CHAPTER – I
INTRODUCTION

1.1 Background

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

Nepal is one of the least developed countries of the world. Poverty has stood as a serious challenge to the country. The country is unable to fulfill the national requirement of people. In such context, it is realized that without industrial development, it is impossible to have social and economic development. So for industrial and economic development, banks play the vital role.Banking industry has acquired a key position in mobilizing resources for finance and social economic development of a country. Bank assists both the flow of goods

and services from the producers to the consumer and the financial activities of the government. Banking provides the country with a monetary system of making payment and also makes loan to maintain production in the economy.

Commercial bank is an institution, which accepts demand deposits, subject to check and make short-term loan to business enterprises, regardless of the scope of its other services. Nowadays, Joint venture Banks (JVBs) are increasing in Nepal. NABIL Bank Limited (which was firstly known as Nepal Arab Bank Ltd.), is the first joint venture bank established in 1984. The shareholding patterns of the bank are as follows: 50% by NB International (foreign partner), NIDC holds 10%, Nepal Stock holds .33%, Rastriya Beema Sansthan holds 9.67%, and the general public holds 30%.

In global perspective, joint ventures are the mode of trading through partnership among nations and also a form of negotiations between various groups of industries and trades to achieve mutual exchange of goods and services for sharing comparative advantages. A Joint Venture is the joining of forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investment, production or trade) (Gupta, 1994: 24).

Commercial banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post shipment finance to exporters. They start their operation with automated system, which could easily attract the elite group of business community due to

their prompt served modern management. In this way, joint venture banks are successful to bring healthy competition among banks, increase in foreign investment, promote and expand export-import trade, introduce new techniques and technologies. All these reveal the vital role and the need of joint ventures in Nepalese banking sector or financial service industry.

The development of the country is always measured by its economic development through economic indices. Therefore, every country gives emphasis on the upliftment and prosperity of its economy. The financial institutes act as intermediaries by transferring the resources from the point of surplus to the deficit. A new organized financial institution including financial companies, commercial banks and others financial intermediaries play an important role for the development of the country. They collect scattered financial resources from the mass and invest them among those who are associated with the social, commercial, and economic activities of the country. The economic activity of the country can hardly be carried forward without the assistance of financial institutions. They are indispensable part of the development process.

Commercial banks play an important part for economic development of a country as they provide capital for the development of the industries, trade, and business by investing the saving collected as deposits from the public. They vender various service to their customers facilitating their economic and social life. Therefore, a competitive and reliable banking is essential to the nation for the development.

Nowadays, there is less opportunity in banking sector to make investment because of competition. In this condition, joint venture banks can take initiation in search of new opportunity, so that they can survive in the competitive market and earn profit. But investment is the very risk job. For a purposeful, safe, profitable investment, banks must follow sound investment and fund mobilizing policy.

In recent times, many commercial banks are providing consumer-financing facilities. They provide direct housing loan, home equity loan, vehicle loan, education loan, loan for household appliances, etc. These all activities affect the cash flows, liquidity and profitability of the banks.

The study is basically related to analyze the liquidity mobilization of commercial banks in Nepal. The study has been done with special reference to Nabil Bank Limited, Standard Chartered Bank Nepal Limited (SCBNL) and Investment Bank Limited (HBL).

1.1.1 Profile of the Sampled Banks

A. Nabil Bank Limited.

Nabil Bank Limited, the first foreign joint venture commercial bank of Nepal, started operations in July,1984. It was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, the bank provides a full range of commercial banking services through its 27 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil Bank Ltd, 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.

Highly qualified and experienced team of the bank manages day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Tele-banking system. NABIL Bank Limited is providing full-fledged commercial banking services to its clients.

From its inception period in 1984 as the first joint venture bank, to commence operations in the Kingdom of Nepal, the bank have been a leader in terms of bringing the very best international standard banking practices, products and services to the kingdom. Today, mission of the bank is to be the Bank of 1st Choice to all of its stakeholders and customers. For the customers, it want to be the first choice in meeting all of the financial requirements, for shareholders, it want to be the investment of choice, for regulators, it want to be an example of a model bank, it want to be an outstanding corporate citizen in all the communities, it work in and finally, it want to be the first choice as an employer with whom to build a career. To achieve this mission, it has a core set of values by which we live. The values are C.R.I.S.P., i.e. Customer Focused, Result Oriented, Innovative, Synergistic and Professional. They are

committed to live our values everyday in everything we do, for it is, these values that make us uniquely NABIL Bank Limited.

The bank is a full services bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and Master-Card denominated in rupees and dollars, Visa Electron Debit Cards, Personal Lending Products for Auto, Home and Personal loans, Trade Finance Products, Treasury Services and Corporate Financing. Main aim is to be able to meet customer's entire gamut of financial requirements that is why it prides us in being 'Your Bank at Your Service'.

Table: 1.1

Capital Structure of Nabil Bank Limited.

Capital as at 2007	Amount in Rs. '000'
Authorized Capital	500,000
Issued Capital	491,654
Paid up Capital	491,654

B. Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Nepal Limited, formally known as Nepal Grindlays Bank Limited has been in operation since 1987. It is one of the topmost joint venture banks of Nepal. Capital structure of this bank is; 50 percent by Chartered Grindlays Bank, 33 percent by Nepal Bank Limited, the country's

oldest and largest financial institutions and 17 percent by the Nepalese public. On 31st July 2000, Standard Chartered Bank Nepal Limited conducted the acquisition with ANZ Grindlays Bank Limited of the Australia and New Zealand Banking Group. With this acquisition, 50 percent shares of Nepal Grindlays Bank Limited (NGBL), previously owned by ANZ Grindlays Bank Limited, change the name of bank to Standard Chartered Bank Nepal Limited with effect from 16 July 2001.

Table: 1.2

Capital Structure of Standard Chartered Bank Nepal Limited

Capital as at 2005	Amount in Rs. '000'
Authorized Capital	1,000,000
Issued Capital	500,000
Paid up Capital	374,640

C. Nepal Investment Bank Limited (NIBL)

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

With the decision of credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen has acquired on April 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure. Rastriya Banijya Bank holds 15%, Rastriya Beema Sansthan holds 15%, General Public holds 20%, and the Nepalese promoters hold 50%.

We believe that NIBL, 'which is managed by a team of experienced bankers and professionals having proven track record, can offer you what you're looking for. Besides commercial banking services, the bank also offers industrial and merchant banking services. The bank has six branches in Kathmandu Valley at the following locations: Putalisadak, New Road, Pulchowk (Lalitpur), Thamel, Kalimati, and Seepadol (Bhaktapur). In addition, the bank also has eleven other branches outside Kathmandu Valley in Banepa, Narayangarh, Birgunj, Janakpur, Jeetpur, Bhairawa, Biratnagar, Pokhara, Nepaljung, Butwal and Birtamod. Bank will be aggressively opening new branches at different parts of the Kingdom to serve its customers better. Recently bank has opened its new branch outside the valley in the Birtamod. Investment Bank Limited has always been committed to providing a quality service to its valued customers, being truly a Nepali Bank. All customers are treated with utmost courtesy as valued clients. The bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and

requirements of different clients. To further extend the reliable and efficient services to its valued customers, Investment Bank Limited has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptation to new technology. The Bank already offers unique services such as the pre-paid mobile recharging system through its ATM, SMS Banking and Internet Banking to customers and will be introducing more services like these in the near future. Recently it has brought a new scheme that every one can open its own saving Account in Re. 1.00.

Table: 1.3

Capital Structure of Investment Bank Limited

Capital as at 2007	Amount in Rs. '000'
Authorized Capital	1,000,000
Issued Capital	801352.6
Paid up Capital	801352.6

1.2 Focus of the study

Liquidity mobilization refers to as using money to get long-term benefit. Investment in its broad sense means the sacrifice of certain percent value for (possible uncertain) future value. In pure financial sense, the subsequent use of the term investment will be in the prevalent financial sense, of the placing of

money in the hands of other for their use, in return for a proper instrument entitling holder's to fixed income payment or the participation in expected profits.

The present economic position of Nepal is encouraging the savers to deposit their money in banks rather than investing in stocks, assets and new business etc., which in turn is hampering the bank's portfolio because deposits are higher and limited safe investment areas are decreasing day by day.

In spite of low interest rate, the depositors are feeling secured towards commercial banks but the highest surplus deposits are almost idle in the bank due to continuous fall in Nepalese economy because of conflict situation, changed taxation policy, and adversely affected tourism industry and agricultural industry.

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

1.3 Statement of the Problem

Liquidity mobilization is one important aspect in the development of any economy. Profit of any financial organization also depends on how well they have maintained liquidity and investment. But we are facing an acute problem of resource mobilization. We have 25 commercial banks in Nepal, which are very much considered to be vital financial institutions to mobilize domestic resources. They have of course a good performance in the course of mobilizing idle deposits.

The problems faced by commercial banks with regards to liquidity mobilization and reinvestment aspects are:

Deposit position of the banks

Investment position of the banks

Relationship between investment, loan and advances and total deposits

Maintenance of sufficient liquidity

The gap between deposits and investments of the banks

This research has been conducted to search for answers to the above problems by taking three sample banks – Nabil Bank, SCBN and NIBL.

1.4 Objectives of the study

The main objective of the study is to find out the ways of utilizing the surplus deposit funds and the right reinvestments for the economic development of a country. The specific objectives of the study are as follows:

1. Examine the profitability and liquidity of the concerned banks.
2. To analyze various liquidity and profitability ratios to find out how well the banks are being able to maintain the relation between the two.

1.5 Need of the Study

The study will be based mainly on the liquidity position and the profitability of the three concerned banks. It is very important that the banks utilize their funds in the productive sectors to increase their profitability which is very much necessary to survive in this competitive world. However, they also need to maintain liquidity as they have to meet their depositor's needs because they promise to pay their depositors as and when they require. If they invest all their funds then there is a chance that there will be runs in the bank. So, they must maintain a proper balance between the liquidity and profitability. For this they should not only use all their funds in loans and advances but they should also invest some of their funds in liquid assets such as government securities. Also they should maintain the cash reserve as dictated by Nepal Rastra Bank.

The proper liquidity and profitability of domestic resources become indispensable for any developing country aspiring for a sustainable economic

prosperity of the nation. The success and prosperity of the banks relies heavily upon the successful formulation and effective implementation of investment policy.

The significances of the study are pointed out as below:

The study helps to know how well the banks (Investment Bank Limited, NABIL Bank Limited and Standard Chartered Bank Nepal Limited) are in liquidity and profitability position.

The study is important to policy makers and academic professionals to formulate policies and plans on the basis of the performance of these banks.

The study helps these banks to compare each other's performance and plan accordingly for future.

The study helps these banks to make sound programs and policies based on the recommendation suggested.

The study guides to investors, customers (depositors, loan takers as well as other types of clients), competitors, personnel of the banks, stockbrokers, dealers, market makers, etc. to take various decisions regarding deposits and borrowings.

1.6 Limitations of the study

Every study is liable to certain limitations. Here are some of the limitations of the study:

1. The research will be done on the basis of only five year data i.e from 2002/2003 to 2006/2007.

2. The generalization from this study may not be possible due to limited sample size. It won't be possible to get the inside information on management like the capabilities of the employees, credit policy, internal control and financial regulation and human resource regulations, the knowledge of which would have materially altered our findings.

3. This study will be only micro level study.

4. This study is conducted for the partial fulfillment of master's of business studies, so it possesses some limitations of its own kind. The limitations of the study are follows:

The study is based only on secondary data so it may contain reporting errors.

There are 25 commercial banks in the financial market but this researcher takes only three from them. The sampled banks are NABIL Bank Limited, Standard Chartered Bank Nepal Limited and Investment Bank Limited.

The study covers the past and present state of the commercial banks in Nepal and has not made any future projection.

The study is made within limited timeframe, limited data, and with lack of research experiments.

This research uses only the selective tools for analysis and interpretation of data

1.7 Organization of the Study

This study is divided in to five chapters. The first chapter covers the background of the study, objective, significance and need, and the limitations of the study. The second chapter consists of the research methodology. This includes the research design, the sources of data, method of analysis and the population and samples used for the study. The third chapter is the review of literature. The fourth chapter is the main and the focused part of the study which is the presentation and analysis of data. Here, the collected data will not only be presented and analyzed but they will also be interpreted as well as compared with the concerned banks- Nabil Bank, NIBL and SCBNL. The last or the fifth chapter concludes the research. This part summarizes all the research work. Summary of all the data presented is shown in this chapter. In the end, there is an attempt to give some recommendations to the related banks for the improvement of their earning to increase the profitability as well as maintain adequate liquidity.

The whole study is divided into five different chapters. They are:

Chapter I is the introduction chapter. It includes background of the study, focus of the study, statement of problems, objectives of the study, and significance of the study, limitations of the study and chapter plan of the study.

Chapter II deals with review of literatures, which includes conceptual/theoretical review and review of related studies.

Chapter III is Research methodology which includes research design, population and sample, sources of data, data collection techniques and data analysis tools.

Chapter IV deals with the various analysis and interpretations of data like analysis of sources and uses of fund of commercial banks, analysis of deposits, loan and advances and investments of NABIL Bank Limited, Standard Chartered Bank Nepal Limited and Investment Bank Limited, financial and statistical analysis and analysis of primary data. It also shows major findings of the study.

Chapter V includes summary and conclusions of the study. It also deals with recommendations suggested.

The list of bibliography and appendixes are given at the last for references.

Chapter - II

Review of the Literature

This chapter includes the review of previous studies, articles and conceptual framework for the related studies. This chapter includes:

- Conceptual / Theoretical Review
- Review of Related Studies

2.1 Conceptual / Theoretical Review

This part is basically concerned with the theoretical part relevant to the topic.

2.1.1 Concept of Bank

Generally, an institution established by law, which deals with money and credit is called bank. It is obvious that in a common sense, an institution involved in monetary transaction is called bank.

A bank is a financial institution which plays a significant role in the economic development of any country. It facilitates the growth of trade and industry and boost up national economy.

A bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credits and transfers funds by written orders of depositors (The Encyclopedia of America, 1984: 302).

The origin of the word “Bank” is linked to:

German word ‘Bank” meaning Joint Stock Company

Latin word “Bank” means a bench

Italian word “Bank means a bench

French word “Banquet” means a bench

The term bank was first used in Italy in 1157 A.D in the 12th century. The first bank was set up in Venice, Italy as a public bank by the name “Bank of Venice”. Subsequently, “Bank of Barcelona” in 1401 A.D and “Bank of Geneva” in 1407 A.D. were established. In 1609 A.D. “Bank of Amsterdam” a famous bank was established. The history of modern banking started only from “Bank of England” in 1694 A.D in the real sense. But modern joint venture banks were established in England only in 1833 A.D. In 1844 A.D., “Bank of England” was established a first Central Bank in the world. The “Banque De France” was established in France in 1807 A.D.

2.1.2 Concept of Commercial Bank

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

According to Commercial Bank Act, 2063, a commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans, and performs commercial banking functions.

Commercial banks are those banks which pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand on short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short – term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash, credit and overdraft. Apart from financing, they also render services like collection of bills and cheques, safe keeping of valuables, financial advising, etc. to their customers (Vaidya, 2001 : 38).

Main functions performed by the commercial banks are as follows:

- Accepting Deposits
- Advancing Loans
- Agency Services
- Creating Money

2.1.3 Concept of Joint Venture Bank

Joint Venture Banks are the mode of trading to achieve mutual exchange of goods and services for sharing comparative advantages by performing joint investment scheme between Nepalese investors, financial, non financial institute as well as private investors and their parent banks each supplying 50 % total investment. The parent banks which have been experiencing highly mechanized and efficient modern banking management skill and an international of banking institutions, JVBs are formed in Nepal as full fledged commercial bank under the Economy Act, 2021 B.S and operated under the Banijya Bank Act, 2031 B.S.

Nepal government's deliberate policy of allowing foreign JVBs to operate in Nepal is basically targeted to encourage local traditionally run commercial banks enhancing their banking capacity through competition, efficiency, modernization, and mechanization via computerization and prompt customer service (Vaidhya, 1994: 44 – 45).

Joint venture banks at present are gaining popularity amongst the mass as they are performing the following roles:

- Provides new and advanced prompt services
- Offer better links with international market
- Create a competitive environment

2.1.4 Profitability

The term “profitability” is composed of two words “Profit” and “Ability”. Profit can be defined in the economic and accounting concept. According to Adam Smith “profit is the sum remaining after the payment of all wages (wages in economics includes payments to offices of corporations, to proprietors, to partners and to farmers as well as to what we today term labor and rent on the unimproved value of land as the return to capital.” Under the mathematics of capital of accountancy, the final “accounting profit” of such corporations includes two elements, a return representing economic rent on the value of land and a return on capital. However, there is not even a faint idea as to what part of accounting profit is represented by each of these two economic elements. Accounting profit is a mathematical residue, which results from the successive subtraction of many and varied items of expense from gross income. As a matter of fact over the years there has been quite an evolution as to what particular items should be deducted from gross income to arrive at an accounting profit. Thus, accounting profit is a concept of man made legislation of the courts of the security of Exchange Commission, of accounting organizations; a concept, which has always been in evolution. “Economic” profit on the other hand, is a concept of a natural law of economics and like the law of gravitation has remained and will remain unchanged over the ages. However, the profit under discussion is concerned with accounting profit, which in a simple language is the positive and fruitful difference between two revenues and total expenses over a period of time.

Profit is the primary and legitimate objective of a business. It is really the pivot around which revolve the various business activities. It is no longer regarded as an indicator of self interest. It is due to the fact that a joint venture bank can discharge its obligations to the various sections of the society only through earning profits. Profit must be something for all to be proud of. They should not be suspected. Even though Government sector banks should work first and foremost for the country's good, they should not ignore the fact that they are under the necessity of functioning efficiently and earning a monetary return – profit. A.H Taylor and H. Shearing logically put "The profit motive remains on the main springs of an enterprise and spur to efficiency. It is clearly the desire to make profit which inspires the search for more efficient methods, reduced unit costs, better organization and greater turnover.

As a matter of fact, the overall efficiency of a bank is reflected in its profits. Profit has been universally recognized and accepted as a measure of business efficiency. Thus, larger the profit, more the efficiency and profitable the bank is deemed to be. This criterion has the greater advantage than it provides a common standard of measuring the efficiency of a different bank. Regarding this, Laxmi Narayan clearly states "Profit is the simple, convenient and the most popular yardstick of judging the efficiency of a business enterprise in private as well as public sector. Profit helps in judging the overall efficiency and is easy to calculate. Even though profit maximization, unlike private enterprise, is not the objective of public enterprises, yet profit services as accepted criterion for judging the overall efficiency of public enterprises too."

Argent observes, “Profit is the barometer of the success of business. It is, indeed, a magic eye that mirrors all aspects of entire business organizations including the quality output”.

The second component part of the term profitability is “ability” which reflects the capacity of power of a joint venture bank to earn profit. This ability is also referred to as earning capacity or earning power of the concerned investment. Thus, the term profitability may be taken as the ability of a bank to earn profit. According to Howard and Upton, “The word profitability may be defined as the ability of a given investment to earn return on its use.”

It may be mentioned that the term profitability is distinguished from the word profit. Profit refers to the absolute quantum of profit whereas profitability alludes to the ability to earn profit. The former is an absolute measure in itself while the latter is relative measure. According to W M Harper, the profitability is a relative measure. It indicates the most profitable alternative. The profit, on the other hand, is an absolute measure. It indicates the overall amount of profit earned by transactions. As the profitability is the relative measure, it is used to judge the degree of operational efficiency of management. Furthermore, it is essentially employed to measure the relative efficiency of two or more joint venture bank with different scale of operations. In the profitability analysis, the profit making ability of bank is measured in terms of size of investment in it or its sales volume. Such an analysis of profitability reveals how particularly such a position stand as a result of transactions made during the year. It is

particularly interesting to the suppliers of fund who can evaluate their investment and take necessary decision thereon.

The state of profitability is a variable thing like the temperature and humidity of a day. The determination of the profitability by an account or analyst is very much similar to temperature reading and study of the humidity by a meteorologist. Meteorologist records present weather on a daily basis with an intention to forecast its future prospect. Likewise, an analysis records yearly profit of a bank with a view to making prediction of future prospects.

The purpose of profitability measurement is to see whether a bank has effectively used its resources to achieve its profitability objectives. The profitability objectives refer not only to the maximum profit the business can produce but to the minimum it must produce. The minimum profit is the profit at a minimum rate required for the desired type of an investment in a bank. However, there must not be enough profit to yield the capital in the market rate of return on money, which is already sunk in business, but also to provide additional capital needed to cover the cost of staying in the business.

Profit and Profitability

Profit is the prize of entrepreneurship and risk taking. It is the lifeblood of each type of business. In simple terms, by profit we mean the residual balance of earning expected to be available with the firm that is obtained after deducting entire expenses, costs, charges and provision from total revenue of period of

time. Profit is the resources left to the firm for future growth and explanation or reward to be distributed to the entrepreneurship in the form of dividends, etc.

In economics profit is the reward of the entrepreneur for the risk taking and management.

Business operations, the gain from manufacturing, merchandising and selling expenses after all expenses are met. Since profit normally is added to net worth, it may be measured by the increases in net worth over that of the previous accounting period.

Profit is a motivating factor behind many managerial activities. Much has been written about the role of profit. Profit plays three roles in the capitalistic society. Profit is the financial reward of risk taking; profit is the financial reward for having monopoly power; profit is the financial reward for the efficient management.

The promise of profit provides a strong incentive to owners and managers to act efficiently. Therefore, it is common in economic theory of hypothesis that the criteria for evaluating the action of the firm are profit maximization. The profit motive is the engine for the free enterprise system. Under condition of pure competition, economic profits are residual, dynamic and temporary. Profit in this sense is revenue that remains after deducting both explicit and implicit costs, including the nominal profit considered as a cost of the entrepreneur's service. "Profit is essential for every enterprise to survive in the long as well as to maintain capital adequacy through retained earning.

Profit is constantly changed in amount and among firms. Long run forces in the economy tend to reduce or eliminate economic profit. When losses prevail, market forces tend to make adjustment that can result in profits.

Profit in the accounting sense is the excess of revenue receipts over the costs incurred in producing this revenue. This concept of profit is also known as residual concept. But in economics, both implicit costs are deducted from total sales revenue to determine profit.

Many financial analysts have recommended market value accounting for banks because the results of financial ratio of bank condition based on the book values are unlikely to be timely predictions of bank risks.

Profit in the accounting sense is the net figure or difference between all types of accountable revenue and all accountable costs. In accounting, profit is expressed only in explicit and measurable accounting terms and on the book value basis. However, in economics, profit is measured in the realizable terms.

2.1.5 Profitability of Commercial Banks

Banks today are under great pressure to perform – to meet the objectives of their stakeholders, employees, depositors, and borrowing customers, while somehow keeping government regulators satisfied that the bank's policies, loans and investments are sound. As other types of business entity, commercial banks are inspired by the profit. The main objective of the commercial banks is to maximize profit.

Commercial banks invest public deposits on those sectors that derive the maximum income or higher rate of return in their assets. Hence, the investment or granting of loan and advance by them are highly influenced by profit margin. Generally, the profit of commercial bank depends upon the interest rate of the bank, volume of loan provided, time period of loan, and nature of investment in different securities.

Ambition of profit to commercial banks seem reasonable as the bank has to cover all the expenses as interest to the depositors and other administrative costs, they should make payment in the form of dividend to the shareholders who contribute to build up the banks capital and keep aside for the provisions and reserves. For this the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligation, it will go ahead for investment.

A successful bank is one who invests must of its funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserve to meet day to day requirements of the depositors.

In conclusion, amongst all the objectives, profit maximization is the ultimate objectives of Nepalese commercial joint venture banks as R.I Robinson has rightly said – “Profit earned by the firm is the main financial indicator of a business enterprise.”

2.1.6 Liquidity

Liquidity refers to that state of position of bank that refers its capacity to meet all of its obligations. In other words, liquidity means the capacity of bank to pay cash against any upcoming obligations. Banking is the business of financial dealing whose major source of financing is the public deposit.

As we know that a large part of bank deposit are withdrawn on demand and hence the bank must be prepared with sufficient degree of liquidity of its assets. Therefore, liquidity generally refers to the cash or any asset that can be converted into the cash immediately. On the other hand, banking is a serious business. Once the confidence is lost in depositors' eyes, they may withdraw all their deposits with in the brief period of time without giving any chance to the bank to manage since most of the assets of the bank are attached in the loan and advances. Even the best bank can hardly survive in such a situation. Confidence depends upon the ability of the bank to meet the readily demand for the cash made by the customers. There is no sense if the bank has adequate assets but not liquidity i.e. they cannot serve the purpose of liquidity when required. Commercial banks maintain liquidity in any or all of the following forms:

- Cash in self vault and in other banks especially in Nepal Rastra Bank (First Line Defense).
- Overnight placements, money at call or short notice or any other very short term placements (Second Line Defense).

- Investment in marketable securities like government securities which can be easily sold and readily convertible into cash (Third Line of Defense).

2.1.7 Trade off between Profitability and Liquidity

As stated above, the profitability of commercial banks is highly dependent on the optimum utilization of available financial liquidity in the profit generating assets like loan and advances and investments. However, banks can not ignore the necessity of maintaining a portion of the deposit in their cash vault, or in the immediate approach like in the account of central banks or in any highly liquid assets like government treasury bills, other government bonds that can be easily sellable without loosing and further value.

A second liquidity position of the bank satisfies that the demand of the deposit holder, which maintains the goodwill of the banks. Since, banks are faithfully considered as the last resort for monetary needs of the public, the incapability of fulfilling their demands will loose the faith of depositors or public. Once any signalizing effect is negatively attached in the perception of the depositors, they tend to doubt in the bank's dependability and that can consequent in the bank run. Further banks must maintain the certain portion of deposit in the vault and in NRB.

However, if the liquid assets are all idle, they do not generate any profits. The cash in the vault meets any upcoming obligations immediately but the bank

will not be able to generate any return in this case. Further, banks do not get any interest or other return in the accounts maintained in the central bank – NRB in Nepal's context.

Profitability and liquidity maintain a highly negative correlation. Since both are equally important for commercial banks, banks can ignore neither of them. So, the crucial decision for the management of the bank is to trade off between them. Hence, we can conclude that more the liquidity, lesser the profitability and vice versa.

2.2 Review of Related Studies

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

2.2.1 Review of Journals and Books

When funds are plentiful, market rate generally tend to decline, and therefore, banks lower their rates, induce marginal borrower to come into the market. When funds are scarce, banks raise their rates and potential borrowers may differ the use of credit or seek it elsewhere.

Investment policy is defined as responsibility for the investment disposition of the banks assets in terms of allocating funds for investment and loan and establishing responsibility for day to day management of these assets (Beslay, 1973: 17).

An investment may be defined as the current commitment of funds for a period of time to derive a future follow of funds that will compensate the investing unit for the time the funds are committed for the expected rate of inflation and also for the uncertainty involved in the future follow of funds (Reilly, 1991:3).

The investment objective is to increase systematically the individual's wealth defined as assets minus liabilities. The higher the level of desired wealth the higher the return must be received (Cheney & Moses, 1991: 23).

Investment is the commitment of funds to one or more assets that will be held over some future time period. Investment is concerned with the management of an investor's wealth, which is the sum of current income and present value of all future income (Charles, 1993: 97).

Investors seeking higher return must be willing to face higher level of risk. Financial institutions being only a financial intermediary, we will not be able to make any profit unless we mobilize funds suitably. It is from out of the interest, financial institutions earn on loans and advances, further he has to pay interest on deposit meet liquidity of cash balance. Meet establishment expenses keep some balance for reserve and pay dividend to the shareholders.

Investment in its broadest sense means the sacrifice of certain present value for future value (Sharpe & Alexander, 1994: 39).

The writer stresses on the fulfillment of credit needs of various sectors, which ensures investment. The investment lending policy of commercial bank is

based on the profit maximization as well as the economic enhancement of the country. (Shrestha, 2001: 31-32)

2.2.2 Review of Articles

Fry (1974) in the article "Resource Mobilization and Financial Development in Nepal" says that the interest rate fixing authorities cause adverse effect on income distribution. Interest rate affects the saving and its mobilization. A high interest rate diverts the resources from unproductive tangible assets into financial claim. For Nepalese people and Nepalese undeveloped money and capital market, interest rate can be taken as an important weapon in mobilizing the internal resources. Higher interest rate pushed people to some money and allows people to invest into best opportunities.

Morris (1980) in his discussion paper "Latin America's Banking System in the 1980's" has concluded that most of banks concentrated on compliance with central bank's rule on resource requirement, credit allocation, and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been overlooked. The huge losses are found in the bank's portfolio in many developing countries and testimony to the poor quality of this ever sight investment function.

The writer adds that mismanagement in financial institution has involved inadequate and over optimistic loan appraisal, tax loan recovery, high risk diversification of lending and investment, high risk concentration connected

and insider lending, loan mismatching. This has led many banks of developing countries to the failure in 1980s.

Kafle (1990) in the article "Monetary and Financial Reports in Nepal" states that consolidation and liberalization of interest rate measure is initiated with a view to provide more option to commercial banks in the mobilization of saving and portfolio management through market determined interest and lending rates.

Bajracharya (1991) in the article, "Monetary policy and deposit mobilization in Nepal" has concluded that the mobilization of domestic saving is one of the monetary policies in Nepal. For this purpose, commercial banks stood as the vital and active financial intermediary for generating resources in the form of deposit of the private sector so for providing credit to the investor's in different aspects of the economy.

Williamson (1998) in the article, "Personal Saving in Developing Nations" found that saving and investment decisions are highly interdependent in Asian sectors interest rate. Mostly household people try to save money for short period. Its influence is less in the long run saving decisions.

Sharma (2000) on his article "Banking Future on Competition" found that all the commercial banks are establishing and operating in urban areas. His achievements are:

- Commercial banking are charging rate of interest on lending.

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

2.2.3 Review of Thesis

Pradhan (1981) conducted research on the topic "A Study on Investment Policy of NBL" has tried to find out to what extend NBL has been able to utilize mobilized deposits.

This study is concerned only from 2029 B.S to 2034 B.S and mainly based on secondary data. Various statistical tools coefficient of correlation for testing the relationship between the deposits and loan and advances, ratio analysis to compare different factors like loan and advances and deposits, bank's liquidity position and profitability condition are analyzed.

The writer found that there is a greater relationship between deposits and loan and advances. Increase in deposits leads to increase in the loan and advances but when immense increase in the deposit leads to little bit increase in loan and advances. The writer also found that it could invest only 2.98% on the priority sector in 2034 B.S bank could not mobilize its resources.

In the thesis the writer recommended that the bank should invest more on agriculture sector and further says the bank should make clear cut policy to provide the loan. The bank should invest on risky sector to earn more profit and increase the rate of interest in depsoti side and decrease in loan and advances.

Neupane (1986) conducted research on the topic of "Deposit mobilization of commercial banks in Nepal, comparative study of RBB and NBL, Kirtipur Branch" with the objective of:

- Examining whether RBB is successful to compete with NBL in relation to deposit and loan and advances.
- Examining how far RBB is successful to provide door-to-door services to its customers in the collection of more deposits.
- Examining how far the deposits of RBB have been efficiently mobilized.

This study covers deposit and credit during the year from mid July 1976 to mid July 1985 of RBB and NBL Kirtipur branch. The study is based on both primary and secondary data. Karl Pearson's formula of coefficient correlation has been used to compare various variables.

In thesis research, the writer has found that a comparative study of deposit between the two bank branches show a good position of NBL branch's deposit in comparison to RBB branch as well as credit position. The writer has also mentioned that the activities of the branch for mobilizing deposits seem to be idle. The branch has taken no steps for collecting more deposits or advancing more loans except the customers they knock the door of the branch. Lastly, the

researcher has found that RBB is not successful to collect maximum deposit from the area it covers.

So, the researcher has recommended that local staff can play an active role in deposit mobilization. For so, at least four local staffs are suggested to be appointed in the RBB branch out of 8 staffs in the deposit counter. He has further suggested that there should be a certain budget to the branch for advertisement about its activities and interest rates must be revised.

Shrestha (1987) conducted research on the topic of "A Comparative Study on Resource Mobilization on NBL and RBB" has tried to see the branch expansion of the banks as sector wise to examine which bank is mobilizing its deposits properly. This study covers the data from the year 1982 to 1986 and has basically used secondary data.

The writer found that the branch expansion of RBB is more that that of NBL but branch expansion activity of NBL is more than RBB in rural areas whereas in the urban areas and vice versa and the mobilization of total deposits of both banks are in increasing trend but RBB is rather efficient in mobilizing the saving deposit and time deposit than NBL>

Karki (2001) conducted research on the topic on "An Analysis of Deposit Mobilization of RBB, Lahan Branch" has tried to see the impact of interest rate on deposit mobilization also to know the efficient utilization of the accumulated deposit.

This study is mainly concerned with the RBB Lahan Branch. The data presentation and analysis of deposits and loan and advances is limited to the period of ten years from Mid July 1990 to Mid July 1999. Most of the data are secondary type and has applied the correlation coefficient as statistical tool. In the study, the researcher has found that RBB Lahan Branch is less successful to collect maximum deposit and also the deposits cannot efficiently utilized and there is negative correlation exists between interest rates and total credits.

For so, the researcher has recommended that bank should extend long term credit, the bank should not very much be conscious about its security. The person who has skill but not security does not get loan from the bank. The bank should decrease interest on credit side and staffs must be trained. Finally, the researcher has suggested that there should be frequent communication between staffs and key customers, particularly businessperson.

Agrawal (2002), conducted research on the topic of "A Study on Deposit and Investment Position of Yeti Finance Company Limited" has tried to examine the trend of deposit position and investment position of the Yeti Finance Company. The study was conducted on the basis of secondary data and used various financial tools to analyze the data. The study covered only period of 5 years (FY 1996/97 – 2000/2001).

The researcher has found that the deposit policy is not stable but has highly fluctuating trend and investment is gradually in increasing trend. The researcher found there is highly positive correlation between total deposit and

total investment. The researcher concluded that finance companies have been found profit oriented ignoring the social responsibility, which is not a fair strategy to sustain in long run. Therefore, it is suggested that the company should involve in social program which helps the deprive people who are depended helps in agriculture. Agriculture is the paramount of Nepalese economy so that any finance company should not forget to invest in this sector. In order to do so, they must open their branches in remote area with an objective of providing cheaper financing services.

The researcher has recommended that minimum amount to open account and interest rate on credit should be reduced which ultimately intensify the profit and goodwill of the company in future. But in his research there is not clearly mentioned the effect of interest in deposit collection as well as in investment.

Tandukar (2003) conducted research on the topic of "Role of NRB in Deposit Mobilization of Commercial Banks" has tried to examine the role of NRB in deposit collection by the commercial banks and to analyze the trends of deposit mobilization towards total investment and loan and advances. Projection is for five years (1998 – 2002). The data used in the study is both secondary and primary. The researcher used different financial tools such as liquidity ratio, activity ratio, profitability ratio, risk ratio and coefficient of correlation, trend analysis as statistical tools. The researcher took 17 commercial banks as population and three banks – Nabil Bank Ltd, Standard Chartered Bank Ltd., and Himalayan Bank Ltd. as sample bank.

The researcher has found that it can be said that all new directives of NRB of commercial banks are effective and it is good for both nation and the future of the banks but the loan classification and provisioning seems to be little bit uncomfortable to the commercial banks.

The researcher has recommended to Nabil that diversification of loan and investment is highly suggested to the bank. As Nabil has given priority in investment in treasury bills, which is risk free, but it yields very low return to the bank and recommended Standard Chartered to collect the deposit by initiating various new programs to attract the customer. For this it can pay a higher interest rate than other banks currently providing.

Roy (2003) conducted research on the topic "An investment analysis of Rastriya Banijya Bank". He has tried to analyze relationship of loan and advance, and total investment with total deposit and to compare it with that NBL and to compare loan and advance, total deposit and net profit of RBB and compare it with that of NBL. That study was based on secondary data covering five years period from FY 1992/93 to 1996/97. The researcher used most of the financial tools and coefficient of variation as statistical tools.

The researcher has found that RBB has good deposit collection, loan and advances and small investment in government securities. It also found that profitability position of RBB is worth. RBB needs immediate step to increase its profitability. It also further found that RBB has more low quality of loan and advances.

The researcher has recommended that RBB should enhance its investment in securities. Small amount of investment in securities of good company brings better income that large amount of investment in securities of worse companies. So, RBB needs to conduct proper pre analysis before such investment. He also recommended that RBB should decrease loan loss by decreasing its poor quality of loan and advances. It needs to revise credit collection policy. He further suggested that RBB should decrease interest expenses and unnecessary fixed assets expenses and administration expenses and unnecessary fixed assets expenses and administration expenses should be controlled. Moreover, RBB should enhance its off balance sheet operation, remittance in order to increase its earnings.

2.3 Research Gap

After reviewing the researches, the present researcher has found that the liquidity and profitability measures of the banks have not been analyzed in detail. The past studies have used more statistical tools to analyze the financial performance of the banks. Also they have recommended some of the remedial references to increase liquidity and not decrease profitability at the same time. The present study only explores the liquidity and financial position of three banks: Nabil Bank, Standard Chartered Bank and Investment Bank.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

In the last two chapters, background of the commercial banks including three banks has already been streamlined and review of literature with possible reviews of relevant ideas; theories and finding have also been discussed. Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view (Kothari, 1992: 131).

This chapter basically helps to conclude the deposit and investment aspects of NABIL, SCBNL and NIBL and recommend the useful and meaningful points, so that all concern can achieve something from study. To accomplish the goal, the study follows the research methodology described in this chapter.

3.2 Research Design

Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate deposits and investment of NABIL, SCBNL and NIBL.

3.3 Populations and Sample

There are altogether 26 commercial banks functioning all over the nation and most of their stocks are traded actively in the stock market. In this study

deposit and investment practice of commercial banks with respect to NABIL, SCBNL and NIBL are selected from population.

The population is as follows:

- Nepal Bank Limited
- Rastriya Banijya Bank
- Agriculture Development Bank
- Nabil Bank Limited
- Standard Chartered Bank Nepal Limited
- Himalayan Bank Limited
- Nepal Bangladesh Bank Limited
- Nepal SBI Bank Limited
- Everest Bank Limited
- Lumbini Bank Limited
- Nepal Industrial and Commercial Bank Limited
- Kumari Bank Limited
- Nepal Investment Bank Limited
- Bank of Kathmandu Limited
- Laxmi Bank Limited

- Machhapuchhre Bank Limited
- Nepal Credit and Commercial Bank Limited
- Siddhartha Bank Limited
- Global Bank Limited
- Citizens Bank International Limited
- Prime Commercial Bank Limited
- Bank of Asia Nepal Limited
- Sunrise Bank Limited
- NMB Bank Ltd.
- Kist Bank Ltd.
- Development Credit Bank Ltd.

The samples to be selected from total population are as follows:

- NABIL Bank Limited
- Standard Chartered Bank Nepal Limited
- Nepal Investment Bank Limited

3.4 Sources and Data Collection Techniques

This study is conducted on the basis of secondary data. The data relating to the investment, deposit, loan & advances, and profit are directly obtained from the

balance sheet and profit and loss account of concerned banks. Supplementary data and information are collected from number of institutions and regulating authorities like Nepal Rastra Bank, Security Board Nepal, Nepal Stock Exchange Limited, Ministry of Finance, Budget Speech of different fiscal years, Economic Survey and National Planning Commission, etc.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. In other judge, the reliability of data provided by the banks and other sources, they were compiled with the annual reports' of auditor. Formal and informal talks to the concerned data of the departments of the banks were also helpful to obtain the additional information of the related problem. Similarly, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.5 Method of Analysis

To achieve the objective of the study, various financial, statistical and accounting tools have been used in this study. The analysis of data is done according to pattern of data available. Because of limited time and resources, simple analytical statistical tool such as graph and percentage is adopted in this study. Similarly, some strong accounting tools such as ratio analysis have also been used for analysis.

The various calculated results obtained through financial, accounting and statistical tools are tabulated under different headings. Then, they are compared with each other to interpret the results.

To make the study more specific and reliable, the researcher uses financial tools for analysis,

3.5.1 Financial Tools

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

3.5.1.1Ratio Analysis

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

A ratio is a figure or a percentage representing the comparison of one-dollar amount with some other dollar amount as a base (Roy, 1974: 49). Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. In financial analysis, a ratio is used as an index for evaluating the financial position and performance of a firm. Ratio

helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's performance (Pandey, 1994: 234).

A large number of ratios can be generated from the components of profit and loss account and balance sheet. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

A. Liquidity Ratios:

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

Inadequate liquidity can lead to unexpected cash short falls that must be covered at inordinate costs, thus reducing profitability. In the worst case, inadequate liquidity can lead to the liquidity insolvency of the institution. On the other hand, excessive liquidity can lead to low asset yields and contribute to poor earnings performance (Scott, 1991: 13).

To find - out the ability of banks to meet their short-term obligations, which are likely to mature in the short period, these ratios are calculated. The following ratios are developed under the liquidity ratios to identify the liquidity position:

i. Cash & bank balance to total deposit ratio

This is the must important ratio for measuring the short-term solvency position of the commercial banks. The sound ratio indicated the strong liquid position of the bank to meet the immediate cash requirement of the customers and creditors. This ratio is obtained by dividing the total cash with the bank itself and at bank as:

$$\textbf{Cash \& bank balance to Total Deposit} = \frac{\text{Cash \& bank balance}}{\text{Total Deposit}}$$

B. Turnover Ratios:

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

i. Total deposit turnover ratio

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

$$\textbf{Total deposit turnover ratio} = \frac{\text{Credit \& Advances}}{\text{Total Deposits}}$$

ii. Credit & advances to total assets ratio

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

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

C. Profitability Ratios:

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

i. Return on total assets ratio

Return on total assets measures the profitability of the total investment of a firm. The ratio is useful to measure how well management uses all the assets in the business to generate an operating surplus. Higher the ratio indicated the higher efficiency in the utilization of total assets and vice-versa. The ratio is low due to low profit. In other words, it is low utilization of bank assets and

over use of higher interest bearing amount of debt and vice-versa. In this study, net profit/loss to total assets ratio is examined to measure the profitability of all the financial resources in bank-assets and is calculated by applying the following formula:

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

ii. Return on total credit ratio

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

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

iii. Earnings per share (EPS)

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

net profit after taxes and preference dividend. Symbolic expression of EPS is given below:

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

iv. Interest earned to credit & advances ratio

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

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

v. Non-performing credit to credit & advances ratio

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

$$\textbf{Non-performing credit to credit \& advances} = \frac{\text{Non - performing credit}}{\text{Total credit \& advances}}$$

vi. Du–pont equation analysis

The du pont equation is known as the overall summarized form of ratio analysis. The profit margin times the total assets turnover gives the return on assets, and this equation is known as du pont equation.

Return on Assets (RoA) = Profit margin x Total assets turnover

$$= \frac{\text{Net profit}}{\text{Sales (net)}} \times \frac{\text{Sales (net)}}{\text{Total assets}}$$

D. Market Indicator Ratios:

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

i. Market price per share (MPS)

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

ii. Book value per share

Book value per share represents the total net worth left over to the share of each common stock after deducting all external liabilities and provisions. The more the value per share better will be the performance and stronger will be the

firm's position. It is obtained by dividing the total book net worth of a firm by the number of common stocks outstanding.

$$\textbf{Book value per share} = \frac{\text{Book net worth}}{\text{total no of common stocks outstanding}}$$

iii. Price-Earnings ratio (P/E ratio)

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

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

E. Limitations of Ratio Analysis:

Ratio analysis suffers from some inherent limitations that are directly inherited from financial statements. Some of the most common weakness of ratio analysis are as follows:

i) The firm or industry although apparently comparable in respect to size, age, location, product mix and technology etc. may not be really comparable if they are following different accounting methods.

ii) Financial statement records past transactions. They are, thus an index of what happened in the past. They do not show the current position of the business. Evidently, ratio analysis is also primarily concerned with analyzing the past, which may or may not be relevant today. It is thus a sort of 'POST-MORTEM' analysis rather than a guide for decision-making.

iii) In the context of persistent price level changes, intra firm trends analysis losses much of its operational significance.

iv) The differences in the definitions of items in the balance sheet and the income statement make the interpretation of ratios difficult.

v) Sometimes, ratio analysis may suffer from what is known as fallacy of misplaced concreteness (Weston & Brigham, 1997: 109).

Although, various limitations of ratio analysis and doubt may arise about the valid measure of the financial analysis but they are used widely to measure the financial analysis of the firm.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This part is concerned with the presentation of collected data in suitable tables & diagrams as well as analysis and interpretation of those data using various statistical and financial tools. Different types of ratios have been calculated to reach in the conclusion of this study.

4.2 Ratio Analysis

Ratio analysis is one of the tools of financial analysis. Under ratio analysis, calculation of various ratios including liquidity, profitability, asset-management and market value ratios have been calculated and interpreted. For the sake of interpretation and analysis of those ratios calculated, both the methods of vertical and horizontal analysis have been implemented. Specifically, the following groups of ratios have been selected for analysis:

4.2.1 Liquidity ratios

Liquidity ratios such as cash to total deposit ratio, and cash to total assets ratio have been calculated to detect the status of the short-term solvency positions of the three CBs listed in NEPSE. The amount of liquidity affects a lot in the performance and short-term credit rating of a firm.

i. Cash & bank balance to total deposit: This is the most important ratio for measuring the short-term solvency position of the commercial banks. The sound ratio indicates the strong liquid position of the banks to meet the immediate cash requirement of the customers, and creditors. This ratio is obtained by dividing the total cash with the bank itself and at bank as:

$$\textbf{Cash \& bank balance to Total Deposit} = \frac{\text{Cash \& bank balance}}{\text{Total Deposit}}$$

Table: 4.1

Cash & bank balance to total deposit ratio of Banks

	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average Ratio**
NABIL	8.51%	6.87%	3.83%	3.26%	6.00%	**5.70%**
SCBNL	8.06%	9.56%	5.74%	5.53%	8.08%	**7.40%**
NIBL	11.69%	10.65%	9.40%	12.34%	9.97%	**10.81%**

Source: Annual reports of respective banks.

Figure: 4.1

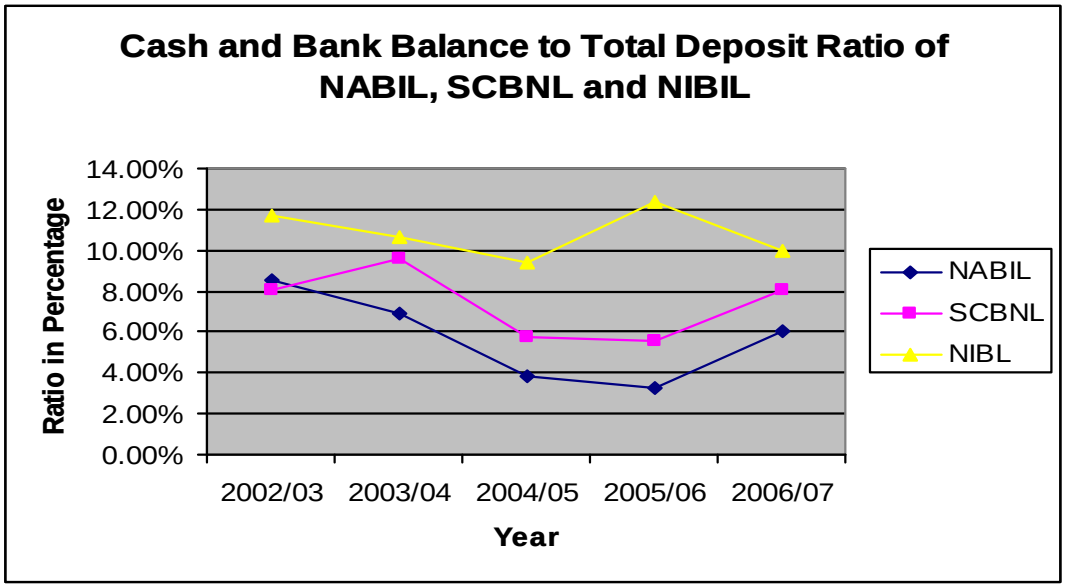


Table 4.1 and Figure 4.1 depicted above represents the figure excerpted from the respective source shown at the end of the table. The ratio of NABIL was 8.51% in the year 2002/03, it then decreased to 6.87% in 2003/04 and then to 3.83% and 3.26 in the respective year and last year 2006/07 increase to 6.00%. However, it was decreased to 3.26% in 2005/06 and to the highest to 8.51% in the year 2002/03. The average ratio of NABIL remained at 5.70% over the study period.

Similarly, the ratio of SCBNL was 8.06%, 9.56%, 5.74%, 5.53% and 8.08% according to respective year 2002/03, 2003/04, 2004/05, 2005/06, 2006/07. The maximum ratio was 9.56 % in year 2003/04 and minimum ratio 5.53 % in year 2005/06. Above figure shows the fluctuating trend of ratio. The average ratio of SCBNL remained at 7.40% over the five-year period.

Likewise, the ratios of NIBL remained at 11.69% in 2002/03. It then decreased to 10.65% in 2003/04 and it again decreased to 9.40% in 2004/05, which was the lowest ratio of the bank itself over the five years period. The ratios increased and remained at 12.34% in 2005/06, and then slightly decrease to 9.97% in 2006/07. The average ratio of NIBL remained at 10.81% over the five years period.

ii. Cash & bank balance to total assets:

This ratio measures the extent of the portion of the cash in total assets comprise of a bank. It also gives a good indicator of liquid assets in a bank. A moderate ratio is desirable for banks. However, there is lack of perfect standard regarding this ratio. It is calculated as

$$\text{Cash \& bank balance to total assets} = \frac{\text{Cash \& bank balance}}{\text{Total assets}}$$

Table: 4.2
Cash & bank balance to Total assets ratio of CBs

	2002/03	2003/04	2004/05	2005/06	2006/07	Average Ratio
NABIL	6.91%	5.8%	3.25%	2.82%	5.12%	**4.78%**
SCBNL	7.23%	8.56%	5.10%	4.95%	6.97%	**6.56%**
NIBL	10.11%	9.11%	8.18%	10.95%	8.85%	**9.44%**

Source: Annual reports of respective banks.

Figure: 4.2

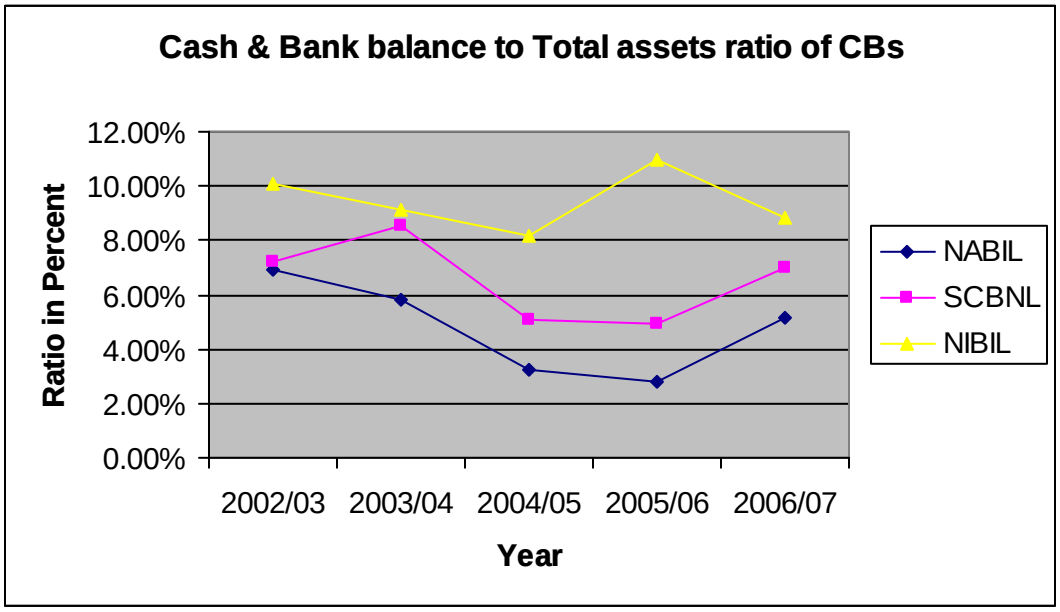


Table 4.2 depicts the cash & bank balance to total assets ratio of three CBs over the five-year study period. The ratios of NABIL were 6.91%, 5.8%, 3.25%, 2.82% and 5.12% in the years 2002/03, 2003/04, 2004/05 and 2005/06 respectively with an average ratio of 4.78% over the study period. This indicates that 4.78% of the total assets of NABIL comprised of liquid cash (including cash with itself and at NRB) on an average study period of five-years.

Similarly, the same ratios of SCBNL were 7.23%, 8.56%, 5.10%, 4.95% and 6.97% in the years 2002/03, 2003/04, 2004/05 and 2005/06 and 2006/07 respectively. The average ratio of the bank remained at 6.56% over the study period. It states that 6.56% of the total assets of SCBNL comprised of liquid cash on average study of five-year period.

Likewise, the cash and bank balance to total assets ratio of NIBL were 10.11%, 9.11%, 8.18%, 10.95% and 8.85% in the years 2002/03, 2003/04, 2004/05 2005/06 and 2006/07 respectively. The average ratio of the bank remained at 9.44% over the study period. It states that 9.44% of the total assets of NIBL comprised of liquid cash on average study of five-year period.

4.2.2 Turnover ratios

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

i. Total deposit turnover ratio

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

$$\text{Total deposit turnover ratio} = \frac{\text{Credit \& Advances}}{\text{Total Deposits}}$$

Table: 4.3

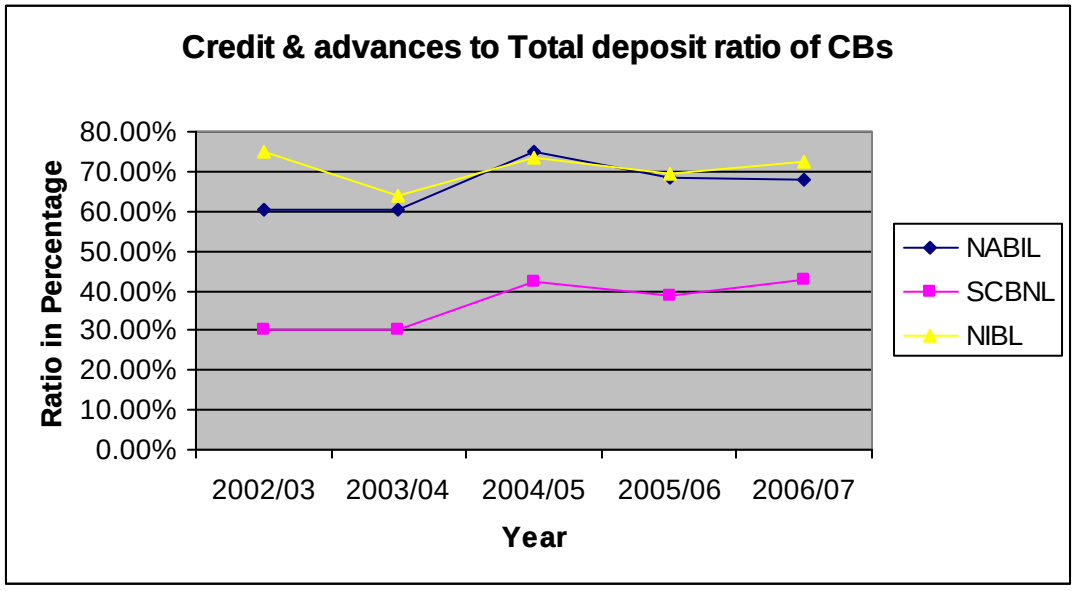
Credit & advances to total deposit ratio

(Ratio in %)

	2002/03	2003/04	2004/05	2005/06	2006/07	Average ratio
NABIL	60.34%	60.55%	75.05%	68.64%	68.13%	**66.54%**
SCBNL	30.37%	30.29%	42.05%	38.75%	42.61%	**36.81%**
NIBL	74.74%	63.68%	73.33%	69.63%	72.56%	**70.79%**

Source: Annual reports of respective banks.

Figure: 4.3



The table 4.3 depicted above reveals the total deposit turnover ratios of the three CBs over the five-year study period. The total deposit turnover ratios of NABIL were 60.34%, 60.55%, 75.05%, 68.64% and 68.13% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio over the five-year period remained at 66.54 percent.

In the same manner, the ratios for SCBNL were 30.37%, 30.29%, 42.05%, 38.75%, and 42.61% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average total deposit turnover ratio of the bank was 36.81% times over the five-year period.

At last, the total deposit turnover ratios of NIBL were 74.74%, 63.68%, 73.33%, 69.63% and 72.56% times in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. Similarly, the average turnover ratio of the bank remained at 70.79% over the five-year study period.

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

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

Table: 4.4

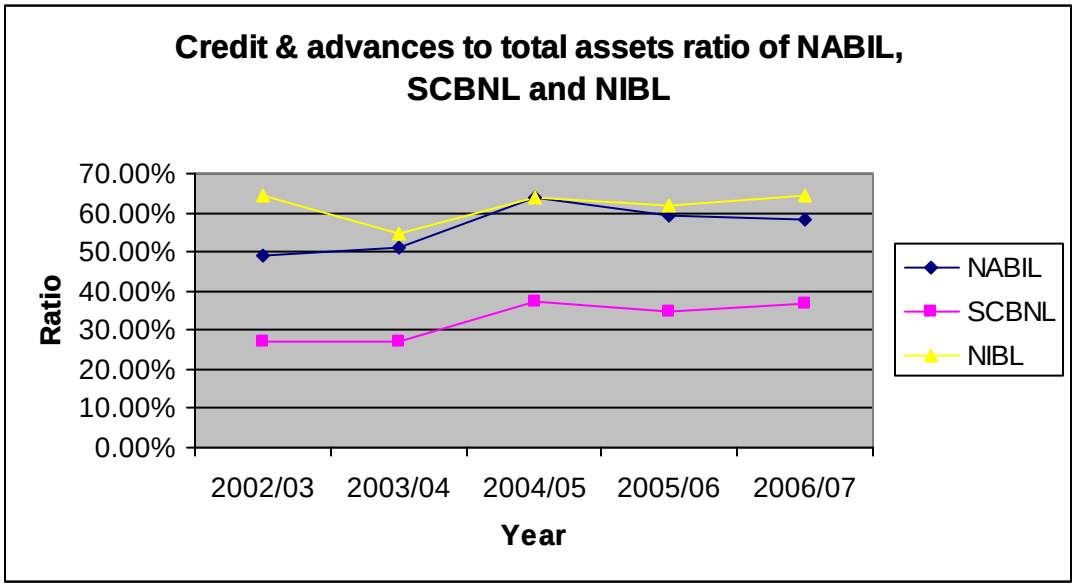
Credit & advances to total assets ratio

(Ratio in %)

	2002/03	2003/04	2004/05	2005/06	2006/07	Average ratio
NABIL	48.99%	51.05%	63.70%	59.47%	58.35%	**56.31%**
SCBNL	27.24%	27.11%	37.39%	34.68%	36.73%	**32.63%**
NIBL	64.62%	54.51%	63.78%	61.78%	64.40%	**61.82%**

Source: Annual reports of respective banks.

Figure No: 4.4



The table and figure 4.4 above portrays the total assets turnover of the three CBs with respect to the credit & advances that they were able to generate over the past five years. The credit & advances to total assets ratios of NABIL were 48.99%, 51.05%, 63.70%, 59.47% and 58.35% in the years 2002/03, 2003/04,

2004/05 and 2005/06 and 2006/07 respectively. The average ratio of the bank over the five-year period was confined to 56.31 percent

Similarly, the ratios of SCBNL were 27.24%, 27.11%, 37.39%, 34.68% and 36.73% the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average assets utilization ratio for the bank remained at 32.63 over the study period.

Similarly, the same ratios of NIBL were 64.62% 54.51% 63.78% 61.78% and 64.40% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average total assets turnover ratio of the bank remained at 61.82% over the five-year period.

Based on the analysis of the above tables showing various turnover ratios of the three listed banks, we can clearly state the absolute assets utilization ratio of the NABIL, SCBNL and NIBL are fluctuating. The credit & advances to total asset of The NIBL has seems to be higher than of NABIL and SCBNL. Likely SCBNL seems to be less then the other. However, we cannot regard the overall performance of the bank was good than others because of the possibility of bad credits. As a result, we need to consult and review other ratios indicating the performance and the effective utilization of the assets both quantitatively and qualitatively.

4.2.3 Profitability ratios

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

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

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

Table: 4.5

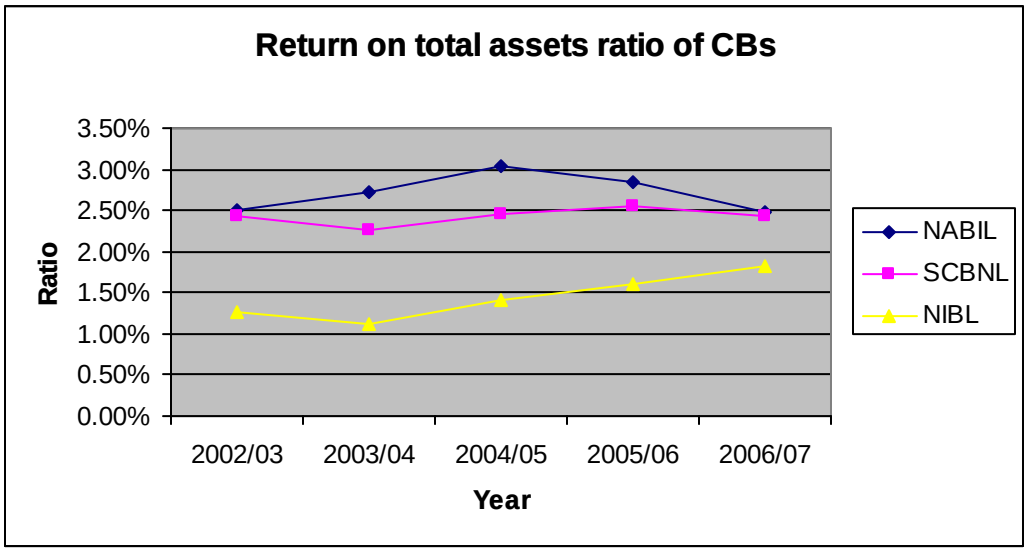
Return on total assets ratio

	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average ratio**
NABIL	2.51%	2.72%	3.03%	2.84%	2.47%	**2.71%**
SCBNL	2.42%	2.27%	2.46%	2.56%	2.42%	**2.43 %**
NIBL	1.27%	1.13%	1.42%	1.61%	1.82%	**1.45%**

Source: Annual reports of respective banks.

Figure: 4.5

Return on total assets ratio



The above table and figure 4.5 shows the return on assets of three CBs over the five-year period. The returns on assets of NABIL were 2.51%, 2.72%, 3.03%, 2.84% and 2.47% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio over the period remained at 2.71%. The return on assets of NABIL showed a slightly increasing trend over 2004/05 then decreased there after the study period.

Similarly, the returns on assets of SCBNL were calculated as 2.42%, 2.27%, 2.46%, 2.56% and 2.42% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio for the bank remained at 2.43% over the study period. The ratios of SCBNL showed little up and dawn trend over the study years.

The return on assets of NIBL was 1.27% in 2002/03. The ratio was decreased to 1.13% in the succeeding year 2003/04. Then the ratio increased to 1.42% in 2004/05, 1.61% in 2005/06 and 1.82 in 2006/07 respectively. The mean average ratio remained at 1.45% for NIBL over the study period. The return on assets of NIBL was at a slightly decreasing and increasing trend over the study period as well.

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

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

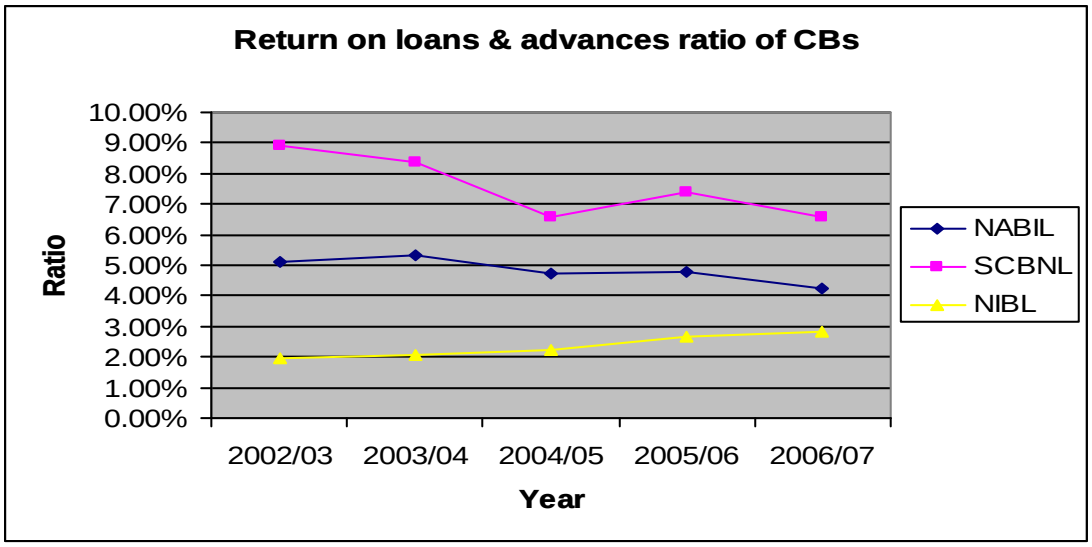
Table: 4.6

Return on loans & advances ratio

	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average ratio**
NABIL	5.13%	5.32%	4.75%	4.78%	4.24%	**4.84%**
SCBNL	8.90%	8.39%	6.59%	7.37%	6.59%	**7.57**%
NIBL	1.97%	2.08%	2.22%	2.66%	2.82%	**2.35**%

Source: Annual reports of respective banks.

Figure: 4.6



The tables and figure depicted just above shows the profit margin of three listed CBs over the past five years. Similarly, the figure depicted above represents the five-year trends of the three banks. The ratios of NABIL were 5.13%, 5.32%, 4.75%, 4.78% and 4.24% in the years 2002/03, 2003/04, 2004/05 2005/06 and 2006/07 respectively. The ratio for the bank was highest in the year 2003/04 and lowest in the year 2006/07. The ratios of NABIL showed in fluctuating trend. However, the rate of increment and decrement is faster. The average ratio of Nabil is 4.84%.

The same ratios for SCBNL were 8.90%, 8.39%, 6.59%, 7.37% and 6.59% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The return on total credit for the bank was highest in the year 2002/03, lowest in the year 2004/05, and 2006/07. The average ratio over the five-year period is 7.57%. The ratios of SCBNL were found to be in declining trend but at a slower pace over the five-year period.

At last, the ratios of NIBL were 1.97%, 2.08%, 2.22%, 2.66% and 2.82% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The ratio of the bank remained highest in the year 2006/07 and lowest in the year 2002/03. The average ratio of NIBL over the five-year period is 2.35%. As the study of five-year trend of return on total credit and advance of Nabil in slightly increasing trends.

The average return on total credit (profit margin) of NABIL remained at 4.84%. Similarly, the average ratio of SCBNL remained at 7.57% over the five years period. Moreover, the average profit margin of NIBL remained at 2.35% over the five-year period. It seems lower ratio of NIBL then the NABIL and SCBNL. The above analysis of the ratios and the five yearly trends showed that SCBNL, NABIL and NIBL respectively had the highest average return on credit & advances.

iii. Earnings per share (EPS): This ratio measures the amount of earnings available to each share of common stock. Higher amount is desirable for all firms.

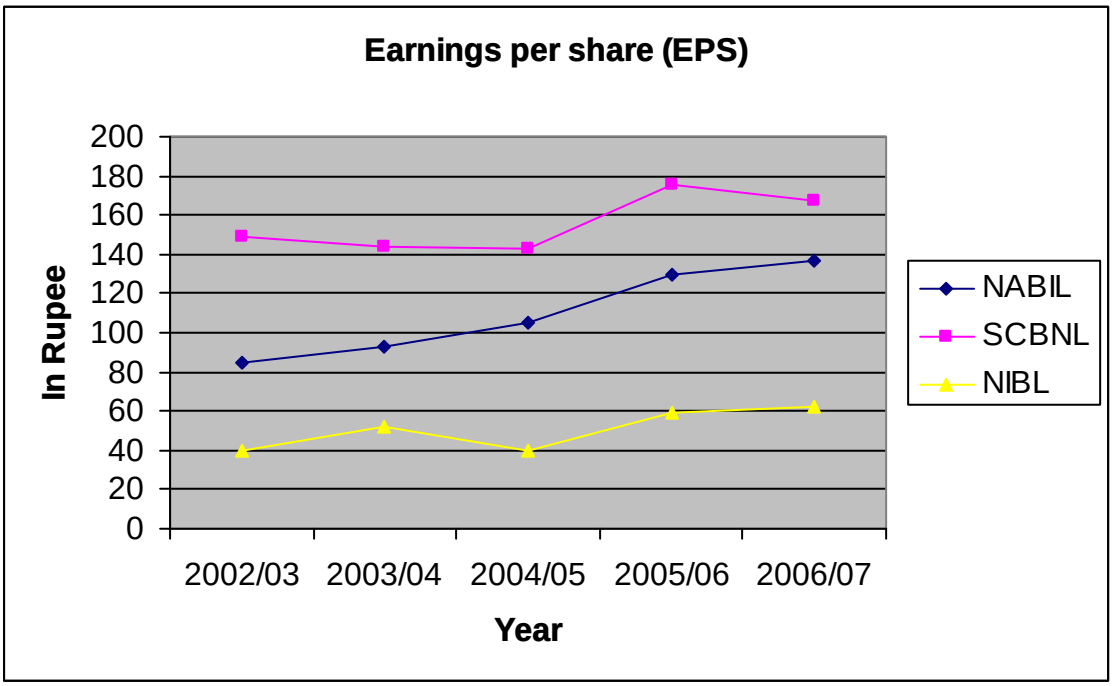
$$\text{EPS} = \frac{\text{Earnings available to shareholders}}{\text{Total no. of common stocks outstanding}}$$

Table: 4.7
Earnings per Share (Rs.)

	2002/03	2003/04	2004/05	2005/06	2006/07	Average price
NABIL	84.66	92.61	105.49	129.21	137.08	**109.81**
SCBNL	149.30	143.55	143.14	175.84	167.37	**155.84**
NIBL	39.56	51.70	39.50	59.35	62.57	**50.54**

Source: Annual reports of respective banks

Figure: 4.7
Earnings per Share (Rs.)



The table depicted above typifies the EPS of three listed CBs for five years. The earnings per share of NABIL were Rs. 84.66, Rs.92.61, Rs.105.49, Rs.129.21 and Rs.137.08 in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average EPS of the bank over the five years remained at Rs. 109.81. The EPS of NABIL showed an upward trend over the period of five years. It's indicate that Nabil bank continue to improving and maximizing the profit.

The EPS of SCBNL were Rs. 149.30, Rs. 143.55, Rs. 143.14, Rs. 175.84 and Rs. 167.37 in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of SCBNL was Rs. 155.84 over the five-year period. On the basis of figure shown above, the EPS trend of SCBNL over the period was at slightly fluctuating trend.

Similarly, The earning per share of NIBL was Rs 39.56, Rs 51.70, Rs 39.50, Rs 59.35 and Rs 62.57 in the year 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. However, the ratio increased in 2003/04 and decreased to Rs. 39.50 in the year 2004/05 then after increased in respective year. The average EPS of the bank remained at Rs. 50.54 over the study period. The EPS of NIBL shown volatile trend as portrayed by the above figure.

On the basis of above calculations of EPS of NABIL, SCBNL and NIBL bank the highest price is 155.84 of SCBNL and 109.81 of NABIL and Least Rs 50.54 was NIBL Bank. This indicates that the EPS of SCBNL was more consistent and better than other banks. All the banks were found to be having

somewhat regularly upward trend of EPS of NABIL. Therefore, we can conclude that the earnings capacity of NIBL shares was deteriorating over the years.

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

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

Table: 4.8

Interest income to credit & advances ratio

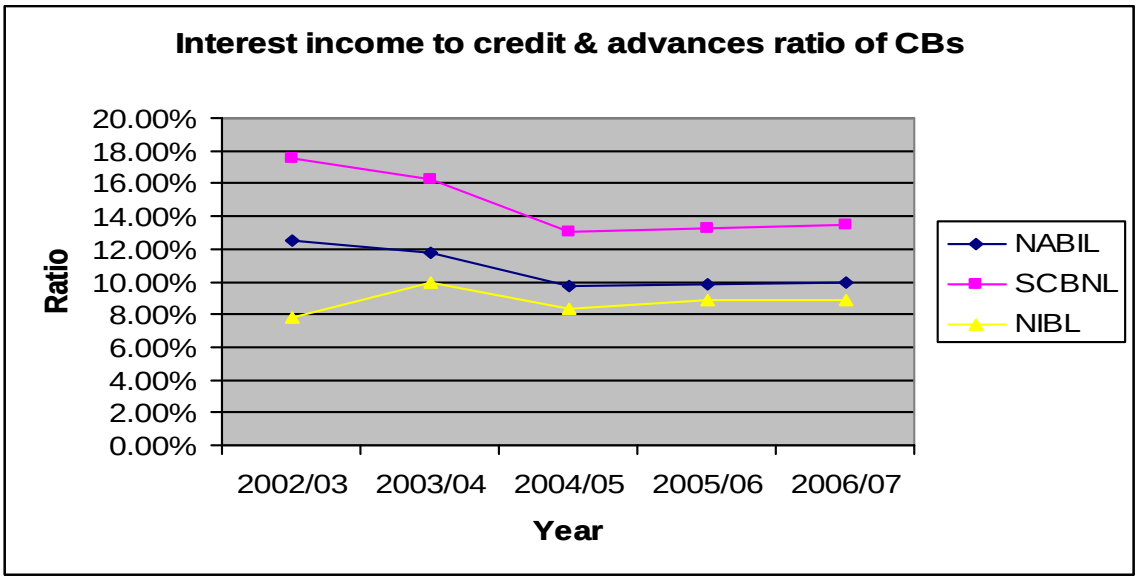
(Ratio in %)

	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average ratio**
NABIL	12.49%	11.72%	9.77%	9.87%	9.99%	**10.76%**
SCBNL	17.58%	16.26%	13.00%	13.31%	13.44%	**14.72%**
NIBL	7.76%	9.97%	8.31%	8.90%	8.92%	**8.77%**

Source: Annual reports of respective banks.

Figure: 4.8

Interest income to credit & advances ratio



The interest incomes earned by NABIL by extending credit & advances were 12.49%, 11.72%, 9.77%, 9.87% and 9.99% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio remained at 10.76% in the five-year period. The ratio of the bank showed fluctuating trend as depicted in the figure above.

The interest income to credit & advances ratios of SCBNL were 17.58%, 16.26%, 13.00%, 13.31% and 13.44% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average interest earned over credit & advances ratio of the bank over the five-year period remained at 14.72%. Likewise, it also showed a downward trend over the study period.

The ratios of NIBL were 7.76%, 9.97%, 8.31%, 8.90% and 8.92% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average interest earned ratio remained at 8.77% over the five-year period. The ratio of NIBL also shown fluctuating trend as given in the figure above.

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

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

Table: 4.9

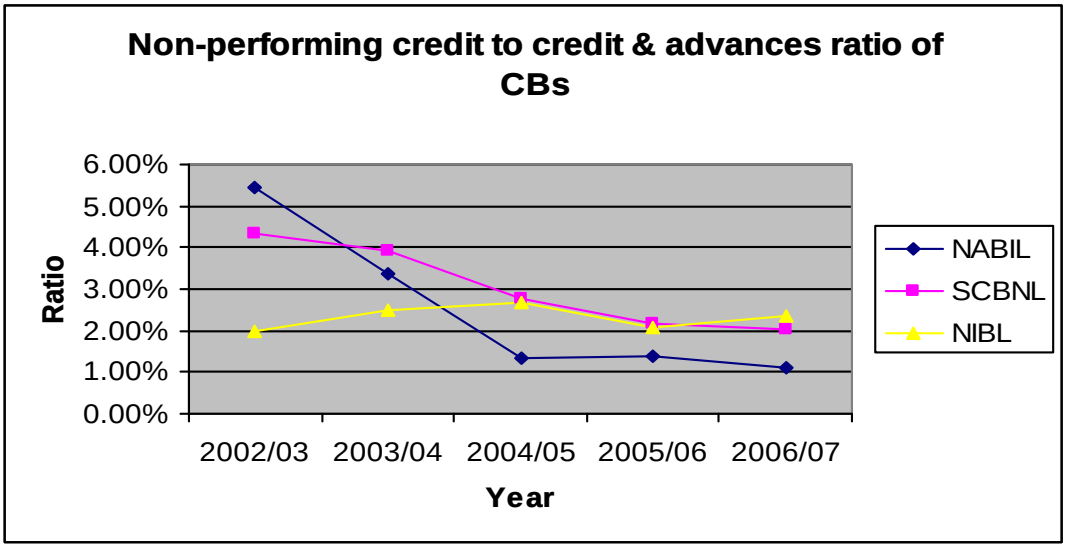
Non-performing credit to credit & advances ratio of CBs

	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average ratio**
NABIL	5.44%	3.35%	1.32%	1.38%	1.12%	**2.52%**
SCBNL	4.35%	3.93%	2.78%	2.19%	2.02%	**3.05%**
NIBL	1.98%	2.47%	2.69%	2.07%	2.37%	**2.32%**

Source: Annual reports of respective banks.

Figure: 4.9

Non-performing credit to credit & advances ratio of CBs



The shares of non-performing assets on credit & advances of NABIL were 5.44%, 3.35%, 1.32%, 1.38% and 1.12% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. On an average, 2.52% of the component of the credit & advances remained as non-performing credit. The ratio of NABIL showed a declining trend over the years as shown in the figure above.

The non-performing credit to credit & advances ratio of SCBNL were 4.35%, 3.93%, 2.78%, 2.19% and 2.02% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of the bank however remained at 3.05% over the five-year period. The ratios of SCBNL also showed a declining trend over the years.

The shares of non-performing credits over total credit & advances of NIBL were 1.98%, 2.47%, 2.69%, 2.07% and 2.37% in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of non-performing credit remained at 2.32% at a slightly fluctuating trend in the last five-year periods.

4.2.4 Market Indicator Ratios:

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

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

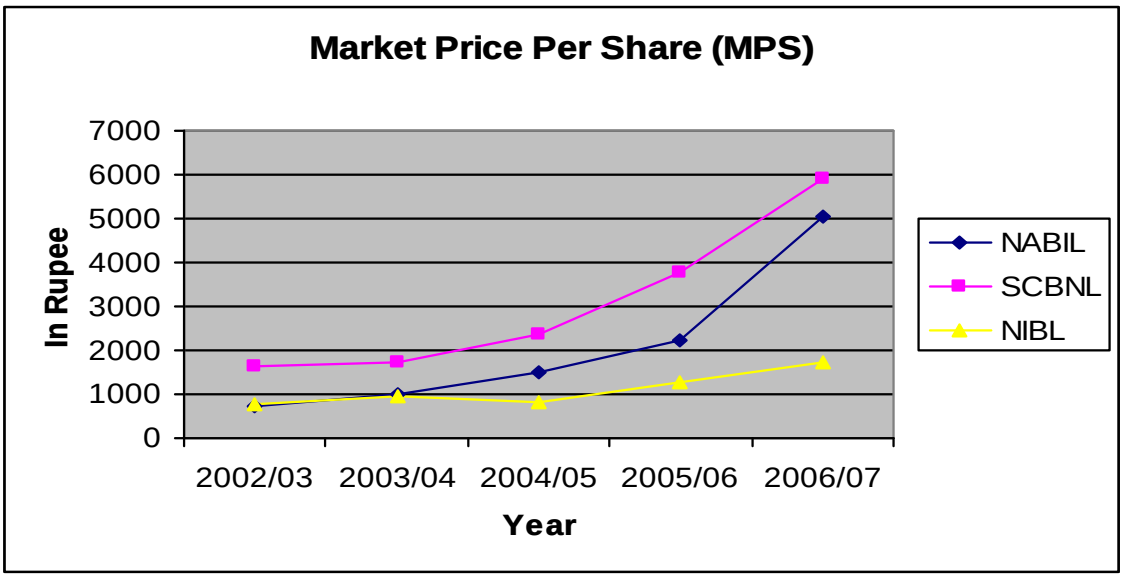
Table: 4.10

Market Price Per Share (Rs.)

	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average (Rs.)**
NABIL	740	1000	1505	2240	5050	**2107**
SCBNL	1640	1745	2345	3775	5900	**3081**
NIBL	795	940	800	1260	1729	**1104.8**

Source: Annual reports of respective banks.

Figure: 4.10
Market Price per Share (Rs.)



The table 4.11 depicted above shows the market value per shares of the three CBs over the five-year period. The market prices of NABIL were Rs. 740, Rs. 1000, Rs.1505, Rs. 2240 and Rs. 5050 in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average price of the bank in the market remained at Rs. 2107 over the study period. The market prices of NABIL showed a slightly increasing trend despite of fluctuations in the mid-study periods.

In the same way, the prices of shares of SCBNL were Rs. 1640, Rs 1745, Rs. 2345, Rs. 3775 and Rs. 5900 in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average market price of the share of SCBNL remained at Rs. 3081 over the study period. The MPS of the bank also remained at slightly increasing trend as reflected by figure just presented above.

Similarly, the closing market prices of HBL remained at Rs. 795, Rs. 940, Rs. 800, Rs. 1260 and Rs. 1729 in the years 2002/03, 2003/4, 2004/05, 2005/06 and 2006/07 respectively. The average share price of the bank was Rs. 1104.8 over the study period. Like NABIL and SCBNL, NIBL share price in the market also showed a slightly increasing trend at the last of study period.

On the basis of above calculations and representations, it shows that SCBNL had the highest average market price per share, whereas, NIBL had the lowest average market price per share and NABIL had also higher market prices too. The market prices of all banks were at an increasing trend. Therefore, it can be regarded that SCBNL's image in the public is better and stronger than that of other banks. People's perception and expectation about performance and prices of NABIL and MIBL are also good and positive.

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

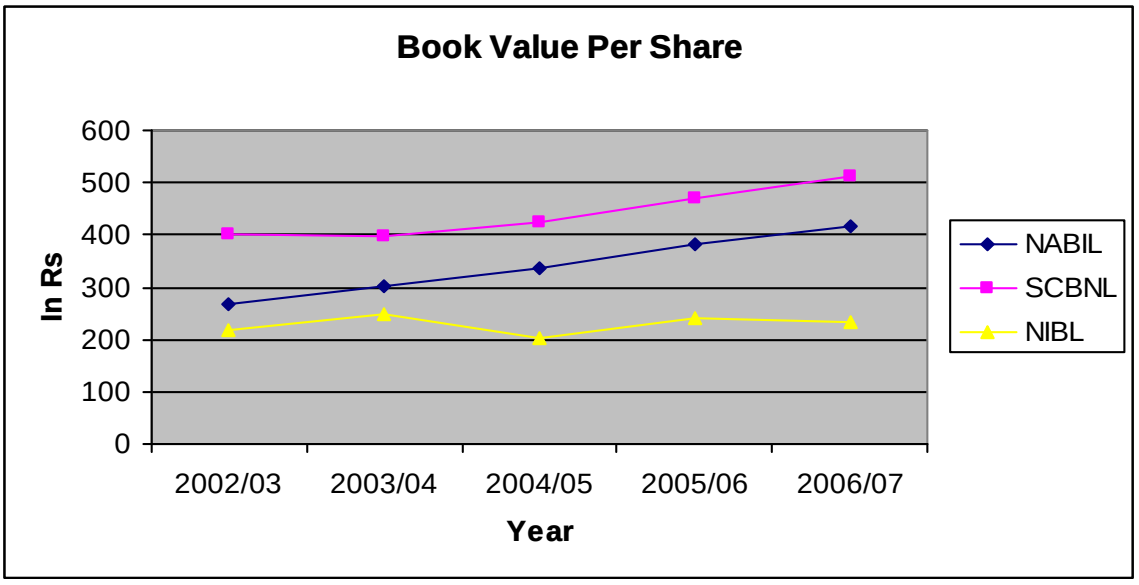
$$\text{Book value per share} = \frac{\text{Book net worth}}{\text{total no of common stocks outstanding}}$$

Table: 4.11
Book Value Per Share (Rs.)

	2002/03	2003/04	2004/05	2005/06	2006/07	Average price
NABIL	267	301	337	381	418	**340.8**
SCBNL	403.16	399.25	422.38	468.22	512.12	**441.12**
NIBL	216.24	246.89	200.80	239.67	234.37	**227.59**

Source: Annual reports of respective banks.

Figure: 4.11



Book values per share of NABIL were Rs. 267, Rs.301, Rs.337, Rs.381 and Rs. 418 in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The highest book value per share remained in the year 2006/07 and the lowest in the year 2002/03. Therefore, the book value per share of NABIL over the five-year period showed an increasing trend. The average book value per share remained at Rs. 340.8 over the five-year period.

Similarly, the book prices per share of SCBNL were Rs. 403.16, Rs. 399.25, 422.38, Rs. 468.22 and Rs. 512.12 in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The highest book net worth per share of the bank remained in the year 2006/07 and lowest in the year 2003/04. The book price per share of SCBNL also showed an increasing trend as shown in the figure above.

Similar, the book values per share of NIBL were found to be Rs. 216.24, Rs. 246.89, Rs. 200.8, Rs. 239.67 and Rs. 234.37 in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The lowest price remained in the year 2004/05 and highest price was obtained in the year 2003/04. here some minimum fluctuations found over the midyears of study Period. Thus, the book price per share of NIBL showed a slightly fluctuating trend over the years as reflected in above figure.

The average book values per share of NABIL, SCBNL and NIBL remained at Rs. 340.8, Rs. 441.12 and Rs. 227.59 respectively over the five-year study period. Therefore, SCBNL again was found to be having the highest average book value per share Nabil has average or between of them and NIBL to be having the lowest average book value per share. It show SCBNL and NABIL has better strong and performance than the NIBL.

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

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

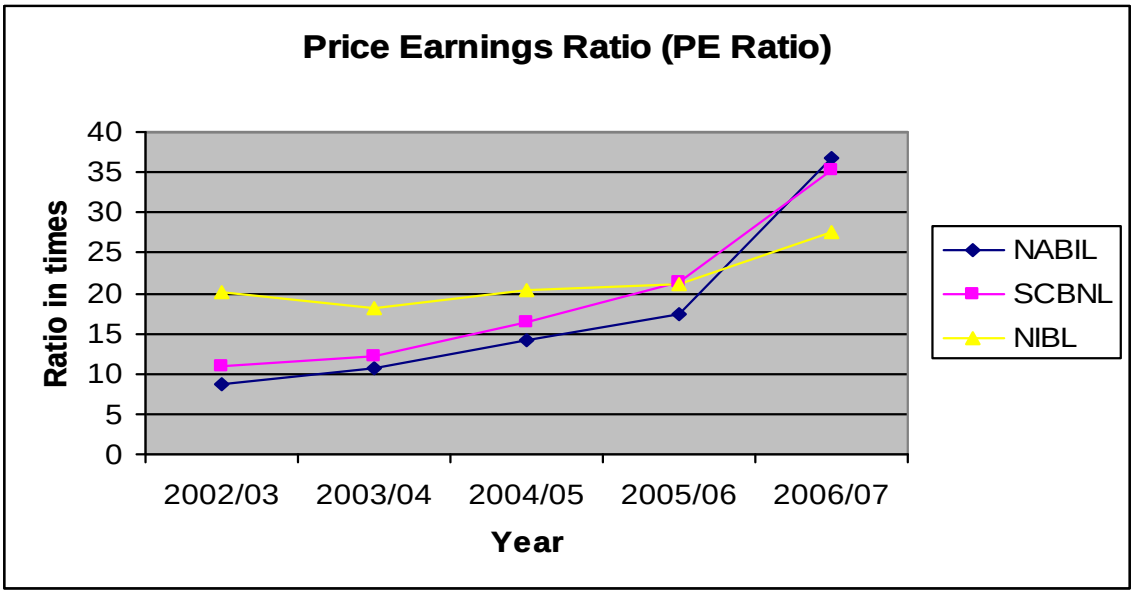
Table: 4.12

Price Earnings Ratio (times)

	2002/03	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**Average**
NABIL	8.74	10.80	14.27	17.34	36.84	**17.6**
SCBNL	10.98	12.16	16.38	21.47	35.25	**19.25**
NIBL	20.10	18.18	20.25	21.23	27.63	**21.49**

Source: Annual reports of respective banks.

Figure: 4.12



The Price earning Ratio (P/E ratios) of NABIL bank were 8.74, 10.80, 14.27, 17.34 and 36.84 times in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of the bank over the bank remained at 17.6 times.

The P/E ratios of SCBNL were 10.98, 12.16, 10.98, 21.47 and 35.25 times in the years 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 respectively. The average ratio of the bank remained at 19.25 times over the study period.

Similarly, the ratios of NIBL were found as 20.10, 18.18, 20.25, 21.23 and 27.63 times in the years 2002/03, 2003/04, 2004/05, 2005/06 respectively. The average ratio of NIBL over the study period remained at 21.49 times.

Analyzing the above calculated data NIBL has found the highest average price-earnings ratio and NABIL has found to be least. Its indicate that high MPS rather then its actual EPS. Despite of the highest ratio, we cannot regard it as

the best performing bank because the rate of price and earnings were deteriorating over the years. Therefore, the P/E ratios of the NABIL and SCBNL consider as better. More the vale is obtained it consider as Riskier to invest in that price. It is recommended all investor to sale in this time and purchase when the difference value gets low.

4.3 Major Findings of the Study

- Table of cash & bank balance to total deposit ratio shows that the ratio of NIBL is highest among the sample banks; SCBNL has moderate ratio and lowest ratio with NABIL.
- NIBL comes in first position, SCBNL comes in second position and NABIL comes in last position among these three commercial banks in the case of cash & bank balance to total assets ratio.
- Credit & advance to total deposit ratio of NIBL comes first position again NABIL as second and SCBNL come in third position respectively.
- Here also, NIBL has the highest ratio of credit & advance to total assets, NABIL has the moderate ratio and SCBNL has the lowest ratio. All the above data indicate the NIBL uses more credit and advance to their deposit and asset.
- In the case of return on total assets ratio, SCBNL has the highest among all of the sample banks. Similarly, NABIL has the moderate ratio and NIBL has the lowest ratio.
- SCBNL has the first position in this ratio, NABIL has the second position in ratio and NIBL has the lowest ratio of return on fixed assets.

- SCBNL, NABIL and NIBL come respectively in first, second and third position according to return on loans & advances or total credit ratio.
- In the case of earning per share, SCBNL has highest EPS, i.e. Rs. 155.84, NABIL has the moderate EPS, i.e. Rs. 109.81 and NIBL has the lowest EPS, i.e. Rs. 50.54 only.
- SCBNL has the highest ratio of 14.72%, NABIL comes in second position of 10.76% and NIBL comes in last position of 8.77% based on interest income to credit & advances ratio.
- SCBNL has the highest ratio of non-performing credit to total credit & advances ratio, then after NABIL comes in second position and NIBL comes in the last position among these three sample banks.
- SCBNL has the highest market price per share among the sample banks. Similarly, NABIL situated at second Position and NIBL come in third position respectively according to the market price per share (MPS).
- Likewise, book value per share is also highest of SCBNL with Rs 441.12, moderate with in second position NABIL with Rs 340.8 and lowest value is NIBL with Rs 227.59.
- NIBL has the highest price-earning ratio with 21.49, SCBNL has the moderate in second position with 19.25 ratios and NABIL has the lowest ratio with 17.6 among these three commercial banks.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Under ratio analysis, calculation of various ratios including liquidity, leverage, turnover, profitability and market value ratios have been calculated and interpreted. While analyzing the most of the ratios obtained from the data during the study period of fiscal year 2002/03 to 2006/07, the average ratios obtained for the individual banks were compared with the average ratios of commercial banking industry for the same period.

Under liquidity ratios, cash & bank balance to total deposit and cash & bank balance to total assets ratios were calculated and analyzed. The average cash & bank balance to total deposit ratio of NABIL remained at 5.70% over the study period. The average ratio of SCBNL remained at 7.40% over the five-year period. The average ratio of NIBL was 10.81% over the study period. The ratios of all banks were at a decreasing trend and at last year increased over the study period. The average ratio over the period for the overall sample commercial banking industry was found to be 23.91%. In respect to this, the cash & bank balance to total deposit of all the sampled banks were found lower than the industry. However, all the banks had maintained sufficient or even higher amount of cash to meet the demand of the deposit-holders individually.

As well as all the banks had used excessive amount of debt in their capital structures. Therefore, all of the banks are exposed to high degree of financial risks. However, NIBL had used the highest amount of debt to finance its assets.

Similarly, the average cash & bank balance to total assets ratios of NABIL, SCBNL and NIBL over the five-year period remained at 4.78%, 6.56%, and 9.44% respectively. As compared with the three banks, NIBL had the highest liquid assets in component of total assets than the other two banks. Similarly, SCBNL had also higher amount of liquid assets in its share of total assets. But NABIL had the lower liquid assets to fulfill the desired demand of total assets in comparison with SCBNL and NIBL. However, the average cash ratio of the overall commercial banking industry for the past five-years was found to be 20.78%, which was too high and indicated a major portion of idle funds in the bank over its current assets. But as compared to this figure, the cash ratio of all the three banks was lower than the industry.

The ownership capitals of all the banks were too much insufficient to repay the debt capital. And NIBL had used the highest amount of debt capital in comparison to equity capital in financing purposes.

The average total deposit turnover ratios of NABIL, SCBNL and NIBL were 66.54%, 36.81% and 70.79% respectively over the five-year period. It indicates that NIBL had the highest deposit utilization (mobilization) ratio and comparatively, the deposit utilization ratio was lowest in SCBNL. Other bank, i.e. NABIL had utilized their deposits moderately. Again, the average deposit

turnover ratio of overall commercial banks was 58% or 58 times. In comparison to this figure, the deposit mobilization of NIBL and NABIL were higher than the SCBNL.

The average credit & advances to total assets ratios of NABIL, SCBNL and NIBL were found to be 0.56, 0.32 and 0.63 times or 56.31%, 32.63% and 61.82% respectively over the study period. This states that the total assets of NIBL were utilized in lending purposes in the best way and SCBNL seems to be least in comparison of sample banks. However, the assets utilization of all the banks can be considered as good. The ratios showed an increasing trend for all banks. It was found that on an average the commercial banks were able to mobilize 50.25% of their total assets in loans and advances sector. As compared to this figure, the ratio remained higher for NIBL and NABIL whereas the ratio of SCBNL was lower. The ratios were also found quite satisfactory though the ratio of SCBNL was little lower.

The average return on Total assets ratios of NABIL, SCBNL and NIBL were 2.71%, 2.43% and 1.45% respectively over the five-year period. NABIL and SCBNL had been able to utilize its fixed assets in an efficient manner as compared to other banks. However, NIBL had been failing to utilize its assets in profitable sectors and thus had been incurring lower profit over the years. Hence NABIL seems to be best utilization of total asset for aggregate return. However, the average ratio of sample commercial banks was 2.2%. NIBL has the least ratios of compared with themselves.

Similarly, The average return on total loan/credit and Advance ratios of NABIL, SCBNL and NIBL were 4.84%, 7.57% and 2.35% respectively in the five-year of study period. The ratios of SCBNL are found the highest than others so it indicates maximum utilization of loan and advance even downward trend of average ratio.

Here NIBL has least ratio of return on credit and advance ratio and it indiate least utilization of loan and advance. The NABIL has moderate ratio of return on credit and advance. The average ratio of three sample banks is 4.92% respectively.

The average earnings per share (EPS) of NABIL, SCBNL and NIBL were Rs. 109.81, Rs. 155.84, and Rs. 50.54 respectively over the five-year study period. SCBNL earnings were the highest of all. Similarly, NIBL's earnings showed an extremely low i.e 50.54 over the years and the lowest average EPS. Likewise NABIL earning is second position having Rs 109.81 per share. Here two banks were found to earn fair returns with respect to price paid to the shares.

The average interest income to loans & advances ratios of NABIL, SCBNL and NIBL were 10.76%, 14.72% and 8.77% respectively. The ratio showed almost horizontal trend. SCBNL has been able to earn the highest income on credit & advances on an average study of five years. Similarly, NIBL had the lowest average interest earned ratio over credit & advances employed. Similarly, NABIL has moderate average interest income to loans & advances ratios. Here SCBNL and NABIL have the highest utilization of credit for interest income.

The average shares of non-performing credit over total credit of NABIL, SCBNL and NIBL were 2.52%, 3.05% and 2.32% respectively. The trends of the ratios of NABIL and SCBNL were downward in slope. However, slope of NIBL is fluctuating. That means, the non-performing credits of these banks were decreasing continuously over the years. The average non-performing loans of the overall commercial banks over total credit extended for the period was 2.63%. As compared to this figure, the quality of the credit of the three sampled banks was quite good than the condition for the overall banking industry.

The average year-end closing price of each share of study period of NABIL in the market remained at Rs. 2107. Similarly, the prices of SCBNL were Rs 3081 and NIBL were obtained as Rs.1105 respectively. The prices of NABIL and SCBNL as well as NIBL were at an increasing trend. The prices of share of SCBNL has highest and NABIL has second position and NIBL has lest as compare to each sample banks. The image of price and the performance of NIBL are least among the public in the market.

The average book net worth per share of NABIL, SCBNL and NIBL remained at Rs. 340.8, Rs. 441.12 and Rs. 227.59 respectively over the five-year study period. It also shows that SCBNL had the highest book value and NIBL had the lowest book value per share over the five-year period. The NABIL has average or in between of them price. The book prices of NABIL and SCBNL were at an increasing trend. However, the book prices of NIBL were at a fluctuating trend.

The average price-earnings ratios of NABIL, SCBNL and NIBL were 14.36, 13.50 and 17.17 times respectively. The highest ratio of NIBL among all other banks was due to the lowest figure of earnings per share. As depicted above, the price of NIBL was also the least of all. Therefore, the highest price earnings ratio of NIBL was not valid and better too. For being better price-earning ratio, the ratio should be higher with both the market price and earnings per share at an increasing trend.

5.2 Conclusion

On the basis of liquidity analysis of three sampled commercial banks, using various statistical as well as financial tools following inferences has been drawn:

The liquidity position of all the banks are strong and enough to meet their immediate needs of cash and short-term obligations. NABIL, SCBNL and NIBL had been found to hold short liquidity than other banks in the whole industry. However, NIBL holds excess amount of liquidity in assets than other similar banks in the commercial banking industry.

Despite of having the highest deposit mobilization ratios, the quality of the credit of NIBL comprised of a heavy portion of bad and non-performing credit. That meant the quality of the credit extended by NIBL was bad among the three sampled banks. However, the deposit and the assets of NIBL were found slightly underutilized. The deposit mobilization of SCBNL was too low than the amount of deposit collection. Out of the total funds obtained from deposit

collection and its mobilization in credit extension to the parties, the quality of the loan extended by NABIL and NIBL was found the best among all sampled banks.

The profitability indicators of NIBL were the least of all and were lower. The profitability position of NABIL and SCBNL were strong. However, SCBNL had the highest profitability ratios. It can be regarded that the deposits and assets of SCBNL were utilized effectively in lucrative sectors with the lower amount of non-performing credit. The overall profitability of NIBL and NABIL were also positive but quite lower.

The net worth or total capital of the shareholders of NIBL was in critical condition. That meant, the shareholders of NIBL were in total threat. More than cent percent of the total assets of the bank had been found to finance with the debt capital (more short-term debt). The shareholders' rates of earnings in rest of two banks were sound. The rate of return on equity of SCBNL was the highest among the other banks. And it was found to be the lowest for NIBL as compared to the other banks. Though the return generated by the utilization of the total assets and mobilization of the deposits in lending sector was quite low for all the banks, the shareholders of all sampled banks were getting fair return due to capital gearing (especially due to excessive use of short-term leverage).

SCBNL’s price lead all other studied banking institution’s shares in the market. In addition, the net worth per share of this bank was also the highest among all. It means that the image of this bank in the general public was also high. Share

price of NABIL occupied the immediate highest position in the market. However, NIBL's price in the market was found decreasing constantly at a higher rate. That means the investors' perception of NIBL's performance and price was bad. Due to the adverse image of the performance and dark future prospective, the general investors' rating of the NIBL's price was too low, and the owners of the shares who owned the shares of NIBL were found willing to sell or divert in other banks which are better than NIBL.

On the basis of major findings, we can summarize and rate the overall performance of the bank as given in the table below:

Name of the Bank	**Non-performing credit**	**Market position**	**Profitability**	**Overall Performance**
NABIL	Lower	2	2	Good
SCBNL	Lowest	1	1	Best
NIBL	Higher	3	3	Bad

Rank 1 – Highest of all

Rank 2 - Average

Rank 3 - Least of all

5.3 Recommendations

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

- NABIL, SCBNL and NIBL should minimize their existing level of excess liquidity by investing in more profitable sectors. Idle assets of theirs in form of excess cash or equivalents should be diverted in various investment opportunities available in the market. Those less risky investment sectors should be identified.
- NABIL, SCBNL and NIBL need to bring in newer schemes to mobilize their higher amount of deposits in extending credit.
- All the banks should have to make effort in order to minimize their non-performing credits. NIBL especially, must be more conscious on this part. Making credit policy more transparent, standard and less risky should increase the quality of the credit.
- All the banks should try to increase their profitability by investing in more profitable sectors, and by increasing the quality of their extended credits. They should have to investigate thoroughly the wide range of investment opportunities in the market in order to improve their profitability situation. Especially, NIBL should immediately be more conscious on this part as it is having continuous less profit over the years.
- As formation of price is a very complex process, some extremely outstanding sectors such as management efficiency, profitability status, future perspective, bank's investment strategy, etc should be improved. NIBL must have to follow this scheme immediately