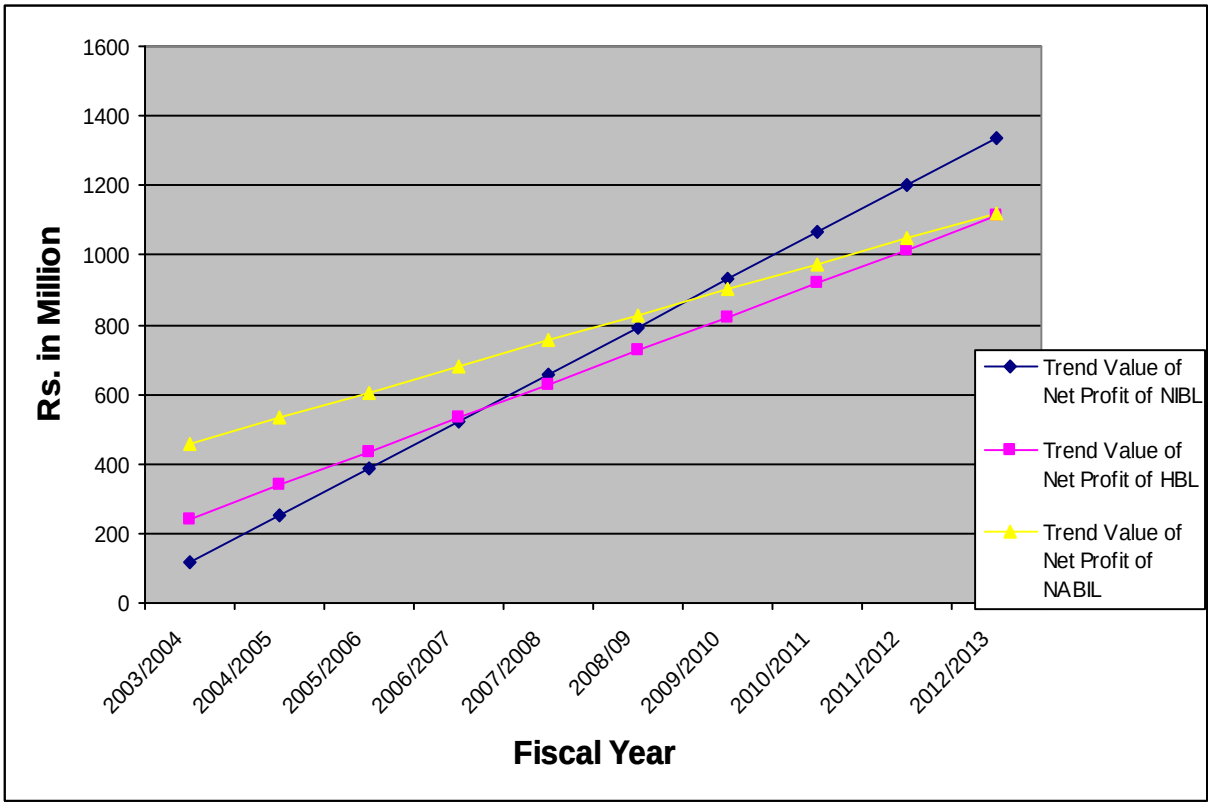
c. Trend Value of Net Profit

TABLE NO. 4.28

Year	Trend Value of Net Profit of NIBL	Trend Value of Net Profit of HBL	Trend Value of Net Profit of NABIL
2003/2004	115.18	241.76	458.98
2004/2005	250.93	338.38	532.6
2005/2006	386.68	435	606.22
2006/2007	522.43	531.62	679.84
2007/2008	658.18	628.24	753.46
2008/09	793.93	724.86	827.08
2009/2010	929.68	821.48	900.7
2010/2011	1065.43	918.1	974.32
2011/2012	1201.18	1014.72	1047.94
2012/2013	1336.93	1111.34	1121.56

From the above comparative table it is clear that the trend value of the selected banks are in increasing trend. Other things remaining same the trend values of the selected banks are in increasing trend. The trend value of NIBL will be highest in f/Y 2012/2013 i.e. Rs. 1336.93 million followed by NABIL Rs. 1121.56 and HBL 1111.34 million respectively.

Fig. 4.23



Trend value of Net Profit of NIBL, HBL & NABIL

NIBL net profit is higher than that of HBL & NABIL. It can be said that all the banks have followed the policy of maximizing their net profit. However we can draw a

conclusion that NIBL has utilized its fund better than the other two banks to earn higher amount of profit. The above calculated trend values of net profit of NIBL, HBL & NABIL are fitted in the trend line given in figure.

4.3.2 Coefficient of correlation

Correlation coefficient is the measure of correlation between two variables that summarizes correlation in one figure. If the change in the value of are variable is accompanies by the charge in the value of the other, the variables are said to be correlated. Analysis of correlation coefficient explains to what extent two variables are correlated. In this analysis Karl Pearson's Correlation Coefficient has been used to find out the relationship between variables. Correlation analysis describes the relationship between variables i.e. positive or negative. It helps to determine the following.

- A positive on negative relationship exists.
- The relationship is significant on insignificant.
- Establish cause and effect relation if any.

The statistical tool-correlation analysis is used in the study to measure the relationship between variables in determining within the relationship is significant or not. For the purpose decision making interpretation are based on the following terms.

1. When, r = 1, then is perfect positive correlation.
2. When, r = -1, then is perfect negative correlation.
3. When, r = 0, then is no correlation.
4. When, 'r' lies between 0.7 to 0.999 (-0.7 to 0.999), then is high degree of positive (or negative) correlation.
5. When, 'r' lies between 0.5 to 0.6999 there is moderate degree of correlation.
6. When, 'r' is less than 0.5, there is low degree of correlation.

The formula for computing Pearson's correlation coefficient (r) using direct method is as follows:

$$r = \frac{N \Sigma XY - (\Sigma X)(\Sigma Y)}$$

$$\sqrt{[N \Sigma X^2 - (\Sigma X)^2} \ \sqrt{[N\Sigma Y^2 - (\Sigma Y)^2}$$

where

r = coefficient of correlation between variable X & Y

N = number of pairs in observation

ΣXY = sum of products of the variables X & Y

ΣX = sum of the X

ΣY = sum of the Y

ΣX^2 = sum of the squares of X

ΣY^2 = sum of the squares of Y

Test of significance (Probable Error)

The probable error of the coefficient of correlation helps in interpreting the value of correlation. It helps to determine the reliability of the value of coefficient in so far as it depends on the condition of the random sampling. The probable error can be assessed by formula as:

$$Per = 0.6745 \times \frac{1-r^2}{}$$

√n

where

r= coefficient of correlation

n= number of pair of observation

Here

- If r<6 P.E, then the value of 'r' is not significant
- If r>6 P.E, then the value of 'r' is definitely significant
- If the other situations happen, nothing can be concluded with certainty.

a) Correlation between Total Deposit and Loans and Advances

The correlation between total deposit and loans and advances describes the degree of relationship between these two items. How a unit increases in deposit impact in the volume of the loans and advances is measured by this correlation. Here, deposit is the independent variables and the loans and advances is dependent variable.

Correlation between Total Deposit & Loan and Advances

TABLE NO 4.29

Banks	correlation coefficient r	P.Er=0.6745 x 1-r2 √n	6*P.Er.
NIBL	0.996	0.002	0.014
HBL	0.935	0.038	0.227
NABIL	0.989	0.007	0.040

The above table describes the relationship between total deposit and loan and advances. There is positive relationship between deposits and loan and advances in all three banks. The bank NIBL and NABIL have high degree of positive correlation. The value of (r) in NIBL is the highest i.e. 0.996 followed by NABIL 0.989 and HBL 0.935 respectively.

All the three banks have good relationship between deposit and loan and advances because the value of 'r' is greater than six times P.E. This means that all the banks are successful in mobilizing its deposit. The increase in loan and advances is due to the increase in deposit or successful mobilization of deposit in all three banks and other factor have nominal role in increment of loans and advances as compare to deposit.

b) Correlation between Total Deposit and Total Investment

Coefficient of correlation between deposit and total investment measure the degree of relationship between these two variables. Here deposit is taken as independent variable (x) and the variable dependent on deposit is total investment which is denoted by (y). The purpose of calculating 'r' is to judge whether deposits are significantly mobilized as investments or not.

Correlation between Total Deposit & Total Investment

TABLE NO 4.30

Banks	correlation coefficient r	P.Er	6*P.Er.
NIBL	0.919	0.047	0.281
HBL	0.928	0.042	0.251
NABIL	0.971	0.017	0.103

The coefficient of correlation 'r' between deposit and total investment in case of NIBL is 0.919, which indicates positive correlation between deposits and total investment. The value of 'r' is also greater than six times P.E.. This states that there exists a significant relationship between deposit and total investment.

The coefficient of correlation 'r' between deposit and total investment in case of HBL is 0.928, which indicates positive correlation between the two variables. . The value of 'r' is also greater than six times P.E. which states that there exists a significant relationship between deposit and total investment.

Similarly the coefficient of correlation 'r' between deposit and total investment in case of NABIL is 0.971, which indicates positive correlation between the two variables. As well as

the value of 'r' is also greater than six times P.E. which states that there exists a significant relationship between deposit and total investment.

In conclusion, it can be said that all the three banks show significant relationship between total deposit and total investment.

c) Correlation between Total Deposit and Net Profit

Net profit refers to profit after deducting interest and taxes. In this study correlation analysis between two variables net profit and total deposit are calculated to measure the closeness of relationship between them to what extent dependent variable i.e. net profit will be changed when there is a change in independent variable i.e. total deposit. The summary of various values are presented in the following table:

Correlation between Total Deposit and Net Profit

TABLE NO 4.31

Banks	correlation coefficient r	r^2	P.Er	6*P.Er.
NIBL	0.997	0.994	0.002	0.011
HBL	0.956	0.914	0.026	0.155
NABIL	0.937	0.878	0.037	0.220

From the table, we see that the correlation coefficient between net profit and total deposit of NIBL, HBL & NABIL are 0.997, 0.956 & 0.937 respectively. It also shows the higher positive relationship between net profit and total deposit of NIBL, HBL & NABIL. In other words net profit of the bank increases almost to the same degree with increase in the amount of deposit.

In order to measure the degree of change on dependent variable net profit due to change in independent variable total deposit, value of coefficient of determination (r2) is calculated. On the basis of coefficient of determination, it can be concluded that when there is a change in total deposit it bring 99.4% change in NIBL, 91.4% of HBL and 87.8% of NABIL over the study period.

Considering the probable error (P.E), the value of 'r' is greater than six times of P.E. (6*P.E). Therefore we can say that the value of 'r' is significant i.e. there is significant relationship between net profit and total deposit of NIBL, HBL & NABIL.

d) Correlation between Loans and Advances and Net Profit

The basic function of commercial bank is to collect deposits and use these funds on loan and advances to generate higher profit. Large amount of Loan and Advances generate higher profit correlation coefficient between loans and net profit measures the degree of relationship between loan and advances and net profit. In correlation analysis, loans and advances is the independent variable (Y) and net profit is dependent variable (X). The purpose of computing the coefficient of correlation is to justify whether the banks loans and advances are

significantly generating profit or not and whether there is any relationship between two variables. To find out the correlation various calculation are done.

Correlation between Loans and Advances and Net Profit

TABLE NO. 4.32

Bank	correlation coefficient r	P.Er	6*P.Er.
NIBL	0.988	0.007	0.043
HBL	0.964	0.021	0.128
NABIL	0.955	0.026	0.159

The above table shows the relationship between net profit and loan and advances. The correlation coefficient of NIBL is 0.988, HBL 0.964 and NABIL 0.955 respectively. Correlation coefficient of all the three banks appeared greater than six times the probable error i.e. NIBL 0.043, HBL 0.128, NABIL 0.159 respectively. It implies that the correlation between loans and advances and net profit in the bank is highly positively correlated and significant.

Therefore, it can be concluded that loans and advances are significantly used by NIBL, HBL and NABIL to earn profit.

4.4 Major Findings of the Study

With due concern of research methodology and analyses of data some of the major findings are listed below:

Liquidity Ratio:

- During the reviewed period current ratio of the banks are almost fluctuating and below standard of 2:1, which indicate unsatisfactory liquidity position or from the working capital viewpoint, selected banks, are following an aggressive working capital policy. However current ratio of NIBL is higher than HBL & NABIL. It has sound ability to meet payable in short term obligation. The performance of NIBL is better than two banks.

- The mean ratio of liquid fund to current liability of NIBL is better than HBL & NABIL. NIBL can discharge its current liability in proper time.

- The mean ratio of cash and bank balance to interest sensitive deposit ratio of NIBL is higher than two banks. HBL & NABIL has high volume of interest sensitive liability in deposit mix.

- Analyzing Loan and Advances to Current Assets NIBL and NABIL are utilizing its current assets properly but it is clearly seen that HBL could not able to utilize its current assets and it is suggested that it should utilize its fund in loans and advances in order to increase its further profit maximization which maintain a proper liquidity

position. Thus it is suggested that all the banks should try to increase its loan and advances to current assets ratio with keen consideration to improve lending management and to utilize the idle assets properly.

Activity Utilization Ratio

- The mean ratio of loans and advances to total deposit ratio of NIBL is higher than HBL & NABIL bank. The average ratio of loan and advances to total deposit of NIBL, HBL and NABIL is 70.23%, 56.76% & 66.18% respectively. It implies that NIBL has used highest percentage i.e. 70.23% of total deposit into loan and advances than other sampled banks over the study period. Similarly HBL has used lowest percentage i.e. 56.76% of total deposit into loan and advances over the study period. Thus it can be concluded that NIBL has been more successful in identifying profitable investment sectors and increasing its earning.

- In context of Total Investment to Total Deposit Ratio, the average ratio of NIBL, HBL & NABIL is 29.59%, 45.43% & 40.73% respectively. It implies that on an average NIBL has used 29.59% of total deposit into investment in other projects than regular loans. Similarly, on an average NABIL has used 40.73% of total deposit into investment. In terms of investment against total deposit, HBL has used higher percentage i.e. 45.43% of its total deposit into non-risky ventures and is ahead of all the sample banks. Thus, it can be concluded that the ratio of HBL are more consistent and less variable than NIBL & NABIL.

Profitability Ratio

- The average ratio of net profit to total assets of NIBL, HBL & NABIL is 1.57%, 1.38% & 2.62% respectively. It implies that on an average basis, NABIL bank has highest percentage i.e. 2.62% of net profit by utilizing its total assets among the sampled banks. Similarly on an average basis NIBL has earned 1.57% of net profit against the use of total assets over the entire study period. Likewise, HBL has earned 1.38% of net profit against the use of total assets over the study period. The above ratio shows how efficiently the sample banks have utilized their available assets over the study period. Among all the sample banks, HBL has the lowest ratio i.e. 1.38%. It means that HBL has not mobilized its assets into profit generating projects than other sampled banks.
- The average ratio of net profit to total deposit of NIBL, HBL & NABIL is 1.77%, 1.57% & 3.06% respectively. It implies that on an average basis, NABIL bank has highest percentage i.e. 3.06% of net profit by utilizing its total deposit among the sampled banks. Similarly on an average basis NIBL has earned 1.77% of net profit by utilizing total deposit over the entire study period. Likewise, HBL has earned the lowest percentage i.e.1.57% of net profit by utilizing total deposit over the study period. The above ratio shows how efficiently the sample banks have utilized their available deposit into profit generating project. On the other hand NABIL bank with highest ratio has been successful in earning more net profit by the proper use of its available deposit than others.

- From the comparative analyzing of the net profit to loan and advances or risky assets ratio, the average ratio of NIBL, HBL and NABIL is 2.52%, 2.76%, 4.64% respectively. It is clearly seen that NABIL has the highest ratio, which means that the

bank is able to utilize its funds properly and disburse good performing loans. Similarly NIBL & HBL are not being able to perform well.

Leverage Ratio/ Capital Structure Ratio:

- The average ratio of total debt to total assets of NIBL, HBL & NABIL is 91.06%, 92.21% & 91.66% respectively. It indicates that HBL has highest ratio i.e. 92.21% of total debt into total assets which signifies the excessive use of debts or outsiders funds to finance the total assets. On an average basis it shows that the selected banks are extremely levered. More specifically, the outsider's claims exceed far more than of the owners over the banks assets.

- The average ratio of total debt to net worth of NIBL, HBL & NABIL is 11.12%, 11.63% & 11.12% respectively. It implies that HBL has highly leverage 11.63 times means, debt capital financing is more than 1.63 times of its shareholders equity over the study period whereas NIBL and NABIL has 11.12% of total debts of net worth.

- The average ratio of capital adequacy to total deposit ratio of NIBL, HBL & NABIL is 9.78%, 9.18% & 9.75% respectively. It implies that capital adequacy ratio of NIBL is higher than the other two banks which indicates that NIBL is protecting its depositors than others. It is concluded that all the banks are able to maintain its capital adequacy ratio

Other Financial Indicators:

Earning Per Share

The average earning per share of NIBL, HBL & NABIL is Rs. 54.20, 56.29 & 114.6 respectively. On an average basis, NABIL has the highest earning per share than other banks over the study period. Similarly NIBL & HBL have comparatively lower EPS.

Dividend Per Share

The average dividend per share of NIBL, HBL & NABIL is Rs. 10.50, 11.32 & 64 respectively. On an average basis, NABIL has the highest dividend per share than other banks over the study period. Similarly NIBL & HBL have comparatively lower DPS hich indicates that except NABIL, other banks DPS rate are highly fluctuated and not being able to maintain its dividend to its total no. of shares.

Dividend Payout Ratio

The average dividend payout ratio of NIBL, HBL & NABIL is 20.47%, 19.91% & 55.02% respectively. On an average basis, NABIL has the highest dividend payout ratio which indicates that NABIL provides maximum amount of dividend to its shareholders over the entire study period.

Operating Income and Expenditure Analysis:

From the analysis of operating income and expenditure it is found that this sample bank's operating income and expenses from different items, in percentage are quite similar.

Operating income analysis shows that for the sample banks, interest is the most important contributors to operating income. Comparatively with earning from commission and discount, foreign exchange earnings comes next and then commission and discount follow thereafter. Comparing the operating income of the banks, it is revealed that the average interest income to total operating income of HBL is highest with 81.49% whereas foreign exchange fluctuation and commission and discount earning are higher in NABIL with 10.78% and 8.24% respectively. Likewise NIBL has covered the highest earning from other income by average rate 4.80%. Thus HBL is earning more income by providing more loans and advances of the deposit on income generating assets and providing services to the customer though. Whereas NABIL & NIBL by foreign exchange earning, commission and discount and other operating income, there may be chance to increase the operating income in future by increasing the service with adopting modern technology but may also be subjecting the bank to large potential losses.

In other side the items of operating expenses of the selected banks are also similar. From the analysis largest heading for expenditure from operating expenses, interest expenses has covered high expenses on total operating expenses in all of the banks. The next major expenses in a majority are staff expenses which is followed by provision for bonus & other expenses respectively. Comparatively on an average the operating expenses from the item Interest Expenses paid in higher percentage is NIBL with 57.38%. Similarly staff expenses and provision for bonus are higher in NABIL which shows a positive thought of financial motivation to its personals. Likewise other operating expenses are higher in HBL.

Correlation and Regression Analysis

The correlation coefficient of Total Deposit and loans and advances, Total Deposit & Total Investment, Loan and Advances and Net Profit, Total Deposit and Net Profit of NIBL is greater than other two banks. It has positively high degree correlation coefficient than other two banks.

Trend Analysis

Trend analysis of deposit, loans and advances, net profit and projection for next five years of NIBL, HBL & NABIL shows that trend analysis of total deposit of all three banks are in increasing trend. The increment ratio on deposit, loans and advances and net profit of NIBL is greater than two banks.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMEDATIONS

This chapter is important for the research because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts: summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as further research.

5.1 Summary

We are standing in the third wave, after the wave of agriculture and industrialization; it is a wave of information and technology. Today we are taking a high pace of new generation tools for the achievement and betterment of our daily lives. Now, if we talk about banks, we think of Credit Card, Visa Card, ATM, Tele-Banking, Master Card, SWIFT and many more. And if we study to history about the merchants carrying huge coins or know about "Tejarath Adda" we just get surprise.

In this present context of information and technology generation, financial institutions are getting high competition. In the context of Nepal the Nepalese financial system, comprising network of institutions, instruments and markets has made rapid progress and acquired a high degree of width and depth since the financial sector reform started. With the Umbrella Act of Nepal Rastra Bank all the financial institutions i.e. Public sector banks, private sector banks, finance companies, foreign sectors banks and finance companies turn themselves as rivals.

As these reforms have been a fall out of general liberalization of the economy, stiff competitive challenges have already emerged for the private sector bank from other financial sectors. Facilities out of facilities they are providing to the customers, the stronger banks are having stronger while weak banks are declining. So an attempt for evaluating the financial performance of the commercial joint venture banks has been made in this study on its quantitative grounds. The analysis and assumption presented in this thesis, banks and the researcher could get benefits because financial policies of any concern are directly or indirectly influenced by the financial performance. Thus it is a base for a firm's survival growth and expansion.

Under this study, the researcher has tried to cover the various aspects of selected joint venture banks covering he period of five years from 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08. In the first introductory chapter, the study report has tried to give history and introduction of banking and its relation to the economy, brief profile of the concerned banks, general concepts of financial statement and the statement of problem, objectives of the study and its limitation. During the research work, extensive review of various literature books, past thesis, journals have been studied and consulted. And as per requirement, internet materials from relevant websites are also visited. These works are complied in the second chapter titled "Review of Literature" of this report.

For this study the researcher has gathered the required data basically from annual reports published by the concerned joint venture banks for the last five years. And also internet website of Nepal Stock Exchange is used for necessary data to analyze the financial performance of selected banks; financial ratios to calculate various ratios, statistical tools such as mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination and probable error etc are followed for this research work in third chapter titled " Research Methodology".

Data relating to activities of the banks have been collected and presented in figures and tabular as far as possible are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial and statistical tools and findings of the study have been listed in a systematic manner. All these works are compiled in the fourth chapter titled "Data Presentation and Analysis" of the study.

Finally, the summary, conclusion and recommendation made by the research are presented in the current chapter titled "Summary, Conclusion and Recommendations."

5.2 Conclusion

- The study reveals that from liquidity point of view the current ratio of all the sample banks i.e. NIBL, HBL and NABIL is greater than 1 which should be considered satisfactory. On an average NIBL has the highest current ratio. It means NIBL solvency position is better than HBL & NABIL. The cash and bank balance of NIBL with respect to total deposits is greater than HBL & NABIL. This puts NIBL in a better position with respect to meeting customer requirement than other two banks. In contrast, a high ratio of non-earning cash and bank balance is an indication of banks unavailability to invest its fund in income generation areas. Comparing loan and advances to current assets ratio it is found that, during the reviewed period NIBL is found to be too aggressive. NIBL is taking higher risk. From the point of view of liquidity, it is predicted that NABIL and HBL has the higher degree of liquidity which can utilize for further profit maximization which maintain a proper liquidity position.

- Analyzing Activity of the sample banks, it is found that in terms of loan and advances against total deposits, NIBL has used more percentage of its total deposit into loan and advances than other sample banks. From all the sample banks HBL has mobilized highest percentage of its total deposit into total investment (i.e. investment into government securities, debenture and bonds, shares in subsidiary commercial bank, companies and other investment). From leverage ratio, HBL has high debt to total assets ratio represents a greater risk to creditor and shareholders than other sample banks. All the banks are capable to maintain its capital adequacy ratio while HBL ratio had seemed in the lowest position in comparison.

- Earning per share of NABIL has the highest than other selected banks. Similarly with the highest dividend payout ratio of NABIL refers that the bank provides maximum amount of dividend to its shareholders.

- The main objective of bank is to earn profit so that they could serve all the stakeholders of the bank. Analyzing Profitability ratio all the sample banks have been earning positive amount of profit but it is unsatisfactory. The banks are just earning about 2% to 3% around of earning on their total deposit. While comparing the profitability ratio of the banks, all the profitability ratio used to evaluate the profitability position of the banks, NABIL has better profitability than other two banks i.e. NIBL & HBL.

- While analyzing the income and expenditure of the selected banks it is found that all the banks interest income covers about 75% to 80% of total income. Foreign exchange income contributes about 8% to 10%. Commission and discount income

contribute about 7% to 8% for all the selected banks. And other income contributes about 2% to 4% in total income. This shows that although interest is the dominant income, HBL depend mostly on interest income than other two banks. And depending into a single source of income is not good practice for the health of the institution.

- From correlation and regression analysis all the selected banks have positive coefficient of correlation. From trend analysis loan and advances of each bank have increased trend but average growth of NIBL is higher than other selected bank.

5.3 Recommendation

Based on the analysis, interpretation and conclusion, some of the major recommendations are mentioned as below:

- Liquidity measures the company's ability to pay current liabilities through current assets. Therefore it sends a message to the investors that too high liquidity is an indication of mismanagement of resource and too low liquidity is risky one. There is very low liquidity position of the sampled banks. Therefore, the banks should diagnose the root cause for low liquidity ratio and should improve the liquidity ratio. So a suggestion that a standard ratio of 2:1 be maintained is proposed for the selected banks. For this sake not the liquidity but also the quality of liquidity should be considered which ensures both the utilization of resources and risk minimization.

- Cash and bank balance of total deposit ratio of the banks were in 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.

- HBL should be more serious to improve to efficiency in utilizing the deposits in loan and advances for generating the profits. Likewise the other banks should keep up their efforts in utilizing their assets decentralize and search new area of investment instead of getting aggressive in only the risky area of loan and advances.

- Here all the banks seemed in satisfactory level of capital structure but in fluctuation rate. Keeping in mind that neither higher debt capital nor lower debt capital is good for the bank so the banks are suggested to maintain an improved mix of debt and owners equity by increasing equity base in order to increase the earning of the shareholders. This leverage will be beneficial only if the required rate is lower than interest rate of return.

- In case of all the banks debt financing has always almost exceeded 90% of the total assets over the review period, which indicates the excessively use of debt finance to total assets. Nevertheless, extensive use of debts capital with the failure in advancing good loans can jeopardize the solvency position of these banks. Therefore, it is suggested to the banks to assess the risk assets portfolio cautiously before accepting higher volume of deposits.

- Profit is essential for the survival and growth of the banks and also a psychological impact on the shareholders and investors. It represents how resource of the banks are being utilized for the betterment of the owner's interest but over the study period, profits of the sample banks are not at satisfactory level. If resource hold idles, banks have to bear more cost and result would be lower profit margin. All of the banks are recommended more to earn operational profit either by increasing their operational efficiency or by decreasing their operational expenses as far as possible an also concerning that there is inverse relationship of profitability with liquidity, activity and leverage ratio.

- Shareholders are the real owners of the organization. But they do not seem to be happy with the rate of return on equity provided by the banks. To some extent, NABIL has been successful in providing a better return on equity than others. Thus, it is recommended that the management team should put emphasis on the maximizing the wealth of the shareholders.

- Low market price of the share and less earning per share of commercial banks indicates the poor performance in the market. Similarly, low dividend payout ratio also discourages the shareholders. Reviewing the study, NABIL has the higher EPS, DPS and dividend payout ratio than NIBL & HBL. Therefore it is suggested to the management team of both the banks to improve their performance.

- The bank must control their expenses especially those, which are unnecessary, and a burden for the bank. The bank must formulate a strategy to control expenses using modern banking technology, computer networking, expert advisors and well-trained personnel. These will also increase the operating efficiency of the bank. Analyzing the operating income and expenses of the banks it is recommended that there may be a chance to increase the operating income in future by increasing the service with adopting modern technology but may also be subjecting the bank to large potential losses.

- It is recommended to adopt innovative approach to marketing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strengthen and activate its marketing functions as it is an effective tools to attract an retain the customers for the purpose, the bank should develop an

innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way be optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore the new market areas. For this purpose, it is recommended to form strong marketing department in its central level, which deals with the banking products, places, prices and promotion.

- Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corners of the country. As social institutions living and operating in the society and for the society, JVBs have social responsibilities. But most of the JVBs are found to be centralized in urban areas ignoring the social responsibilities. So these banks are recommended and suggested to extend their banking facility even in the rural areas providing special loans to the deprived and priority sectors. Expansion of the bank network assists economic development by mobilized funds and resource, reducing problem of capital formation in Nepal like lack of banking facilities and habits in rural areas and also enhances bank's earning.

- It is suggested that the selected banks should use well trained personnel. Well-trained personnel will provide better services to the bank and people. This will increase the operating efficiency of the banks.

In conclusion, it is found that modern banking technologies followed by joint venture banks in Nepal are mostly beneficial to high level depositors. So the sample banks are

suggested here to make these technologies accessible to their all kind of depositors as far as possible.

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