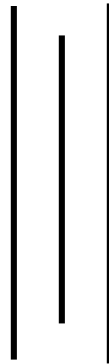


**A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE
ANALYSIS OF COMMERCIAL BANKS OF NEPAL
(WITH REFERENCE TO SCBNL, NABIL AND NIBL)**

**By:
ANUJ ACHARYA
Shanker Dev Campus
T.U. Registration No: 7-2-271-136-2003
Campus Roll No: 1405/063**

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



*In partial fulfillment of the requirements for the Degree of
Master's of Business Studies (M.B.S)*

**Kathmandu, Nepal
January, 2010**

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

ANUJ ACHARYA

Entitled:

**A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE
ANALYSIS OF COMMERCIAL BANKS OF NEPAL
(WITH REFERENCE TO SCBNL, NABIL AND NIBL)**

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

.....
Shree Bhadra Neupane
(Thesis Supervisor)

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

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

.....
Indra Sharma
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by

ANUJ ACHARYA

Entitled:

**A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE
ANALYSIS OF COMMERCIAL BANKS OF NEPAL
(WITH REFERENCE TO SCBNL, NABIL AND NIBL)**

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

Master Degree of Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

TRIBHUVAN UNIVERSITY

Faculty of Management

Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled “**A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE ANALYSIS OF COMMERCIAL BANKS OF NEPAL (WITH REFERENCE TO SCBNL, NABIL AND NIBL)**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of **Asso. Prof. Shree Bhadra Neupane** and **Indra Sharma** of Shanker Dev Campus.

.....

ANUJ ACHARYA

Researcher

T.U. Regd. No. : 7-2-271-136-2003

Campus Roll No. : 1405/063

ACKNOWLEDGEMENT

This study is mainly concerned with the “*A Comparative Study on Financial Performance Analysis of Commercial Banks of Nepal (With Reference to SCBNL, NABIL and NIBL)*”. The completion of the present study is a result of support and help of several hands. Therefore, I would like to express my heartfelt gratitude to all those for their help and support.

I am extremely indebted to my thesis supervisor Ass. Campus Chief Shree Bhadra Neupane and Indra Sharma of Shanker Dev Campus, Tribhuvan University, for their generous guidance and encouragement while undertaking the study.

Besides them, I would like to thank the staffs of Standard Chartered Bank Nepal Limited, Nepal Arab Bank Limited, and Nepal Investment Bank Limited for providing the necessary data, without which the thesis could be impossible, and for responding the questionnaire presented to them.

Finally, I would like to thank Mr. Kishor Adhikari for computer assistance and my family and friends especially Dr. Deepak Acharya, for their continued encouragement while doing the study.

Anuj Acharya
Researcher

ABBREVIATIONS

B.S.	:	Bikram Sambat
BFI	:	Bank and Financial Institutions
BVPS	:	Book Value per Share
C.V.	:	Coefficient of Variation
CA	:	Current Assets
CBB	:	Cash and Bank Balance
CL	:	Current Liabilities
CR	:	Current Ratio
D/A	:	Debt Assets Ratio
D/E	:	Debt Equity Ratio
DFL	:	Degree of Financial Leverage
DPR	:	Dividend Payout Ratio
DPS	:	Dividend per Share
E	:	Equity
EBIT	:	Earning Before Interest and Tax
EBT	:	Earning Before Tax
EPS	:	Earning Per Share
F/Y	:	Fiscal Year
FD	:	Fixed Deposit
i.e.	:	That is
IE	:	Interest Expenses
IED	:	Interest Expenses on Deposit
II	:	Interest Income
JVBs	:	Joint Venture Banks
LA	:	Loan and Advances
N	:	Number of Year
NABIL	:	Nepal Arab Bank Limited
NI	:	Net Income
NIBL	:	Nepal Investment Bank Limited

NRB	:	Nepal Rastra Bank
NW	:	Net Worth
P.Er	:	Probable Error
P/E	:	Price Earning
P/L	:	Profit & Loss
r	:	Coefficient of Determination
r	:	Correlation Coefficient
ROA	:	Return on Total Assets
ROE	:	Return on Equity
S.D.	:	Standard Deviation
SCBNL	:	Standard Chartered Bank Nepal Limited
SD	:	Saving Deposit
SD	:	Saving Deposit
TA	:	Total Liabilities
TD	:	Total Deposits

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

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

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

“Banking institutions are inevitable for the resource mobilization and the all around development of the country. They have resources for economic development, and they maintain economic condition of various segments and extend credit to people” (*Grywinski; 1991: 87*).

“Banks are the financial institution that offer the widest range of financial service especially credit, savings, payment services, and perform the widest range of financial functions of any business firm in the economy. This multiplicity of bank resource and functions has led to banks being labeled financial supermarkets and to familiar advertising slogans as "Your Bank a full service financial” (*Vaidya; 1999: 35*).

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

Banks are basically concerned with the transcends of money; however, today's banks are established for specific purposes. Different types of banks focus different types of

services to their customers although the basic principle is the same. The main types of bank in world are as follows:

- a. Central Bank
- b. Clearing bank
- c. Commercial bank
- d. Consortium bank
- e. Cooperative bank
- f. Correspondent bank
- g. Exchange bank
- h. Industrial banks
- i. Export-import bank
- j. Land banks
- k. Mixed banks
- l. Saving bank

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

The word bank is derived from Italian word “banco” bench. The early bankers, the Jews in Lombardy, transacted their business at benches in the market (*Saeed and Singh; 1990: 67*).

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

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

In the 1980's Nepalese Government adopted open liberalized and market Oriented policy and the financial reforms with a view to enhance efficiency in the financial services. The liberalization policy and the financial reforms programmed laid the rapid development in the domestic financial system. Major structured changes happened not only in the institutional development of the financial sector but also at the policies, regulations and supervision practices of the financial sector. Nepalese Government opened the door for domestic private sector to invest in the financial sector and at the same period foreigners were also allowed to invest in the financial sector. This led development of numbers of the banks in Nepal. At present 26 commercial banks are there in operation.

1.2 Focus of the Study

The focus of the study is financial performance analysis of Nepalese Commercial Banks. Financial performance covers the financial analysis and other portfolios of the Nepalese selected commercial banks. The three commercial banks- Standard chartered Bank Nepal Limited, Nabil Bank Limited and Nepal Investment Bank Ltd stood as the top three Banks on the basis of market capitalization. Market capitalization of any company reflects the total value of a firm's equity currently available in the market. M-cap is calculated by multiplying the number of outstanding common share of the firm and the current trading price of those shares. The selected banks stood as the top three commercial banks on this widely followed index construction methodology on which majority of global equity benchmarks are based.

1.3 Statement of the Problem

A well functioning banking system is an essential element in economic growth. A good banking system is supposed to mobilize savings from households and business in low cost of financing activities and channel funds to the most productive investment opportunities.

Though banks could maintain their position in the banking industry, it cannot be predicted that the banks would continue to maintain its profitability and stability of earnings because of the tough competition in this sector.

This study attempts to evaluate the financial performance of selected commercial banks of Nepal by using various measuring financial and statistical tools such as financial ratios, income and expenditure statement analysis and other necessary analysis. It gives the answer to these issues:

- a. What are the comparative liquidity, profitability, activity, stability, solvency and capital adequacy position among selected three commercial banks?
- b. Are the positions of non-performing assets (NPA) of these three commercial banks in line with standard?
- c. Are the trends of different ratios of these banks satisfactory?

1.4 Objective of the Study

The basic objectives of the study are to examine the financial performance of the selected three commercial banks and to recommended suggestion for the improvement of state of fairs. The objective has been further specified in the following sub-objectives:

- a. To analyze and compare the liquidity, portability, stability and market value positions among three commercial banks.
- b. To analyze and compare solvency ratio such as total capital fund.
- c. To analyze the financial strength and weakness of these banks.
- d. To analyze and forecast the trend and structure of deposit utilization and its Projection for five years of Commercial Banks.
- e. To provide suggestions and possible guidelines to improve investment policy and Problem.

1.5 Significance of the Study

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

- a. Lenders and borrowers of these banks.

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

1.6 Limitations of the Study

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

- a. The study focuses only on the financial performance and thus does not cover the other financial aspects.
- b. The study mainly concentrates on the financial aspects of the three banks on the basis of market capitalization and does not cover the other commercial banks.
- c. The study covers only 5 years of study spanning from the fiscal years 2004/2005 to 2008/09.
- d. The accuracy of secondary data depends upon the credibility of annual reports of the selected banks, whereas the accuracy of primary data depends upon the opinions of the respondents.

1.7 Organization of the Study

The present research has been organized into the following chapters.

Chapter I: Introduction

This chapter includes background of the study, focus of the study, statement of the Problems, objectives of the study, significance of the study and limitations of the Study.

Chapter - II: Review of Literature

This chapter reviews the existing literature on the concept of banking, concept of Commercial bank, concept of joint-venture banks, development of banking system in Nepal, and brief profile of Standard Chartered Bank Nepal Ltd, Nepal Arab Bank Ltd and Nepal Investment Bank Ltd. It also contains reviews of journals and articles, and earlier thesis related to the subject.

Chapter - III: Research Methodology

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

Chapter - IV: Data Presentation and Analysis

In this chapter collected and processed data are presented, analyzed and Interpreted with using financial tools as well as statistical tools.

Chapter - V: Summary, Conclusion and Recommendations

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

At the end of the study Bibliography and Appendices have also been incorporated.

CHAPTER - II

REVIEW OF LITERATURE

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

2.1 Conceptual Review

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

2.1.1 Concept of Banking

“In the past bank used just to accept deposit from the servers of the money (surplus Units of the society) and give loans to the users of money (deficit unit of the society). Savers of money are those units whose earning exceeds expenditure on real assets (land, building, cloth, food etc) and users of money are those units whose expenditure on real assets exceeds their earnings. In such a situation, deficit unit sell their securities IOUs (I Owe You) to surplus units. These securities are financial assets. If entire income of a unit matches with investment (*Dahal & Dahal; 2002: 1*).

“The evolution of banking can be traced back to the era when the use of metallic coins as the media of exchange of goods and services began. Storage of metallic coins was a serious problem for the common people because of the danger of theft and robbery, people stated leaving gold and silver and metallic coins in the custody of some reputed person a wealthy merchant or a money changers. The custodian had a strong box, and other means of safe keeping. He offered their service as a favor for his friends or made a

charge for it. The depositor had to go personally to custodian for his withdrawal of money” (*Khubchandani; 2002:92*).

2.1.2 Origin and Growth of Banks in Nepal

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

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

Nepal Rastra Bank Nepal Rastra Bank was established in 2013 B.S. with an authorized capital of Rs. 10 million, subscribed by the government under Nepal Rastra Bank Act 2012 B.S.

Rastriya Banijya Bank

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

Agriculture Development Bank

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

Modern Phase of Banking Development

“The process of development of banking system in Nepal was not satisfied up to 2040 B.S. No bank was opened during this period except expanding the branches and sub

branches of the Banks, which were established in the earlier period. Nepal was observing the event that was taking places in the world also. Nepal was searching what sorts of programs; policies, law and regulation should be brought into the own capital in that country without importing the new technology from foreign country. Law and policy have been enacted by the state to encourage the foreign investment on banking sector. As a result of it, the development of the banking system started in Nepal. In 2041 B.S. Nepal Arab Bank Ltd. was established. This now there are 26 commercial Banks operating in Nepal. Among them, some banks have been opened by private sector in joint venture with foreign banks (*K.C.; 1994: 23*).

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

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

Bank and Financial Institutions Ordinance 2062 institutions

The acts regarding agricultural Development Bank Act 1967, Commercial Bank Act 1974, Finance company Act 1986, Nepal Industrial Development Corporation Act, 1990 and the Development Bank Act, 1996, have been replaced with the promulgation of this ordinance. The article 34 of this ordinance has made special arrangements regarding the establishment of foreign banks and financial institutions. Foreign Banks or financial institutions desiring to open their office in Nepal must submit the application to Nepal Rastra Bank in the prescribed form along with the fees and particulars as prescribed by the bank. The bank may issue license to the foreign banks or financial institutions to open

offices and conduct financial transaction looking the situation of competition existing in the banking sector and the contributions that the institutions may provide in the Nepalese banking sector and also look at the reputation of such financial institutions. While providing the license, NRB may also specify the necessary terms and conditions and the foreign banks and financial institutions should comply such terms and conditions. The foreign banks or financial institutions also should comply all the provisions motioned in the ordinance regarding the financial transactions. But in the case of the transaction of the representative office or agency office of the foreign bank or financial institution will be as prescribed by NRB. The foreign banks or financial institution in joint venture, which has been issued license to operate financial transaction by opening its office in Nepal (*Thapa; 2004: 468*).

2.1.4 Concept of Commercial Bank

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

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

In content of Nepal, commercial banks are operated under "Commercial Bank Act 2031 B. S.", In addition to Commercial Bank Act, Nepal Rastra Bank also lays down other many directives.

“Commercial banks are those financial institutions that deal in accepting deposits of Person and institution and give loan against securities. They meet working capital needs of trade and industry and even of agriculture sector. It also provides technical and administrative assistance to industries, trade and business. “Bank of England is the first

commercial bank in the world established in 1969 AD as central bank of Britain” (*Gupta; 1999: 62*).

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

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

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

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

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

2.1.5 Functions of Commercial Banks

Banks accept the deposits from unproductive sectors and utilize them in the productive sectors. This is the basic function of banks. By this they earn profit as interest by

advancing the funds as loan at the interest rate higher than its cost. At the same time, bank generates capital for economic development of a country. In the past, banks used to be just an intermediary between the savers and users of fund. They used to collect deposits from savers and provider loans to the businessmen and others. Now, the services provide by bank have been expanded. General commercial banks offer the following services to customers (*Singh; 2005:15*).

A) Accepting Deposit

Deposits from those who can save money, but cannot utilize them in profitable Sectors. People consider it more rational to deposit their savings in a bank because, by doing so, they earn interest. At the same time, they avoid the danger of theft, because of bank guarantees the safe custody of deposits. To attract saving the banks provide different types of account facilities. Among them the major account are as follows (*Bhandari; 2003: 22*).

a. Current Account

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

b. Fixed Account

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

c. Saving Account

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

d. Home Saving Account

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

e. Recurring Deposit Account

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

B) Advancing of Loan

Commercial bank is a profit oriented business organization. So banks have to advance loans to public and generate interest from them as profit. After keeping certain cash reserves, bank provide short, medium and long-term loan to needy borrowers. For security, banks generally provide loan on mortgage. General loans for individual are provided on the mortgage of gold, silver, fixed deposit receipts, treasury bills, development bonds etc whereas business loan are advanced on the mortgage of negotiable instrument such as land, buildings, store room etc. According to the needs of the borrowers, banks provide different types of loan for (*Dahal; 2004: 386*).

a. Term Loans

Banks provide medium-term and long-term loans on the basis of loan proposal. The maturity period of such loan is more than one year. Generally, the amount sanctioned is credited to the account of the borrowers. However, banks pay the amount in cash to the borrowers in some cases (*Dahal; 2004: 386*).

b. Cash Credit

Banks advance loan as cash credit to the businessmen against certain pacified securities. The amount of the loan is credited to the current account of the borrowers. The borrowers can withdraw money through cheque according to his requirement. Interest is charged only on the amount actually withdrawn from the account (*Dahal; 2004: 386*).

c. Overdraft

Generally, businessmen and organizations open current accounts in banks. They deposit all receipts in the account and pay all dues through cheque. Banks provide overdraft facilities to such account holders. Overdraft facilities allow the customer to withdraw more than their deposits. Account holders have to go in for a special contract with the bank to get such facilities (*Dahal; 2004:387*).

d. Money at Call

It is a very short-term loan provided by banks on a very short notice. Generally, loans under money at call have a time duration of only one day to fourteen days. After that period, the money should be refunded. Such loans are useful especially for (*Dahal; 2004: 387*)

C) Discounting of Bills of Exchange

Bill of exchange is a negotiable instrument, which is accepted by the debtor drawn upon him/her by the creditor (drawer) and agrees to pay the amount mentioned on maturity. Discounting bills of exchange is another important function of modern banks. Under this function, banks purchase bills of exchange. Banks purchase them from holders at a discount after making some managerial deduction in the form of commission. Banks pay the deducted value to the holder when traders discount it into banks. The percentage of

discount is determined by mutual agreement between bank and traders, which is affected by duration of expiry and goodwill of drawer of bill of exchange (*Natarajan; 2001: 87*).

D) Payment of Cheque

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

E) Collection and Payment of Credit Instruments

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

F) Remittance

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

G) Exchange Foreign Currencies

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

H) Consultancy

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

I) Bank Guarantee

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

J) Agency Functions

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

Period collection: On behalf of customers, bank collects income of customers such as dividends of share, interest on debenture and fixed deposit etc.

K) Period payment

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

L) Purchase and Sale of Securities

Banks undertake purchase and sale of various securities like share, stocks, bonds, debentures etc. They perform the function of a broker only to purchase and sell the securities.

M) Representative

Banks can act as representative of their customers. They can proceed for passports, traveler's tickets, book, vehicles, plots of lands etc for their customers.

N) Trustee or Executor

When customers want to transfer their property to specific person after demise, they can make a legal document about them and handover it to the banks or trustee or executor. Banks preserve such document of customer will and execute their will after demise (Ivamy; 1993: 217-221).

K) Others

Besides these main functions, the banks perform several other functions such as providing securities issuing credit card, underwriting securities and many more.

2.1.6 Market Capitalization

Market capitalization is the market value of all share issue by the companies in the market. It is the tool which measures how much is the market value of the shares of the company. If the market value per share of the company is higher, the company is considered as a better company otherwise not.

Market Capitalization = No. of Shares Issue \times Market Value Per Share

The top three commercial banks of the basis of Market capitalization are:

1. Standard Chartered Bank Ltd.
2. Nabil Bank Ltd.
3. Nepal Investment Banks Ltd. (NEPSE; 2009: 12)

2.1.7 Comparative Performance Analysis

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

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

Management is required to evaluate their performance compared to different periods of its own enterprise or with industry average or with same business nature of other enterprises. Management is interested to know and review about the productivity, profitability, activity, stability, and growth possibility of its own enterprises that can help management to decide the course of action to be taken in (*Dangol and Dangol; 2004: 62*).

Performance Measures are Analyzed in Three Groups

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

2.1.8 Financial Statement Analysis

Financial analysis is the process of identifying the financial strength and weakness of the concern. It is the process of critically examining in detail accounting information given in the financial statement by evaluating the relationship between component part of financial statement to gain better understanding of the firm's financial position and performance. It is performed to determine the liquidity, solvency, efficiency, and profitability position of an organization. It gratifies the different needs of the concern parties like the potential investor, shareholders, government, general public, short-term as well as long-term creditors and management itself about their vested interest by providing

them with adequate information. The function of finance can be broken down into three major decisions: investment, financing and dividend decision. An optimum combination of these three decisions will maximize the value of the firm.

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

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

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

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

2.1.9 Profile of Concerned Banks

A) Standard Chartered Bank Nepal Limited (SCBNL)

Standard chartered bank limited, which was formally knows as grind lays bank, was established in 1987 A.D. as a second foreign joint venture bank under the company act. Its ownership is 75% of the shares held by standard chartered Grindlays Bank, 25% of

shares by local ownership. It plays an active role in supporting those communities in which its customers and staffs live. The focus of the standard charter group is on projects that assist needy children, particularly in the areas of education and environment. The bank is in a position to service customers through a large domestic network. In addition to which the global network of standard chartered gives the bank the unique opportunity to provide truly international banking in Nepal. SCBNL focuses mainly on corporate and Consumer banking, catering to a wide range of customers. The bank is pioneer in introducing customers focused product and services in the country (www.standardcharteredbank.com.np July 15, 2009).

Table 2.1
Share Capital of SCBNL

S.N	Particular	F.Y 2008/09
1.	Authorized capital	Rs 1,000 million
2.	Issued Capital	Rs 1,000 million
3.	Paid up capital	Rs 931.96 million

Source: Annual Report of SCBNL , 2009

B) Nepal Arab Bank Limited (NABIL)

Nabil Bank limited commenced its operation on 12th July 1984 as the first joint venture bank in Nepal. Dubai Bank Ltd., Dubai (later acquired by Emit rates Bank International Limited, Dubai-EBIL) was the first joint venture partner of NABIL. Later EBIL sold its entire stock to National Bank Ltd. Bangladesh (NBL). NABIL Bank Ltd. had the official name Nepal Arab Bank Limited till 31st Dec. 2001. Hence 50% equity shares of NABIL Bank Ltd. are held by NBL and out of another 50%, 20% shares has been hold by financial institutions and remaining 30% shares were issued to general public of Nepal. Nabil Bank has been providing banking services through several branches (www.nabilbank.com.np , July 15, 2009).

Table 2.2
Share Capital of NABIL

S.N	Particular	F.Y. 2008/09
1.	Authorized capital	Rs 1600 million

2.	Issue capital	Rs 965.7 million
3.	Paid up capital	Rs 965.7 million

Source: Annual Report of NABIL, 2009

C) Nepal Investment Bank Limited (NIBL)

Nepal Investment bank limited previously Nepal Indosuez bank ltd was established in 1986 as a joint-venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one of the largest banking group in the world. With the decision of credit Indosuez to divest, a group of companies comprising of bankers, industrialists, businessmen has acquired 50% of shares Credit Agricole Indosuez in April, 2002. Hence the name Nepal Indosuez Bank Ltd. has been changed to Nepal Investment Bank. A group of Companies is holding 50% of the capital, Rastriya Banijya Bank is holding 15% and Rastriya Beema Sansthan is holding 15% of share capital. The general public is holding remaining 20%. It has been Awarded by Bank of the Years Award- (www.nibl.com.np , July 15, 2009).

Table 2.3

Share Capital of NIBL

S.N	Particular	F.Y.2008/09
1.	Authorized capital	Rs 4,000 million
2.	Issued capital	Rs 2,409.09 million
3.	Paid up capital	Rs 2,407.06 million

Source: Annual Report of NIBL, 2009

2.1.10 Nepal Rastra Bank Act, 2012 and Amendments, 2058

As per the provision of NRB Act 2012, NRB may issue directives from time to time to the commercial banks regarding baking, currency and credit. The Act gives the following authorities to the NRB.

a. Development of Banking system and supply of credit to commercial banks

- i. NRB shall make all the possible efforts to develop and regulate the banking system in Nepal.

- ii. With the consideration of the monetary situation, the NRB may provide loans for refinancing facilities on the conditions prescribed by it against collateral or guarantee, to any commercial banks, which supplies agricultural or industrial credit.

b. Commercial Banks must Obtain the Permission to Accept Deposits, Supply Loan Issue Debentures

c. Determination of rate of interest

NRB can determine the rate of interest to be charged or paid by commercial banks on loans and deposits. But in the present context of open and liberalized economic system NRB doesn't prescribe any rate of interest to be charged by commercial banks for lending and borrowing. The NRB has set the spread between borrowing and lending rate to be within 5 percentage points. The NRB monitors the spread between the lending and borrowing rates.

d. Loans to be Supplied to the Prescribed Sectors

NRB has prescribed the priority and deprived sectors, for commercial banks to advance 3 percent of its total loans and advances to these sectors in order to flow the credit in rural areas of the country.

e. Liquidity

Commercial banks shall maintain liquid assets (also called cash reserve) in such proportion of their domestic liabilities as the NRB may prescribe. The cash reserve ratio requirement after the amendment of NRB policy is 5% of total deposit either in NRB or in the vault of bank.

f. Fund to be Maintained with NRB

Commercial banks must maintain funds with NRB according to the percentage of total deposit liabilities prescribed by NRB. Total deposit liabilities refers to the liabilities of amount covered by the term deposits defined in the 2031 Commercial Bank Act.

g. Core capital to be Increased to 50 Million

All the commercial banks including JVBs are informed by NRB that they must make their core capital at least 2 billion Rs. by 2010. Core capital includes paid up capital and statutory reserves. This provision has initiated all the banks in capitalizing those earnings by suing bonus shares. Earning per share (EPS) and Dividend per share (DPS) of commercial banks is adversely affected by compulsion to issue bonus shares.

h. Power of NRB to Inspect, Supervise and Issue Directions

The NRB may inspect and supervise any office of commercial banks at any time, or make arrangement for doing so. NRB may issue, after the inspection, the necessary directives to commercial banks in respect to matters considered necessary after the inspection and supervision.

2.1.11 Other Policies

a. New Arrangements for Interest Rate Fixation

The Nepal Rastra Bank has made the following arrangement for the fixation of interest rate:

- i. Commercial banks have to inform NRB and also communicate it to public through mass media about the interest rate offered on all types of deposit and interest charged on lending rates on different heading and for different purpose immediately after changes and regularly in every three months.
- ii. While issuing notices on interest rate, commercial bank cannot state the provision that the rate will be fixed on the bases of mutual understanding.

b. Amendment and Adjustment to the Bank Rates

The prime rate and the selective rate on the loan of last resort to be provided by NRB to the banks and other financial institutions under the refinancing/ rediscounting facility have been adjusted and unified. The unified bank rate has been reduced from 11.0% to 6.25% and the following amendments have been made on reporting procedures to be followed by the banks for availing refinancing/ rediscounting facility.

- i. These banks should compulsorily report to the credit information center on regular basis and the report should include updated defaulter's list. The NRB will stop refinancing facility for the banks that are detected of not sending such report from the inspection. Beside NRB will act accordance to the NRB act?
- ii. These banks will be charged interest at 2% rate as penalty, if they fail to repay the loan under refinancing facility on time.

c. New Arrangement for Compulsory Cash Balance

NRB has cancelled all pervious arrangements regarding compulsory cash balance necessary to maintain by the commercial banks. It has issued new regulations, which require commercial banks to deposit cash at NBR equivalent to 5% cash balance of all domestic deposit liabilities in their own account.

What Nepal Rastra Bank (NRB) is doing?

BFI supervision is concentrated mainly on lowering the probability of a situation where a BFI becomes insolvent, whereby it pursues the objective of preventing a disruption to the stability of the financial system as a whole. The NRB is responsible for two other important assignments besides monetary policy. The first is to ensure that those who are placing their resources in BFIs are protected. The NRB is required to ensure that BFIs are completely managed completely transparent. The second responsibility of the NRB is to ensure that BFIs act as efficient financial intermediaries utilizing the domestic savings effectively to create jobs and improve national welfare.

The NRB has worked vigorously to enhance enforcement of the Banking and Financial Institution Act, 2063 (BAFIA) and the various regulations that govern implementation of this statute. The NRB had also revised prudential regulations based on global experience. During the past few years, the NRB supervision has identified several infringements to the banking laws and regulations. One major problem area was the categorization of loans (Housing, Margin Lending, Personal Loan etc.) Where several BFI has failed to conformed prudential regulations by categorizing loans to have a better quality than was warranted following a close examination of the collateral offered. Failure to categorize loans properly led to under provisioning making some BFIs appear healthier by declaring

higher dividends than were actually justified. Re-categorization required by the NRB supervision process led to the need for additional provisioning to meet statutory requirements and increased transparency and accountability for the benefit of both the customer and the financial sector.

The NRB supervisors have thoroughly scrutinized the margin lending activities of the BFIs and provided proper regulations on this matter. The NRB has implemented BASEL II framework for the commercial banks for better capitalizations of the banks. However, the effective implementation of BASEL II is demanding and requires on the part of banks and supervisors considerable efforts and significant resources.

The NRB has also continuously analyzing the connected lending activities of the BFIs for having more transparency on the BFIs activities also brought good results in the performance of banking and financial sector. However, lot many things have to be done further for the development of effective supervision to ensure resilient banking and financial system in Nepal.

Why has the performance of BFIs been Disappointing?

The financial services industry continues to become more global in its reach. This demands the development of innovative supervisory and cooperative arrangements. Supervision and regulation of BFIs contributes to ensuring stability in the financial sector. Although the manner of NRB supervision over the banking sector depends on the political, economic and cultural conditions, the trend appear to be being built consolidated supervision is a reflection of developments in financial markets through the influence of market integration, financial innovations and technological progress.

The banking sector data analysis revealed that the performance of large government owned banks is very much disappointing as their presence are associated with slower financial and economic development. However, the performance of some private sector BFI is also disappointing and need more corrective actions immediately. They have weak incentives for sound lending and recovery, credit misallocation etc. The borrowers of these BFIs also have culture of non-payment of loan. Generally, Nepalese BFIs are facing

the problem of poor governance and bad management, which is frequently evidenced by political intervention, poor lending practices, bad concentrations of credit, connected lending, poor internal control, less transparency, insider abuse and fraudulent activities.

Challenges in the NRB Supervision

The three main pillars constitute the vision for banking sector in Nepal. First is the achievement of sound legal framework for the banking sector. Second is the achievement of an efficient and stable financial sector. Third is increased access to financial service. However, the shortcomings in legal framework should be reviewed for addressing the gaps, inconsistencies and deficiencies in the prevailing legislation. With regard to efficiency, the NRB aim to achieve a more competitive financial sector.

The NRB supervision resolve to eradicate instances of noncompliance brought to light a number of challenges. These problems of an inadequate legal framework for enforcing remedial action and gaps in supervisory capacity to perform critical transaction and to form an independent opinion on the value of securities that collateralize non-performing loans. The second challenges were to comprehensively review the unified directives issued in 2062 and to align them to international best practice. The unified guidelines focused in improving asset quality and ensuring higher standards of corporate governance should be improved further according to global best practice.

An important challenge faced by the BFIs has been the disposal of collateral used to secure non-performing loans. This problem should be addressed immediately by the NRB for gradual elimination of over-reliance on collateral based lending and implementation of a prompt write-off policy for non-performing assets. These changes have the benefit of improving credit allocation in favor of creditworthy borrowers, maintaining financial discipline among borrowers and early recognition of bad debts. In order to deal with problems associated with non-performing loans, the NRB supervisory approach should be changed by placing a greater emphasis on the specific risks that individual BFIs face. In this regard, the adoption of pro-active risk based supervisory methods is highly

suggested. The traditional approach is largely reactive and often attempted to address weakness that had occurred.

A risk based supervision approach demands fundamental changes in the manner which BFIs approach their business. All business decisions must henceforth be subjected to a rigorous risk based assessment and all potential risks associated with these decisions will be identified, measured, monitored and controlled. The main challenge to risk based supervision approach is the need to enhance the supervisory skills of the NRB staffs so as to ensure that the BFIs risk management frameworks are properly monitored and evaluated for adequacy. The risk management guidelines should be elaborated further, in order to assist BFIs in overcoming this challenge, which spell out minimum requirements for risk management systems and frameworks.

The publication of interest rates bank charges and fees should be in favor of bank customers to make informed choices on which BFIs they bank with. The NRB believes that continued publication of charges and fees would enhance competition in the provision of products and services.

The level of quality of banking supervision depends on its institutional structure, which influences, to a large extent, the stability and efficiency of the banking sector and thereby the whole economy. Thus, strengthening of regulation and supervision capacity of NRB to the best international practices is very much urgent. The prime focus should be given on prevailing regulations on loan loss provisioning, credit exposure, connected lending, corporate governance, transparency and prompt corrective action.

Another issue, which is most, discussed in the banking arena that the undercapitalized BFIs should or should not be allowed to operate? This issue is particularly important for private BFIs without a reputation to protect. Last but not the least, the prevailing licensing policies for BFIs should be revised according to the actual banking need of the way that ensures presence of good governance and transparency from the very beginning. Keeping views on ever increasing number of BFIs, the NRB supervision jobs is being

very challenging in the sense of coverage, problem identification, resolutions and prompt corrective actions.

Concluding Remarks

The global financial crises have revealed that weak financial systems and their supervision are the most important factors contributing to macro instability. Financial markets are different from product markets and therefore, greater liberalization goes along with deeper supervision and higher degree of regulation. Any destabilization in financial markets affects even those who are not in financial markets. On the other hand, financial markets can drive the real economy. Therefore, transparency disclosures, prudential norms and capitalization are the main fundamentals in the banking and financial sector. This is essential because depositors have no other security except that BFIs are well regulated. For the deposits to NRB should revisit the present licensing policy to ensure well-diversified ownership and capital/net worth for optimal operations and systemic stability and transparency and fairness of policy and process of the BFIs. As the financial system is changing, its supervision must change as well. Last but not the least, to drive the change and meet the challenges we need bankers with not only requisite leadership and technical skills but also ethical standards of the highest order.

2.2 Review of Journals and Articles

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

competitiveness through modernization, mechanization via computerization and prompt customer service by setting them to the exposure of JVB.

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

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

2.3 Review of Thesis

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

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

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

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

This research work is confined to the analysis of following points:

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

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

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

This research work is confined to the analysis of following points:

- a. The saving deposit to total deposit ratio of NBBL has been recorded the lowest of all. It indicates the better liquidity position of the bank to meet short-term obligation.
- b. Analysis of activities ratio reveals that all the banks have been able to utilize the resources satisfactorily.
- c. Total debt to equity ratio of all banks reveals that the claims of the outsiders exceed far more than those of the owners over the banks assets.
- d. Comparatively Himalayan Bank has more levered capital structure.
- e. Profitability ratio indicates the degree of success in achieving desired profit level.
- f. All the banks need lot of exercise in more credit creation and reducing the interest rate for loan and advances. This helps them to remain more competitive.

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

- a. To trace out the credit position of the commercial banks.
- b. To analyze the earning capacity of the banks.
- c. To Analysis the financial strength and weakness of these banks.

This research work is confined to the analysis of following points:

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

Basnet (2005) has made a study on, “*A Comparative Study of Financial Performance of Commercial Banks*”. The main objective of the study is to examine the financial performance of SBI bank and NBBL bank. The other objective are;

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

This research work is confined to the analysis of following points:

- a. The analysis of liquidity position of these commercial banks shows different position. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities, i.e. it indicates the availability of current assets in rupees for every one rupee of current assets than current liabilities. The average current ratio of SBI (1.05) is greater than that of NBBL (0.98) therefore, the liquidity position of SBI bank is in normal standard and NBBL is also trying to gain that position.
- b. From the analysis of turnover of these two banks, NBBL has better turnover than SBI bank in terms of loans and advances to total deposit ratio. Thus, NBB has better utilization of resources in income generating activities, than SBI bank.

- c. The analysis of profitability of these two commercial banks is also different. The overall calculation seems to be better for NBBL. Through certain ratio like dividend per share and dividend payout ratio etc better for SBI Bank. The writer has also conducted that earning per share of NBBL is better than that of SBI bank.

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

The other specific objectives are;

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

This research work is confined to the analysis of following points:

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

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

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

This research work is confined to the analysis of following points:

- a. The overall liquidity position of NBBL was stronger than that of NABIL.
- a. Analyzing the activity or turnover of both banks, NBBL mobilized its deposits more on loan and advances whereas NABIL mobilized its deposits more prudently and efficiently in generating income.
- b. Similarly, capital adequacy position of NABIL was found to be better than that of NBBL. Regarding the capital structure of the banks, NBBL was found to have adopted high risk; high return strategy as suggested by its highly leveraged i.e. debt dominated.
- c. According to profitability analysis, NABIL was found sound profitability due to its higher ratio. Also, other indicators as EPS, DPS, and TPS were found sharply higher in NABIL which implies positive attitude of stakeholders toward NABIL.
- d. NBBL should keep only the reasonable amount of liquidity, which will save the bank from creating low return; NBBL should improve its capital adequacy by investing the assets and deposits in highly returnable sector; NABIL should invest its deposit in profit generating sectors.

Research Gap

Though there are several researches performed under the topic “A comparative study of financial performance analysis of commercial banks” .Those analyses expressed all items in the statement in the form of amount. The previous researchers did not disclose the practical comparative analysis, which is practiced by the commercial banks.

I will draw insights from them. However, the researcher will sustain gap by covering the relevant data and information from the year 2004/05 to 2008/09. Moreover, the researcher has selected three commercial banks of Nepal as sample banks i.e. NABIL Bank Ltd., Nepal Investment Bank Ltd and Standard Chartered Bank Nepal Ltd. That itself demonstrates the gap of this research from the previous one because the researcher has not found any research done in these banks in collective form. Under this topics many researcher have been done but none of the researcher undertaken regarding the case study

of financial performance between the NABIL Bank Ltd, Nepal Investment Bank Ltd and Standard Chartered Bank Nepal Ltd. These banks are leading commercial banks as compared to other commercial banks by which we can find for the perfect comparison between highly growing commercial bank rather than rapidly growing new commercial banks. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore it is the major concern of stakeholders to know the financial situation of the bank.

NABIL, NIBL and SCBNL are the leading commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing the economy of the country. Every year the financial performances are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the in depth analysis of the financial performance which is the major concern of the shareholders and stakeholders. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial bank.

Thus to fulfill this gap the present research is conducted. It covers top three commercial banks from the source of NEPSE. The analysis is based on modern approach to evaluate the performance analysis.

CHAPTER - III

RESEARCH METHODOLOGY

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that we generally adopted by a researcher, studying his research problem among with the logic behind them.

Research is the process of systematic and in –depth of study or search for any particular topic, subject or area of investigation, backed by collection and presentation (*Michael; 1985; 57*). In other words, research methodology is a systematize way to solve the research problem.

The prime objectives of this study are to evaluate the financial performance of the three commercial banks i.e. Standard Chartered Bank Nepal Ltd., NABIL Bank Ltd and Nepal Investment Bank Ltd. In order to realize the objectives, an appropriate research methodology has to be designed to carry out research. Research methodology refers to the various sequential steps to be adopted by a reporter in studying a problem with certain objective in view. It is a way to solve the research problem systematically. Here, focus is made on research design, sample size, source and types of data gathering instruments and procedures, data tabulating and processing, study limitation and method of analysis.

Research mythology refers to the various segmental steps to be adopted by researcher in studying a problem with certain objective in view” (*Kothari; 1994:19*). A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

3.1 Research Design

This research work tried to analyze the comparative performance of commercial banks in the present generation. The present study consists of analytical as well as descriptive

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

Research design is very important for scientific investigation. Research design gives the investigator a systematic direction to research work. Actually, research design is a plan for data collection and analysis. It presents a series of guideposts to enable the researcher to proceed in the right direction in order to achieve the goal.

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

3.2 Population and Sample

In the present context, there are 26 commercial banks operating in Nepal. The study of all these banks within this research was almost impossible. Hence, considering these numbers of banks as total population, three banks (SCBNL, NABIL and NIBL) within from these total population has been taken as sample and tried to achieve the objectives set out by analyzing the data. Thus the sample taken represents 12% of the total population.

3.3 Sources of Data

Since the study is based on both the primary as well as secondary data, the data were collected from various sources. Mainly the secondary data was collected by reviewing the respective annual reports, brochures, prospects of the concerned banks and the primary data was collected by making the questionnaire and selected the staff of the concerned banks as respondents. Also some data has been gathered from Nepal stock exchange,

websites and similarly articles; journals related to the financial performance study, previous researched report etc

3.4 Data Processing and Presentation Procedure

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

3.5 Data Analysis Tools

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

3.5.1 Ratio Analysis

Ratio analysis is the powerful tool of financial analysis, which helps in identifying the strength and weakness of an organization or business concern about the financial performance. The term ratio refers on arithmetical relationship between two items, to make rational decision of financial variability of the company. This relationship can be expressed in term of percentage, fraction or proportion. To technique of ratio analysis is the part of the whole process of the analysis of financial statement of any business or industrial concern, especially to take output (*Kothari; 1989: 47*).

“In the financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of the firm” (*Pandey; 1989: 104*).

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

-) Liquidity Ratio
-) Efficiency Ratio
-) Profitability Ratio

-) Leverage Ratio
-) Miscellaneous Ratio

3.5.1.1 Liquidity Ratio

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

a. Current Ratio

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

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

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

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

b. Cash and Bank Balance to Total Deposits Ratio

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

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

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice-versa. Both higher and lower ratios are not desirable. The reason is that if a finance company maintains higher ratio of cash, it has to pay interest on deposits and some earning may be lost. In contrast, if bank maintains low ratio of cash, it may fail to make the payment for presented cheques by its customer. So, sufficient and appropriate cash reserve should be maintained properly.

c. Fixed Deposit Total Deposit Ratio

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

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

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

d. Saving Deposit to Total Deposit Ratio

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

Saving deposit to total deposit ratio can be calculated by dividing the amount of saving deposits by the amount of total deposits.

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

3.5.1.2 Efficiency Ratio

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

Following ratio are used under efficiency ratio.

a. Interest Expenses to Total Deposit Ratio

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

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

b. Loans and Advance to Total Deposit Ratio

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

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

c. Loan and Advance to Fixed Deposit Ratio

This ratio indicates, how much of loans and advance has been granted against fixed deposit. Fixed deposit is the higher interest rate payable deposit and is payable only after certain date. Hence the bank must utilize the fixed deposit property. Loan and advance to fixed deposit ratio indicates how properly the fixed deposit has been utilized. The ratio is calculated by dividing loans and advance by fixed deposit.

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

d. Loan and Advance to Total Assets Ratio

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

$$\text{Loans and Advance to Total Assets Ratio} = \frac{\text{Loans \& Advance}}{\text{Total Assets}}$$

3.5.1.3 Leverage Ratio

Leverage ratio, also known as capital structure ratio, indicates the proportionate relationship between debt and equity. Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of outsiders fund and shareholder's fund of the bank. Also Long-term creditors like debenture holders, financial institutions etc. are

more interested to the firm's long-term financial strength. The capital structure ratios mainly highlight on the long-term financial health, debt servicing capacity and strength and weaknesses of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary, debt ratios tell us the relative proportions of capital contribution by creditors and by owners. The following ratios are used for analyzing long-term financial health debt servicing capacity and strengths and weakness of JVBs.

A. Debt-equity Ratio

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

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

Here, equity funds comprise shareholders capital, general reserve, general loan loss provisions, inappropriate profit and loss balance etc. This ratio helps to ascertain the measure stake in commercial bank between lenders and owner. If debt portion is too high, there is danger-tempting irresponsibility in the part of the owners.

b. Debt Assets Ratio

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

This ratio shows what portion of the capital assets is financed by outside fund; a high debt ratio implies a bank's success in exploiting debt to be more profitable and it also implies riskier capital structure.

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

The numerator consists of short-term and long-term debt. Debt is that sum of money that must be payable. Creditors, bills payable, debentures are the examples of debt. A high debt to total assets ratio represents a greater risk to creditors and shareholders and vice-versa. This ratio implies a commercial bank's success in exploiting debt to be more profitable.

c. Capital Adequacy Ratio

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

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

d. Net Worth to Total Assets Ratio

Net worth to total assets ratio reflects the sufficiency of shareholder's fund against the total assets. It is very essential for every financial institution to have a balance of required percentage of total assets a shareholder's fund and capital fund. This ratio is derived by dividing shareholder's fund by total assets. This can be stated as:

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

Generally, this ratio measures the relative claims of owners of the commercial banks over the bank assets. A high ratio indicates that out of total assets, shareholders have more controlled owner command and vice-versa.

3.5.1.4 Profitability Ratio

Profitability ratio indicates the degree of success in achieving desired profit. This ratio measures how effectively the company manages its fund to earn profit. This ratio is regarded as the most essential element for the commercial bank growth and survival. The different between total revenues and total expenses over a period is known as profit. Efficient operation of a firm and its ability to pay and adequate return to different parties' bank growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company be able to acquire funds from investors for expansion and to contribute towards the goals of the nation. This implies that profit is the measuring rod of companies for the financial performance. Higher the profitability ratio betters the financial performance of the commercial bank and vice-versa. Profitability position can be evaluated through following different way.

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

- a. Profitability in relation to sales
- b. Profitability in relation to investment.

a. Net Profit Margin

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

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

b. Return on Net Worth

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

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

Here, net worth focuses not only the paid up capital but also include general reserve, capital reserve, ordinary share, preference share, premium on share and other reserve which may distribute to shareholders as dividend.

c. Return on Total Assets Ratio (ROA)

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

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

d. Return on Total Deposit Ratio

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

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

The numerator consists of investment of government securities, investment on debenture and bonds, shares in subsidiary commercial bank share in other companies and other investment. Investing on its deposits and low ratio indicates in ability to put its deposit for the lending activities.

e. Interest Earned to Total Assets Ratio

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

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

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

3.5.1.5 Miscellaneous Ratio

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

a. Interest Paid to Interest Income Ratio

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

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

The numerator consists of total interest expenses on total deposit, loan and advance, borrowing and other deposits. A high ratio indicates high interest expensed on total interest income.

b. Earning per Share

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

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

c. Dividend Per Share

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

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

d. Dividend Payout Ratio

Dividend payout ratio indicates the percentage amount of dividend paid to Shareholders out of earning per share, i.e. this ratio reflects at what percentage of Net profit is to be distributed in terms of dividend and what percentage is to be retained in company as retained earning. This ratio is calculated by dividing the dividend per share by earning per share.

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

e. Price Earning Ratio (P/E ratio)

This ratio shows the price currently paid by the market for each rupee of currently reported earning per share. It is calculated by the following formula:

$$\text{Price Earning Ratio (P/E Ratio)} = \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

f. Market Value per Share to Book Value per Share

This ratio shows the ratio of market value per share to the book value per share. The market value per share is divided by the book value per share. This ratio shows the price being paid by outsider for each rupee reported in balance sheet. It is calculated by the following formula:

$$\text{Market Value Per Share to Book Value Per Share} = \frac{\text{Market Value Per Share}}{\text{Book Value Per Share}}$$

g. Income and Expenditure analysis

Besides the various ratios, income and expenditure analysis be made for evaluation financial performance of the banks. The profit and loss accounts of the banks are used for this analysis.

3.5.1.6 Analytical Procedure

For the purpose of the study, financial statements of the selected JVBs are analyzed by using financial tool along with the statistical tool. Financial tools have been used to measure strength and weakness of the three selected joint venture bank. Then, the selected banks have been compared and analysis according to the various ratios findings.

Statistical tools have been used to analysis the study for finding which bank have more homogenous or uniform than the other, according to the co-efficient of variation. Likewise, Karl person co-efficient of correlation should be used to measure the degree of relation between the two related variable. Probable error also should be used to analysis the reliability of the coefficient of correlation.

At last, trend analysis should be done according to the past and present financial statement of three selected banks.

3.5.2 Statistical Tools

a. Arithmetic Mean

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

We have,

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

Where

X = sum of all values of the observations

n = Number of observation

\bar{X} = Value of variables

b. Standard Deviation

“The standard deviation is denoted by the letters () Karl Pearson suggested it as a widely used measure of dispersion and defined as the given observations from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation, in this study has been used to measure the degree of fluctuation of interest rate and that of other variables as per the necessity of the analysis”. (Gupta; 2002: 238)

We have,

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

c. Coefficient of Variation (C.V.)

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

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

Where σ = Standard Deviation

\bar{x} = Mean Value of Variables

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

d. Coefficient of Correlation

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

Where,

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

n = No. of observation of X and Y.

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

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

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

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

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

e. Probable Error

The probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation coefficient usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value of correlation coefficient in so far as it depends upon the conditions of random sampling. First, to check the calculation whether the obtained value of 'r' is beyond the limit of -1 to 1, which means that there is some mistake in the calculation.

Second, to know the degree direction of the relationship between two variables, if the value of r is +1, there is perfect positive correlation, if the value of r is -1, there is perfect negative correlation and if the value of r is "0" there is perfect co-variation (i.e. no relationship) between the variables. In practice, perfect correlation cannot be found.

It is worked out as:

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

Where,

r= Correlation Coefficient

n= No. of pairs of observation

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

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

3.6.2.5

f. Coefficient of Determination

The coefficient of determination is the primary way we can measure the extent, or strength of the association exists between two variables X and Y; it is worked out by squaring the coefficient of correlation.

Where,

$$R = r^2$$

r = Coefficient of correlation

R = Coefficient of determination

g. Trend analysis

Trend analysis enables to compare two or more companies over different period of time and draw important conclusion about them. It helps in business forecasting and planning future operation.

h. Least Square Linear Trend

Straight-line trend implies that irrespective of the seasonal and cyclical swings and irregular fluctuations, the trend values increase or decrease by a constant absolute amount 'B' per unit of time. Hence, the linear trend values from 'a' series in arithmetic progression, the common difference being 'b' the slope of the trend line.

Mathematically,

The straight line trend is given by the following formula:

$$Y = a+bx$$

Where,

Y = Value of dependent variable

a = Y intercept

b = Slope of the trend line

x = Values of independent variable

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

In this chapter, data collected from secondary sources are presented and analyzed by using financial and statistical tools. The available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. To evaluate the financial performance of selected joint venture banks, ratio analysis, correlation analysis and trend analysis are used in this study.

4.1 Secondary Data Analysis

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

4.1.1 Liquidity Ratio

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

4.1.1.1 Current Ratio

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

Table 4.1
Current Ratios

(Ratio in Times)

Fiscal year	SCBNL	NABIL	NIBL
2004/05	1.07	1.08	1.10
2005/06	1.07	1.08	1.10
2006/07	1.07	1.07	1.09
2007/08	1.08	1.06	1.09
2008/09	1.08	1.06	1.06
Mean	1.07	1.07	1.09
S.D	0.0049	0.0089	0.0063
C.V%	0.46	0.83	0.57

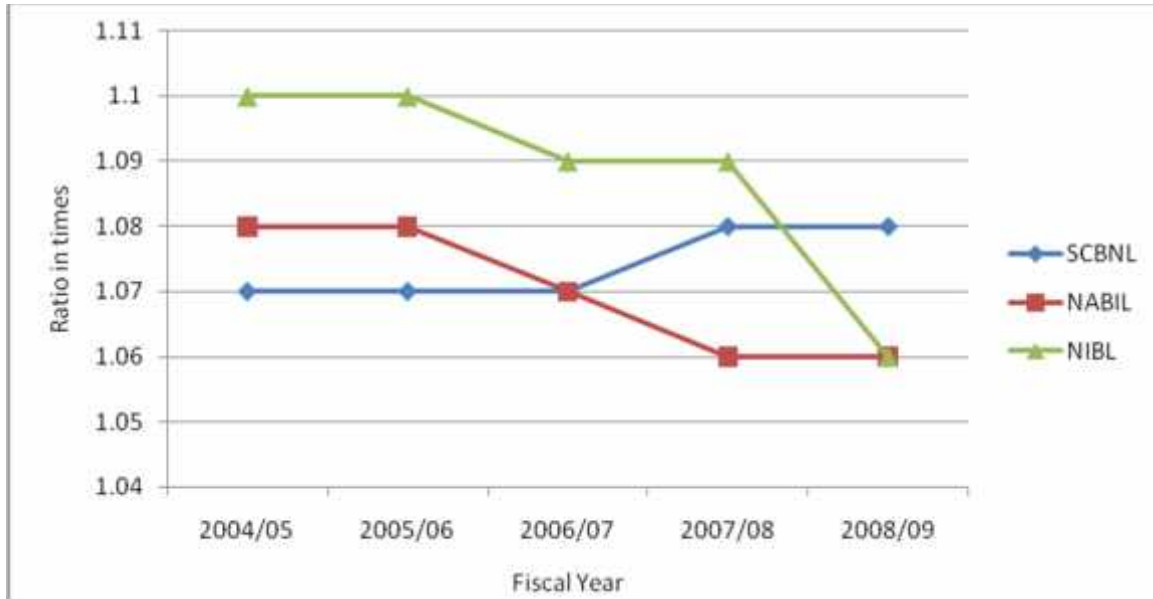
Source: Appendix-III

The Table 4.1 shows the current ratios of sampled banks, viz, SCBNL, NABIL and NIBL. The table shows that the current ratios of sampled banks in none of the years taken for research have met the benchmark of 2:1. The current ratio in SCBNL ranged from 1.07:1 in the fiscal year 2004/05 to 1.08:1 in the fiscal year 2008/09. In average, the ratio was 1.07:1 and the standard deviation and coefficient of variation on such ratio were 1.07:1 and 0.46% respectively.

Similarly, the current ratio of NABIL ranged from 1.06:1 in the fiscal year 2007/08 to 1.08:1 in the fiscal year 2004/05 & 2005/06. In average, NABIL maintained 1.07:1 as a current ratio in the five years period. Likewise, the current ratio of NIBL was 1.09:1 in the three fiscal years, i.e. in 2006/07, 2007/08 & 2008/09 and was 1.10:1 in the two fiscal years, i.e. in 2004/05 and 2005/06. In average, NIBL maintained 1.09:1 as current ratio in the five years period.

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

Figure 4.1
Current Ratio



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

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

Table 4.2
Cash and Bank Balance to Total Deposit Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	5.74	3.83	9.40
2005/06	5.53	3.26	12.34
2006/07	8.20	6.00	9.97
2007/08	6.89	8.37	10.90
2008/09	5.72	7.16	8.04
Mean	6.42	5.73	10.13
S.D	1.02	1.95	1.44
C.V %	15.88	34.03	14.22

Source: Appendix-III

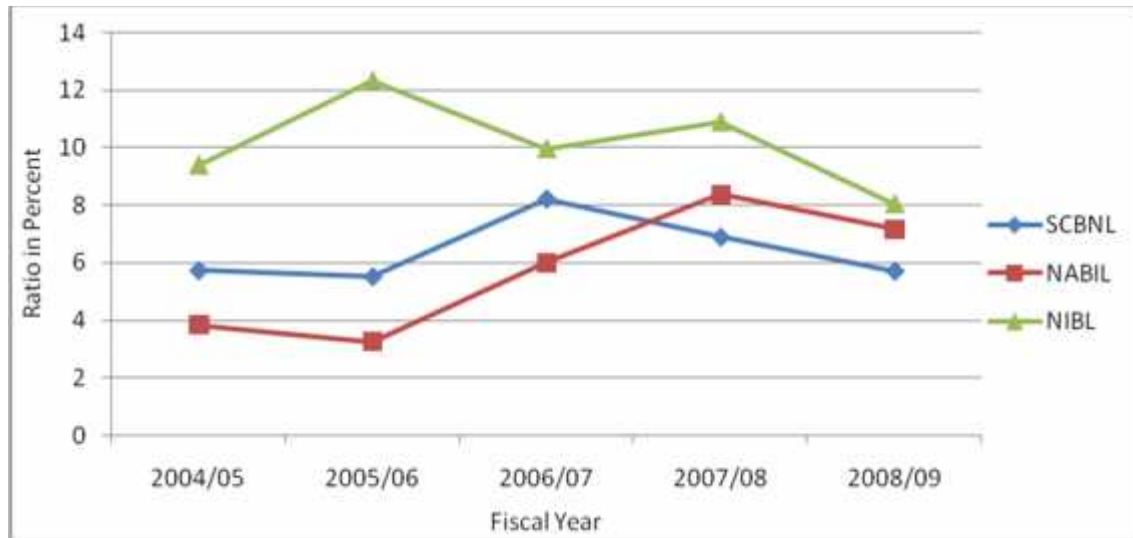
The table 4.2 showed the cash and bank balance to total deposit ratio of three sampled banks. The table showed that the ratio in SCBNL fluctuated during the five years period. The ratio was 5.74% in the fiscal year 2004/05 and then decrease to 5.53% in the fiscal year 2005/06, then increased to 8.20% in the fiscal year 2006/07 and finally decreased to 6.89% and 5.72% in the fiscal year 2007/08 & 2008/09. In average, the cash and bank balance occupied 6.42% of the total deposit collected by the bank.

Similarly, 3.83%, 3.26%, 6.00%, 8.37% and 7.16 of the total deposit collection of NABIL remained immobilized as cash reserve in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 & 2008/09 respectively. In average, NABIL kept 5.73% of the total deposit as cash reserve to meet the daily obligation. Further, the coefficient of variation of 34.03% on such ratio indicated higher inconsistency in the ratio.

Likewise, the cash and bank balance to total deposit ratio of NIBL followed fluctuating trend in the five years period taken for research. Initially the ratio was 9.40% in the fiscal year 2004/05, which ranged from 12.34% in the fiscal year 2005/06 to 10.90 % in the fiscal year 2007/08 and then NIBL has decreased it's ratio in the fiscal year 2008/09 In average, NIBL kept 10.13% of the total deposit as cash.

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

Figure 4.2
Cash and Bank Balance to Total Deposit



4.1.1.3 Fixed Deposit to Total Deposit Ratio

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

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

Table 4.3
Fixed Deposit to Total Deposit Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	7.31	14.25	22.53
2005/06	9.26	17.83	28.59
2006/07	12.97	23.28	30.69
2007/08	11.10	20.50	23.06
2008/09	19.79	22.25	24.91
Mean	12.08	19.62	25.95
S.D	4.28	3.26	3.18

C.V %	35.43	16.62	12.25
--------------	--------------	--------------	--------------

Source: Appendix-III

The Table 4.3 showed the ratio of fixed deposit to total deposit of the sampled banks.

The table showed that the ratio was in fluctuating trend in case of SCBNL. The fixed deposit covered 7.31% of the total deposit in the fiscal year 2004/05, which increased to 7.31%, 9.26% and 12.97% in the fiscal year 2004/05, 2005/06 and 2006/07 respectively and finally increased to 19.79% in the fiscal year 2008/09. In average, 12.08% of the total deposit of SCBNL was been represented by the fixed deposit.

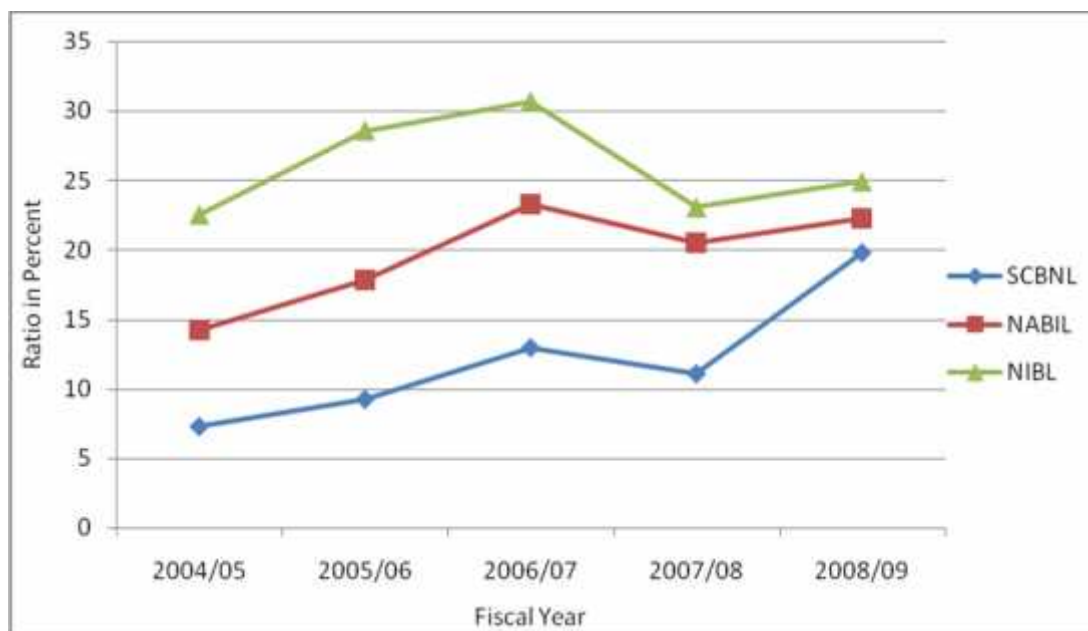
Similarly, the ratio was in fluctuating trend in NABIL also. Initially, it was 14.25% in the fiscal year 2004/05 and ranged from 17.83% in the fiscal year 2005/06 to 20.50% in the fiscal year 2007/08 and finally increased to 22.25% in the fiscal year 2008/09. In average, 19.62% of the total deposit was represented by the fixed deposit. Also, the coefficient of variation of 16.62% indicated inconsistency in the ratio.

However in NIBL, the ratio increased for the first four years, i.e. from 22.53% in the fiscal year 2004/05 to 30.69% in the fiscal year 2006/07, and then decreased to 23.06% in the fiscal year 2007/08 and finally NIBL has increased its deposit (24.91%) in 2008/09 comparing to other two banks. In average, 24.96% of the total deposit of NIBL was represented by the fixed deposit. And the coefficient of variation on such ratio was 16.13%, indicating inconsistency in the ratio.

Comparing three banks, it can be concluded that NIBL remained more successful than SCBNL and NABIL in maintaining higher proportion of fixed deposit to total deposit and hence mobilized higher portion of total deposit in investment. it showed that NIBL has launched new and attractive product in the market.

Figure 4.3

Fixed Deposit to Total Deposit Ratio



4.1.1.4 Saving Deposit to Total Deposit Ratio

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

Table 4.4

Saving Deposit to Total Deposit Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	67.30	48.16	47.02
2005/06	63.30	45.33	42.70
2006/07	61.85	43.64	43.86
2007/08	60.03	41.57	39.73
2008/09	53.49	39.15	36.55
Mean	61.19	43.57	41.84
S.D	4.54	3.09	3.58
C.V %	7.42	7.09	8.56

Source: Appendix-III

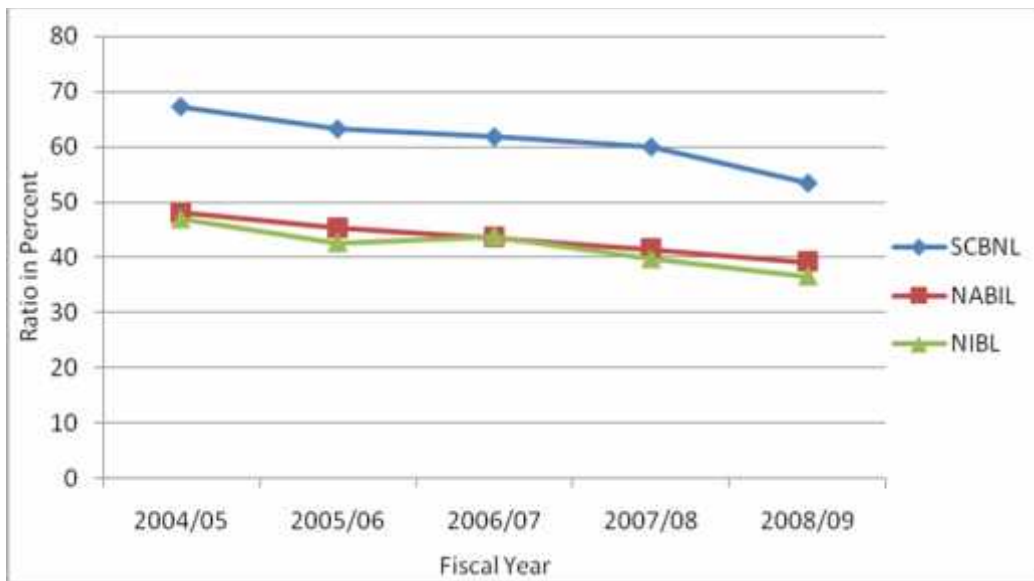
The Table 4.4 depicted the ratio of saving deposit to total deposit of SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL fluctuated during the entire period. The ratio was 67.30% in the fiscal year 2004/05, and then decreased to 63.30% in the fiscal year 2005/06, again decreased to 61.85% in the fiscal year 2006/07 and finally reached to 53.49 in the fiscal year 2008/09. In average, 61.19% of the total deposit of SCBNL was represented by saving deposit. The coefficient of variation of 7.42% indicated higher consistency in the ratio.

Similarly, the ratio followed fluctuating trend in NABIL as well. The ratio ranged from 39.15% in the fiscal year 2008/09 to 48.16% in the fiscal year 2004/05. In average, 43.57% of the total deposit of NABIL came out from saving deposit and the coefficient of variation of 7.09% delineated uniformity in the ratio.

Likewise in NIBL, the ratio was 47.02%, 42.70%, 43.86%, 39.73% and 36.55% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 & 2008/09 respectively. In average, 41.84% of the total deposit of NIBL came out through savings deposit and the coefficient of variation on such ratio was 8.56% in the five years period.

Comparing three banks, it can be concluded that the liquidity position of NIBL was best and NABIL was worst, as the ratio of saving deposit to total deposit of NIBL was lowest (36.55%) and that of NABIL was highest (48.16%).

Figure 4.4
Saving Deposit to Total Deposit Ratio



4.1.2 Efficiency Ratio

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

4.1.2.1 Interest Expenses to Total Deposit Ratio

This ratio is analyzed to find out how much the banks were successful to accept deposit at cheaper cost. Generally, the ratio with decreasing trend is preferred.

Table 4.5
Interest Expenses to Total Deposit Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	1.27	1.56	2.30
2005/06	1.30	1.79	2.44
2006/07	1.65	2.28	2.63
2007/08	1.51	2.16	2.66
2008/09	1.52	1.35	2.26
Mean	1.45	1.83	2.46
S.D	0.14	0.35	0.16
C.V %	9.65	19.13	6.50

Source: Appendix-III

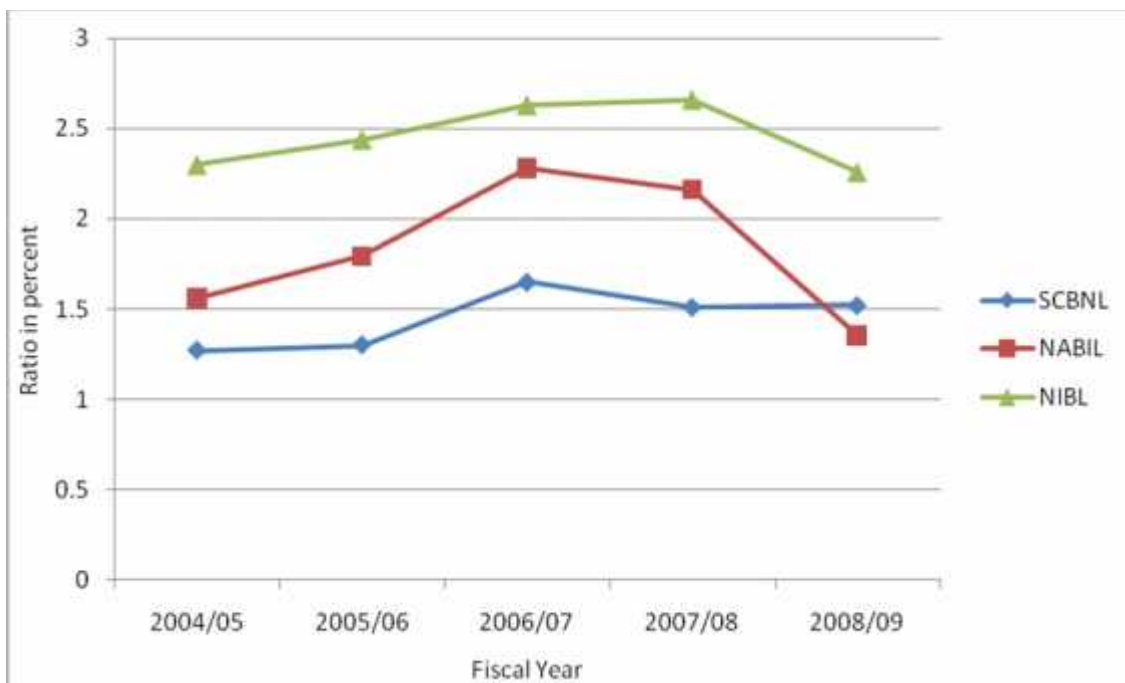
The table showed the ratio of interest expenses, which is incurred for deposit, to the total deposit. The table showed that the ratio in all three banks fluctuated during the entire period. In SCBNL the ratio increased for the first four years, i.e. from 1.27% in the fiscal year 2004/05 to 1.65% in the fiscal year 2006/07, slightly increased to 1.51% to 1.52 in the fiscal year 2007/08 and 2008/09 respectively. In average, SCBNL incurred 1.45% of the total deposit as interest expenses. The coefficient of variation on such ratio was 11.92%.

Similarly, the interest expenses to total deposit ratio of NABIL was 1.56% in the fiscal year 2004/05 which increased to 1.79% and 2.28% in the fiscal year 2005/06 and 2006/07 respectively and then finally reached to 2.16% in the fiscal year 2007/08 slightly decreased 1.35% in the fiscal year 2008/09. In average, NABIL incurred 1.83% of the total deposit as interest expenses for maintaining the deposit account.

Likewise, the ratio in NIBL was 2.30%, 2.44%, 2.63%, 2.66% and 2.26% in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. NIBL incurred 2.46% of the total deposit as interest expenses in average. Further, the coefficient of variation of 6.50% indicated higher consistency in the ratio.

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

Figure 4.5
Interest Expenses to Total Deposit Ratio



4.1.2.2 Loan and Advance to Total Deposit Ratio

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

Table 4.6
Loan and Advance to Total Deposit Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	43.49	75.05	73.33
2005/06	39.92	68.63	69.63
2006/07	43.78	68.13	72.56
2007/08	46.95	68.18	79.91
2008/09	38.14	73.87	77.61
Mean	42.46	70.77	74.61
S.D	3.10	3.04	3.68
C.V %	7.30	4.29	4.93

Source: Appendix-III

The table demonstrated the loan and advances to total deposit of the selected banks, viz, SCBNL, NABIL and NIBL. The table showed that the ratio of loan and advances to total deposit of SCBNL increased for the first two years, i.e. from 43.49% in the fiscal year 2004/05 to 39.92% in the fiscal year 2005/06 and again increased to 43.78% in the fiscal year 2006/07 and finally reached to 46.95% in the fiscal year 2007/08 at last slightly decreased to 38.14% in the fiscal year 2008/09. In average, SCBNL mobilized 42.46% of the total deposit in disbursing loans and advances.

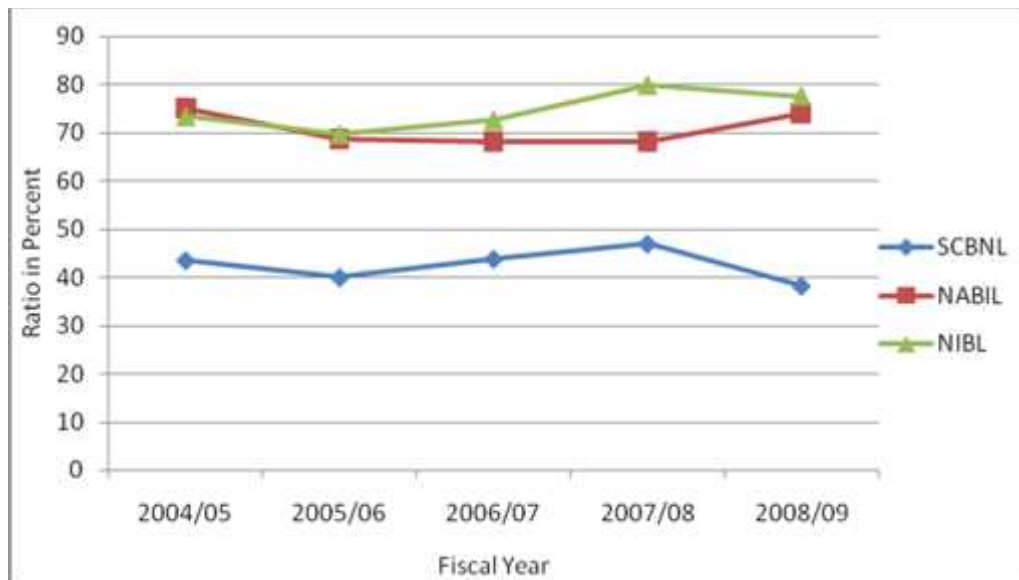
Similarly, the loans and advances to total deposit of NABIL fluctuated during the five years period taken for study. The ratio ranged from 75.05% in the fiscal year 2006/07 to 68.13% in the fiscal year 2004/05 finally it is increased tremendously 73.87% in the fiscal year 2008/09. In average, 70.77% of the total deposit fund was mobilized by NABIL in providing loans and advances. The coefficient of variation on the ratio was only 4.29%, which indicated higher consistency.

Likewise, except in the fiscal year 2005/06, the ratio of loans and advances to total deposit of NIBL was found to be in increasing trend to 79.91% in the fiscal year 2007/08. Finally slightly decreased to 77.61% in average, 74.61% of the total deposit of NIBL was

utilized in providing loans and advances and the coefficient of variation on such ratio was % only.

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

Figure 4.6
Loan and Advance to Total Deposit Ratio



4.1.2.3 Loan and Advance to Fixed Deposit Ratio

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

Table 4.7
Loan and Advance to Fixed Deposit Ratio

(Ratio in times)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	5.95	5.27	3.25
2005/06	4.31	3.85	2.43
2006/07	3.38	2.93	2.36
2007/08	4.23	2.57	3.47
2008/09	1.93	3.32	3.12
Mean	3.96	3.58	2.93
S.D	1.31	0.94	0.45
C.V %	33.08	26.26	15.36

Source: Appendix-III

The Table 4.7 showed the loans and advances to fixed deposit ratio of SCBNL, NABIL and NIBL. The table showed that the ratio in SCBNL fluctuated in the five consecutive years. The loans and advances of SCBNL was 5.95 times, 4.31 times, 3.38 times, 4.23 times and 1.93 times greater than the fixed deposit amount collected in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, SCBNL disbursed 3.96 times of the fixed deposit as loans and advances, which implied that almost 33.08% (1/4.51) of the total loans and advances was covered by fixed deposit.

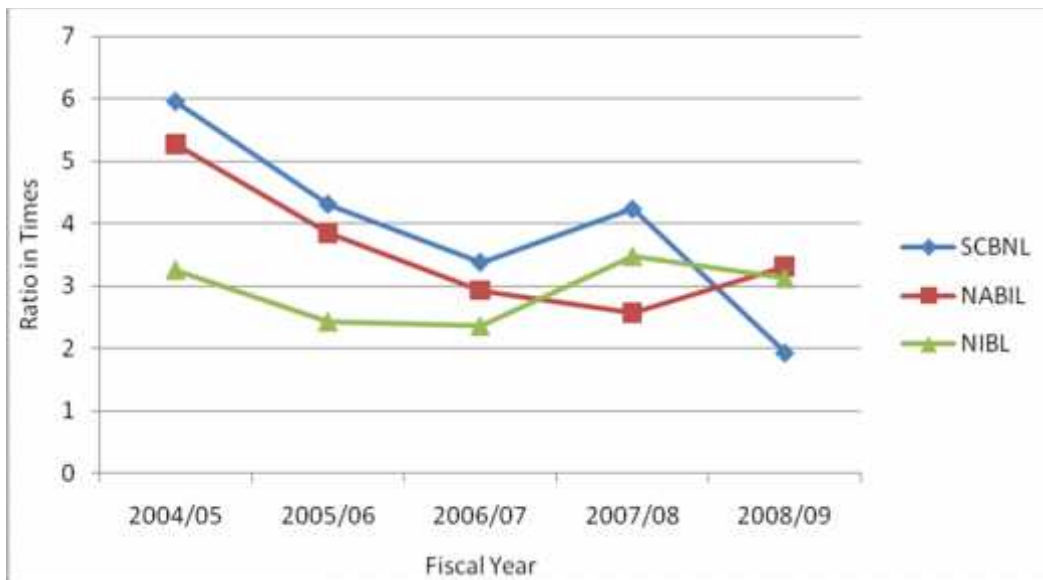
Similarly, the ratio in NABIL was 5.27 times, 3.85 times, 2.93 times, 2.57 times and 3.32 times in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 & 2008/09 respectively. In average, NABIL flowed loans and advances which was 3.58 times greater than the fixed deposit collected. Further the coefficient of variation of 26.26% indicated inconsistency in such ratio.

Likewise, the ratio in was 3.25 times in the base year 2004/05, which ranged to 2.36 times in the fiscal year 2006/07 to 3.47 times in the fiscal year 2007/08 finally slightly decreased to 3.12 times in fiscal year 2008/09. In average, almost 30% (1/2.94) of the

total loans and advances disbursed was financed through fixed deposit. The coefficient of variation of 15.36% indicated inconsistency in the ratio.

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

Figure 4.7
Loan and Advance to Fixed Deposit Ratio



4.1.2.4 Loan and Advance to Total Assets Ratio

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

Table 4.8
Loan and Advance to Total Assets Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	38.66	64.15	65.07
2005/06	35.72	59.47	61.78
2006/07	37.73	58.35	64.40
2007/08	41.89	58.60	70.82
2008/09	33.71	62.89	68.36
Mean	37.54	60.69	66.08
S.D	2.76	2.37	3.16
C.V %	7.35	3.91	4.78

Source: Appendix-III

The Table 4.8 showed that the loans and advances to total assets ratio of SCBNL fluctuated in the study period. The ratio was 38.66% initially in the fiscal year 2004/05, then decreased to 35.72% in the fiscal year 2005/06, again increased to 37.73% in the fiscal year 2006/07 and reached to 41.89% in the fiscal year 2007/08 finally slightly decreased to 33.71 in the fiscal year 2008/09. In average, 7.35% the loans and advances occupied only 37.54%, i.e. almost one-third, of the total assets of SCBNL. The average ratio directly indicated that the loans and advances only occupied the minor place in total assets.

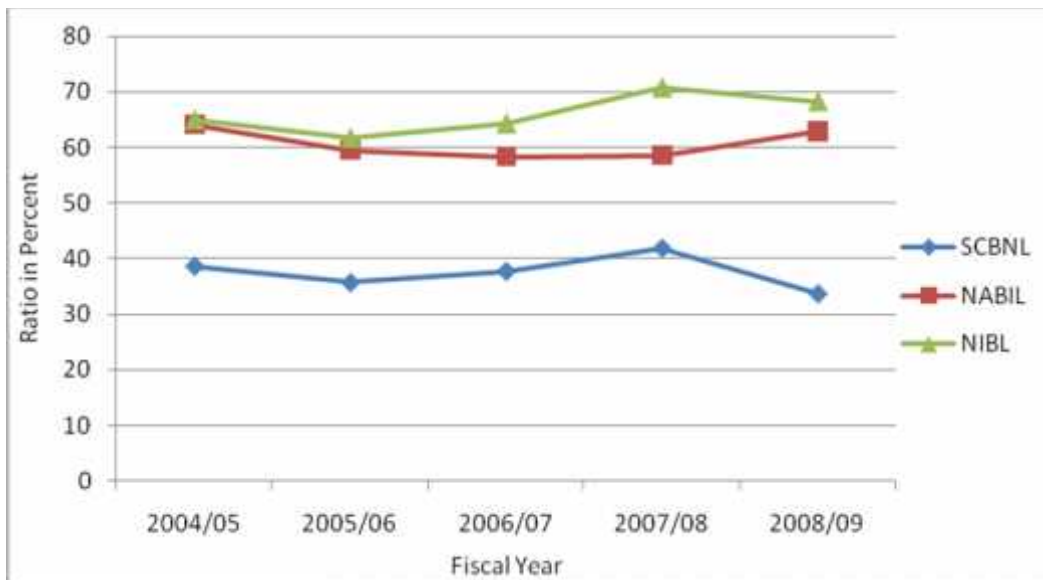
Similarly, the ratio in NABIL ranged from 64.15% in the fiscal year 2007/08. In average, the loans and advances covered 58.32% of the total assets and hence played the dominant role in the total assets. Further, the coefficient of variation of 7.20% also indicated higher uniformity in the ratio.

Likewise, except in the fiscal year 2005/06, the ratio was found to be in increasing trend in NIBL loan and advance to total deposit ratio ranged from 65.07% in the fiscal year 2004/05 to 68.36 % in the fiscal year 2008/09. In average, 66.08% of the total assets of

NIBL were covered by loans and advances amount. The coefficient of variation on such ratio was only 4.78%, indicating uniformity in the ratio.

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

Figure 4.8
Loan and Advance to Total Assets Ratio



4.1.3 Leverage Ratio

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

4.1.3.1 Debt-Equity Ratio

A debt-equity ratio measures the relative importance of debt in the capital structure. Generally very high debt to equity ratio is unfavorable to the business. Excess debt allows the third party to have legal claims on the company. Similarly, a very low debt to

equity ratio is also unfavorable form the shareholder's point of view as it affects their profitability.

Total debt refers to current liabilities, short-term, loan bills payable, tax provision, staff bonus, dividend payable and other liabilities. Total equity includes share capital, reserves and surplus.

Table 4.9
Debt-Equity Ratio

(Ratio in times)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	12.76	9.29	12.61
2005/06	13.69	10.90	14.06
2006/07	12.51	12.24	13.69
2007/08	12.37	14.23	14.20
2008/09	12.46	13.64	12.57
Mean	12.75	12.06	13.43
S.D	0.48	1.80	0.70
C.V %	3.76	14.92	5.21

Source: Appendix-III

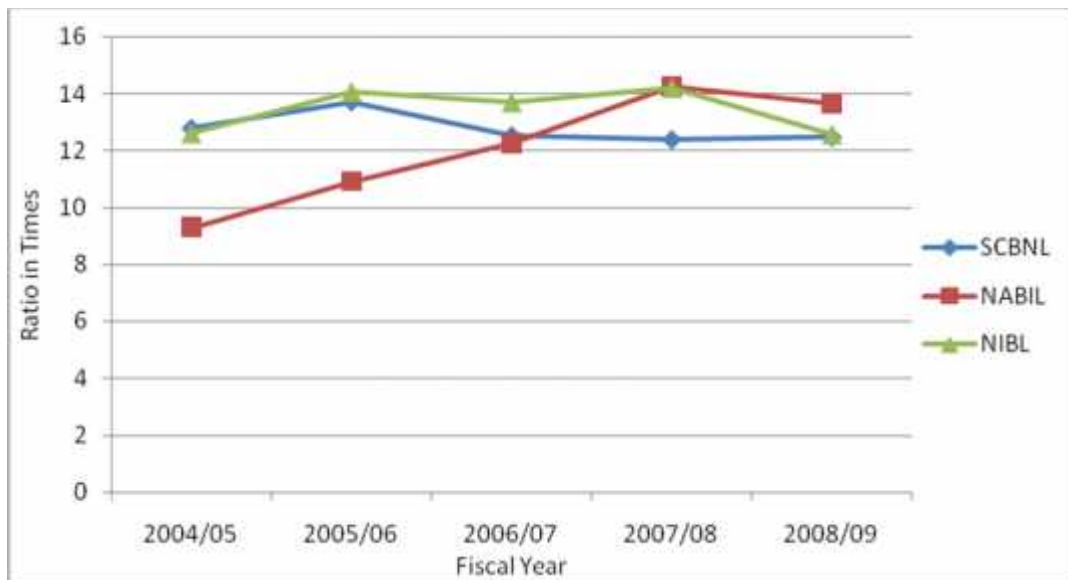
The Table 4.9 showed the ratio debt-equity policy of the sampled banks. The table depicted that the debt-equity ratio of SCBNL ranged from 12.37 times in the fiscal year 2007/08 to 14.81 times in the fiscal year 2004/05. In average, the debt financing of SCBNL was 13.23 times more than the equity financing. The coefficient of variation on such debt-equity policy was 6.92%, which indicated higher uniformity.

Similarly, in NABIL the ratio was 9.29 times, 10.90 times, 12.24 times and 14.23 times 13.64 times in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 & 2008/09 respectively. In average, the debt financing of NABIL was 12.06 times more than the equity financing. And the coefficient of variation on such policy was 14.92%, indicating inconsistency.

Likewise, in NIBL the ratio was 12.61 times, 14.06 times, 13.69 times 13.46 times and 12.57 times in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. NIBL utilized debt which was 13.43 times more than the equity to finance the total assets.

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

Figure 4.9
Debt-Equity Ratio



4.1.3.2 Debt Assets Ratio

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

Table 4.10
Debt-Assets Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	92.74	90.28	92.65
2005/06	93.19	91.60	93.36
2006/07	92.60	92.45	93.19
2007/08	92.52	93.43	93.08
2008/09	94.50	92.60	91.85
Mean	93.11	92.07	92.83
S.D	0.73	1.06	0.54
C.V %	0.78	1.15	0.58

Source: Appendix-III

The Table 4.10 reveals the debt-assets ratio. The table showed that 93.67%, 92.74%, 93.19%, 92.60% and 92.52% of the total assets of SCBNL in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively was financed through debt capital. In average, 93.11% of the total assets were debt financed.

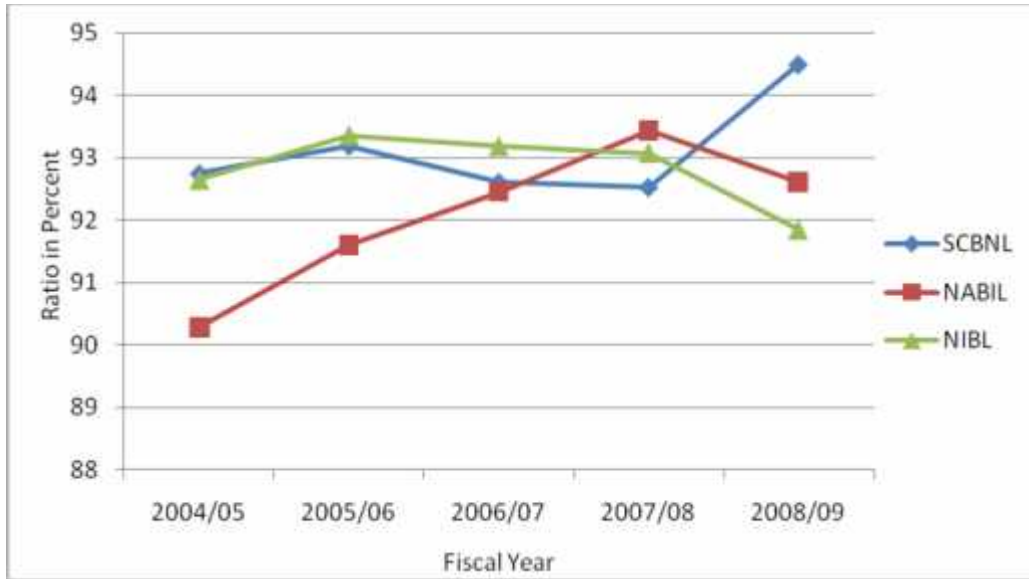
Similarly, the ratio in NABIL ranged from 90.28% in the fiscal year 2004/05 to 93.43% in the fiscal year 2007/08. In average, 92.07% of the total assets of NABIL were financed through debt capital and the coefficient of variation on such ratio was 1.15%, indicating higher consistency.

Likewise, the ratio in NIBL was highest, 93.36%, in the fiscal year 2005/06 and lowest, 91.85%, in the fiscal year 2008/09. In average, NIBL financed 92.83% of the total assets through debt capital. Also, the coefficient of variation of 0.58% only indicated higher uniformity.

All of the sampled banks followed aggressive policy of financing total assets through outside fund. However, comparing three banks on the basis of average debt-assets ratio, it

can be concluded that the total assets of NIBL was much more risky than that of NABIL and SCBNL.

Figure 4.10
Debt-Assets Ratio



4.1.3.3 Capital Adequacy Ratio

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

Table 4.11
Capital Adequacy Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	16.06	12.44	11.58
2005/06	14.93	12.31	11.97
2006/07	15.71	12.04	12.17
2007/08	14.00	11.10	11.28
2008/09	13.05	10.80	11.24
Mean	14.75	11.74	11.67
S.D	0.85	0.66	0.37

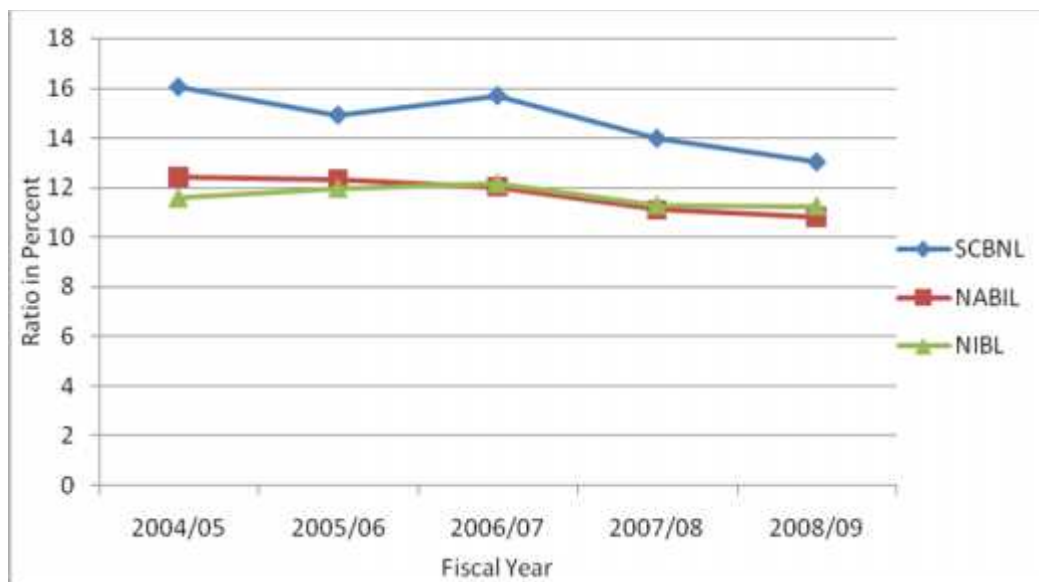
C.V %	5.76	5.62	3.17
--------------	-------------	-------------	-------------

Source: Financial Reports of SCBNL, NABIL & NIBL

Table 4.11 showed Total Capital Adequacy Ratio of SCBNL, NABIL and NIBL for the study period. The ratio of SCBNL was 16.06%, 14.93%, 15.71%, 14.00% and 13.05% NABIL was 12.44%, 12.31%, 12.04%, 11.10% & 10.80% and NIBL was 11.18%, 11.58%, 11.97%, 12.17% and 11.28% for the fiscal year 2004/05, 2005/06, 2006/07 and 2007/08 & 2008/09 respectively.

The NRB standard on the Total Capital Adequacy for the commercial banks is 11% for the said period. The data revealed that the ratio maintained by sampled commercial banks was more than the NRB standards on the study period. The tables also disclosed mean CAR of SCBNL, NABIL and NIBL as 14.75%, 11.74% and 11.67% respectively. It also revealed that C.V. of SCBNL, NABIL and NIBL was 5.76%, 5.62%, and 3.17% respectively. Based on mean CAR, it can be concluded that the capital base of SCBNL was stronger than that of NABIL and NIBL. However, the value of C.V. concluded that there was greater variability in CAR of NABIL than that in SCBNL and NIBL.

Figure 4.11
Capital Adequacy Ratio



4.1.3.4 Net Worth to Total Assets Ratio

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

Table 4.12
Net Worth to Total Assets Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	7.26	9.71	7.34
2005/06	6.81	8.39	6.63
2006/07	7.40	7.54	6.80
2007/08	7.48	6.56	6.91
2008/09	7.52	7.14	7.37
Mean	7.29	7.87	7.01
S.D	0.25	1.09	0.29
C.V %	3.43	13.85	4.14

Source: Appendix-III

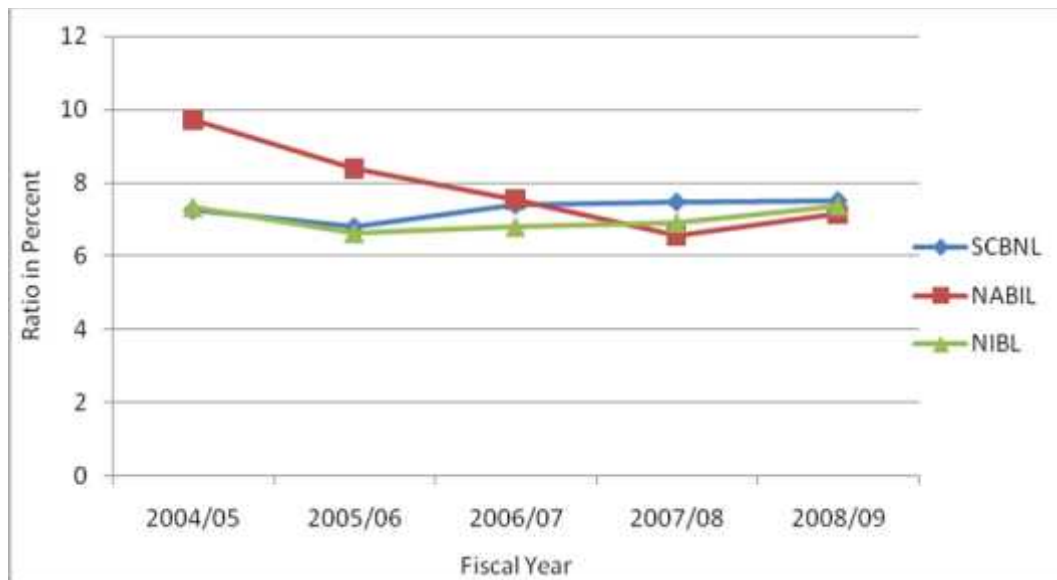
The table revealed the ratio of net worth to total assets. The table depicted that the net worth to total assets of SCBNL was in fluctuating trend. The ratio ranged from 7.26% in the fiscal year 2004/05 to 7.52% in the fiscal year 2008/09. In average, only 7.29% of the total assets were represented by the internal fund.

Similarly, the ratio in NABIL was highest, 9.71% in the fiscal year 2004/05 and lowest, 6.56%, in the fiscal year 2007/08. In average, NIBL financed 7.87% of the total assets through internal financing.

Likewise, the ratio in NIBL was 7.34% in the fiscal year 2004/05, then decreased to 6.63% in the fiscal year 2005/06, and then increased to 6.80% in the fiscal year 2006/07 and reached to 6.91% in the fiscal year 2007/08 and finally slightly increased to 7.37% in the fiscal year 2008/09. In average, 7.01% of the total assets were financed through internal financing by NIBL.

On the basis of net worth to total assets, it can be considered that all the three banks have the policy of financing higher portion of total assets through outside financing. However, comparing three banks, it can be concluded that the assets of NABIL bank is much more safe than that of other banks, as the highest percentage, 7.87%, of total assets of NABIL was financed through internal fund.

Figure 4.12
Net Worth to Total Assets Ratio



4.1.4 Profitability Ratio

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

4.1.4.1 Net Profit Margin

Net profit margin indicates margin of compensation left to the owners for providing their capital, after all expenses have been met. It helps in determining the efficiency with

which the affairs of the business are being managed. A net profit margin would enable the firm to withstand adverse economic conditions and low margin will have opposite implications.

Table 4.13
Net Profit Margin

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	34.01	34.33	20.26
2005/06	37.06	35.32	23.99
2006/07	34.55	32.16	25.07
2007/08	34.94	29.68	25.33
2008/09	32.90	27.20	25.17
Mean	34.69	31.73	23.964
S.D	1.36	2.98	1.91
C.V %	3.92	9.39	7.97

Source: Financial Reports of SCBNL, NABIL & NIBL)

The table revealed the net profit margin of the three commercial banks. The net profit margin of SCBNL increased for the first three years, i.e. 34.01% in the fiscal year 2004/05 and 37.06% in the fiscal year 2005/06 and then decreased to 34.55% in the fiscal year 2006/07 and reached to 34.94% in the fiscal year 2007/08 and finally slightly decreased to 32.90% in the fiscal year 2008/09. In average, the net profit margin of SCBNL for the five years period was 34.69% and the coefficient of variation on such ratio was only 3.92% showing higher consistency.

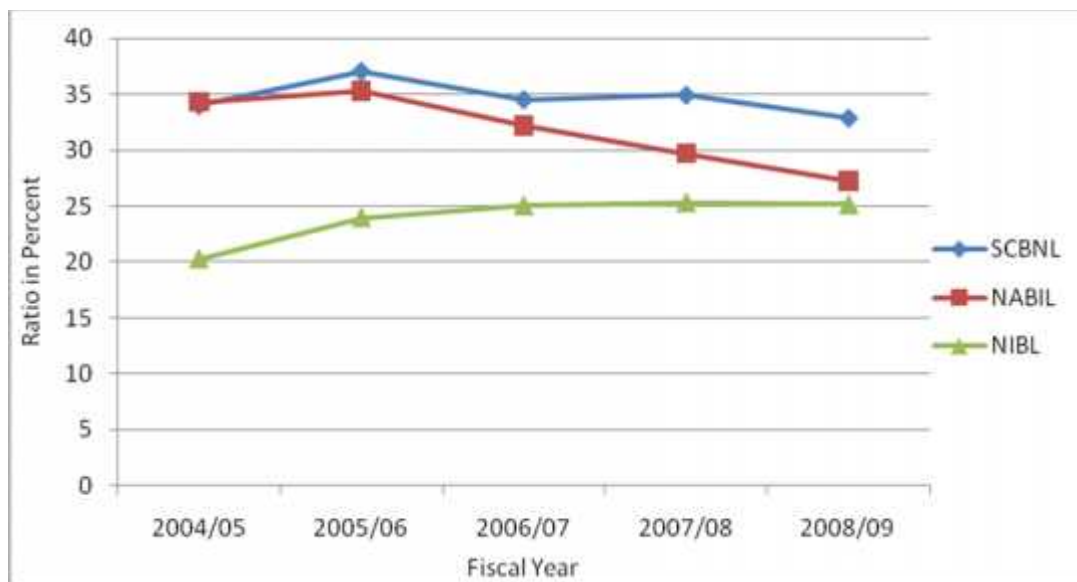
Similarly, the net profit margin of NABIL increased for the first three years, i.e. from 34.33% in the fiscal year 2004/05 to 35.32% in the fiscal year 2005/06, and then followed decreasing trend and finally reached to 29.68% to 27.20 in the fiscal year 2007/08 & 2008/09 respectively. In coefficient of variation was 9.39%.

However, the net profit margin of NIBL followed increasing trend for the five years period taken for study. The net profit margin was 20.26% in the fiscal year 2004/05 which finally reached 25.33% to 25.17 in the fiscal year 2007/08 and 2008/09. In

average, the net profit margin of NIBL was 23.96% and the coefficient of variation was 7.97%, indicating higher inconsistency.

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

Figure 4.13
Net Profit Margin



4.1.4.2 Return on Net Worth

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

Table 4.14
Return on Net Worth

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	33.89	31.38	19.67
2005/06	37.55	33.88	24.77
2006/07	32.68	32.76	26.70
2007/08	32.85	30.63	25.93
2008/09	52.87	51.96	36.55
Mean	37.96	36.12	26.72
S.D	7.65	7.99	5.49
C.V %	20.15	22.12	20.54

Source: Appendix-III

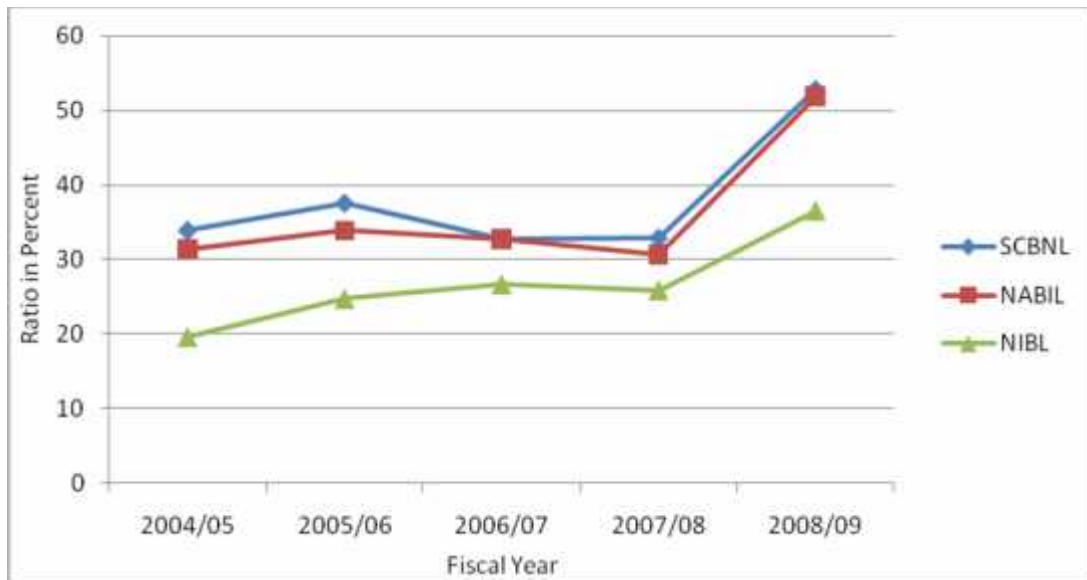
Table 4.14 depicted the return on the sum invested by the shareholders. The table showed that the return on net worth of SCBNL was in fluctuating trend. The ratio was lowest, 2.68%, in the fiscal year 2006/07 and highest, 37.55%, in the fiscal year 2005/06. In average, SCBNL was able to convert 34.59% of the total amount invested by shareholder in the form of net profit. Also, the coefficient of variation on the ratio was only 5.46%, indicating higher consistency.

However, the ratio in NABIL followed increasing trend for the first three years, i.e. from 31.38% in the fiscal year 2004/05 to 33.88% in the fiscal year 2005/06, and then followed decreasing trend in the remaining years, and thus finally increased to 30.63% and 51.96% in the fiscal year 2007/08 & 2008/09. The table showed that NABIL generated 36.12% of the total investment of shareholders as net profit. The coefficient of variation of 7.99% showed higher uniformity in the ratio.

Also, the ratio in NIBL fluctuated during the five years period and was lowest, 19.67%, in the fiscal year 2004/05 and highest, 26.70%, in the fiscal year 2006/07. In average, 23.60% of the total net worth of NIBL was turned out in net profit. Comparing three banks, it can be concluded that SCBNL remained more successful than NABIL and NIBL

in efficiently generating net profit from the net worth of the bank. However, there was more uniformity in the ratio in NABIL than in SCBNL and NIBL.

Figure 4.14
Return on Net Worth



4.1.4.3 Return on Total Assets Ratio (ROA)

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

Table 4.15
Return on Total Assets

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	2.46	3.05	1.45
2005/06	2.56	2.84	1.64
2006/07	2.42	2.47	1.82
2007/08	2.46	2.01	1.79
2008/09	3.97	3.70	2.69
Mean	2.77	2.81	1.87
S.D	0.59	0.56	0.42
C.V %	21.29	19.92	22.45

Source: Appendix-III

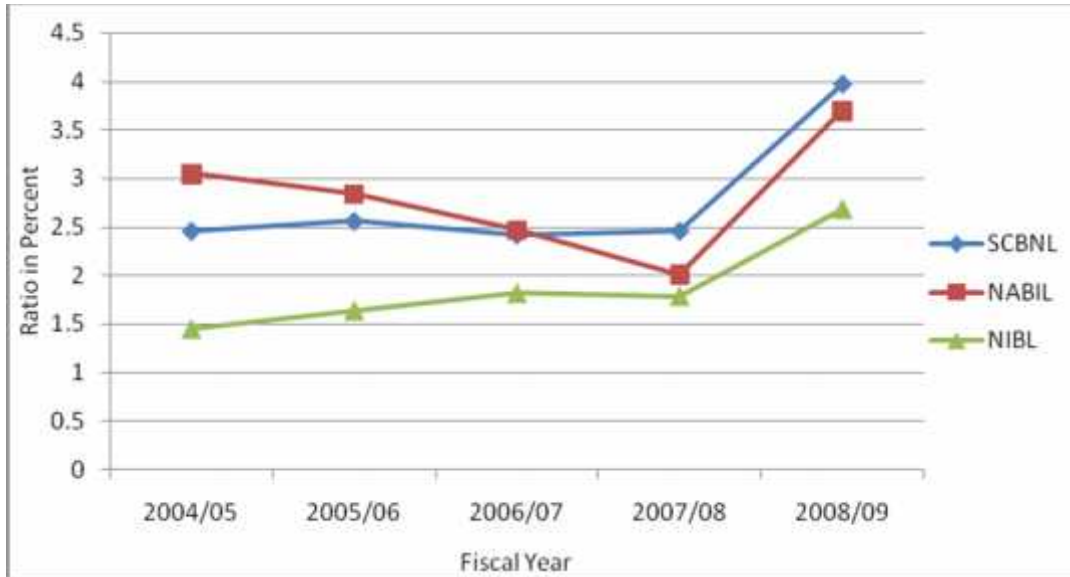
Table 4.15 depicted that the return on assets (ROA) of SCBNL increased for the first three years, i.e. from 2.46% in the fiscal year 2004/05 to 2.56% in the fiscal year 2005/06, then decreased to 2.42% in the fiscal year 2006/07 and finally increased to 2.46% to 3.97 in the fiscal year 2007/08 and 2008/09. In average, the ROA was 2.77%, which indicated that SCBNL earned Rs. 2.77 as net profit for per Rs. 100 investment in total assets. The coefficient of variation of 21.29% also indicated higher uniformity in the ratio.

Similarly, the ratio in NABIL was better in the first three years compared to the last two years. The ratio ranged from 2.01% in the fiscal year 2007/08 to 3.05% in the fiscal year 2004/05. The average ratio of 2.81% indicated that NABIL generated Rs. 2.81 as net profit from per Rs. 100 investment in the total assets. However, the coefficient of variation of 19.92% indicated higher inconsistency compared to that of SCBNL.

Likewise, the ratio in NIBL followed increasing trend for the first four years, i.e. from 1.45% in the fiscal year 2004/05 to 1.82% in the fiscal year 2006/07 and then slightly decreased to 1.79% in the fiscal year 2007/08 and finally it increased to 2.69% in the fiscal year 2008/09. The average ratio of 1.87% indicated that from Rs. 100 investment in total assets, NIBL earned Rs. 1.87 as net profit. The coefficient of variation on such ratio

was 22.45%, which indicated inconsistency in the ratio. Comparing three banks, it can be concluded that NABIL utilized its assets more effectively to generate highest profit than SCBNL and NIBL.

Figure 4.15
Return on Total Assets



4.1.4.4 Return on Total Deposit Ratio

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

Table 4.16
Return on Total Deposit Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	2.77	3.57	1.63
2005/06	2.86	3.28	1.85
2006/07	2.81	2.89	2.05
2007/08	2.75	2.34	2.02
2008/09	4.49	4.35	3.05
Mean	3.13	3.28	2.12
S.D	0.67	0.67	0.48
C.V %	21.40	20.42	22.64

Source: Appendix-III

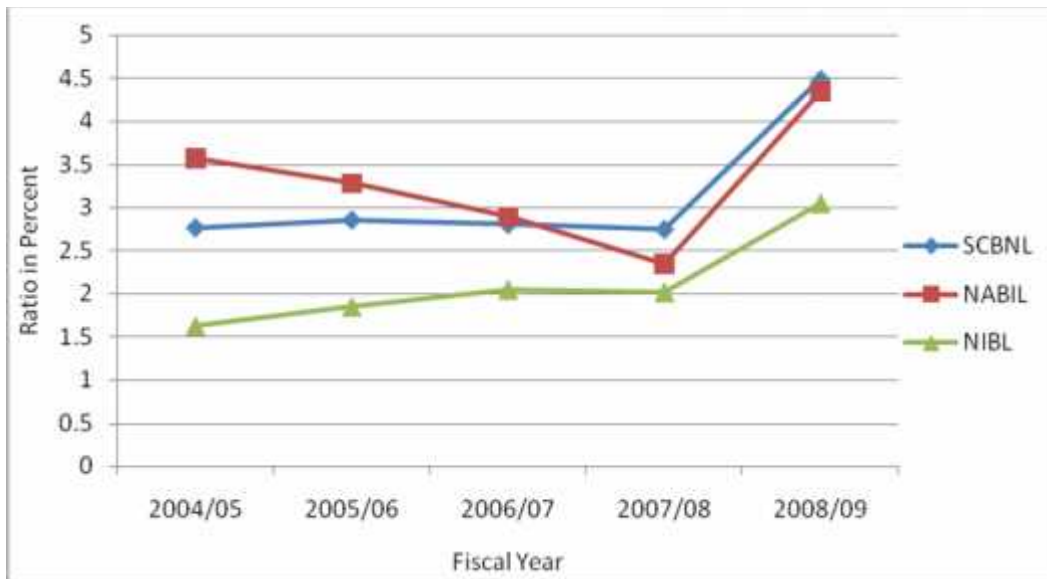
Table 4.16 delineated that the return on total deposit of SCBNL increased for the first three years, i.e. from 2.77% in the fiscal year 2004/05 to 2.86% in the fiscal year 2005/06, and then decreased in the last two years, i.e. 2.81% in the fiscal year 2006/07 to 2.75% in the fiscal year 2007/08 finally it increased to 4.49% in the fiscal year 2008/09. In average, the return on total deposit of SCBNL was 3.13%, which indicated that SCBNL earned Rs. 3.13 as net profit by investing Rs. 100 deposit collected.

Similarly, the ratio in NABIL was in fluctuating trend and thus was lowest, 2.34%, in the fiscal year 2007/08 and highest, 3.57%, in the fiscal year 2004/05. In average, NABIL turned earned Rs. 3.28 as net profit from the investment of Rs. 100 which was collected as deposit.

Likewise, the return on total deposit of NIBL increased for the first three years, i.e. from 1.63% in the fiscal year 2004/05 to 1.85% in the fiscal year 2005/06, and then decreased in the last two years and hence was 2.02 to 3.05% in the fiscal year 2007/08 and 2008/09. The average ratio of 2.12% indicated that NIBL turned Rs. 2.12 as net profit from the investment of Rs. 100 collected as deposit.

Comparing three sampled banks on the ground of return on total deposit, it can be concluded that the capacity of turning total deposit into net profit of NABIL much more admirable than that of SCBNL and NIBL. Hence, it can also be considered that the investment sector of the total deposit amount of NABIL was most fruitful than that of SCBNL and NIBL.

Figure 4.16
Return on Total Deposit Ratio



4.1.4.5 Interest Earned to Total Assets Ratio

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

Table 4.17
Interest Earned to Total Assets Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	4.86	6.26	2.21
2005/06	4.62	5.87	2.33
2006/07	4.94	5.83	2.48
2007/08	4.77	5.33	2.55
2008/09	3.30	3.75	2.98
Mean	4.49	5.40	2.51
S.D	0.60	0.88	0.26
C.V %	13.36	16.29	10.35

Source: Appendix-III

Table 4.17 showed that the interest earning capacity of SCBNL from total assets ranged from 4.86% in the fiscal year 2004/05 to 4.94% in the fiscal year 2006/07 finally it is increased to 3.30% in the fiscal year 2008/09. In average, the interest earned to total assets ratio was 4.49% which indicated that SCBNL generated Rs. 4.49 as interest income from Rs. 100 investment in total assets.

Similarly, the ratio in NABIL ranged from 5.33% in the fiscal year 2007/08 to 6.26% in the fiscal year 2004/05. In average, the interest earned to total assets ratio was 5.40%, meaning NABIL generated Rs. 5.40 as interest income from Rs. 100 investment in total assets. The coefficient of variation on such ratio was only 13.36%. Likewise, the ratio in NIBL was highest, 2.98%, in the fiscal year 2008/09 and lowest, 2.21%, in the fiscal year 2004/05. In average, NIBL, 2.51% of the total investment in assets as interest income.

Comparing three banks on the basis of interest earned to total assets, it can be concluded that the capacity of utilizing total assets to generate interest income is highest in NABIL compared to SCBNL and NIBL 4.1.5 Miscellaneous Ratio. In addition to the above ratios, there are other widely used ratios related to the financial aspects of the company, some of which have been discussed here to support the analysis.

4.1.4.6 Interest Paid to Interest Income Ratio

Interest paid to interest income ratio reveals the proportionate relationship between interest paid on different liabilities and interest income from different sources. In this present study, 'Total interest expenses' includes interest paid on deposits and borrowings. And 'interest income' includes the interest from loan and advance, cash-credit and overdraft, government securities, inter bank and other investments.

Table 4.18
Interest Paid to Interest Income Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	24.00	27.79	39.98
2005/06	25.49	27.26	41.86
2006/07	29.25	35.00	43.25
2007/08	29.25	38.33	45.22
2008/09	28.81	41.21	51.62
Mean	27.36	32.91	44.38
S.D	2.19	5.67	4.0
C.V %	8.0	17.22	9.01

Source: Appendix-III

The above table showed that the interest paid to interest income ratio of SCBNL was highest, 29.25%, in the fiscal year 2007/08 and lowest, 24.00%, in the fiscal year 2004/05. In average, SCBNL incurred only 27.36% of the total interest income as interest expenses.

Similarly, the interest paid to interest income ratio of NABIL ranged from 22.26% in the fiscal year 2005/06 to 41.21% in the fiscal year 2008/09. In average, NABIL paid 32.91% of the total interest income as interest expenses.

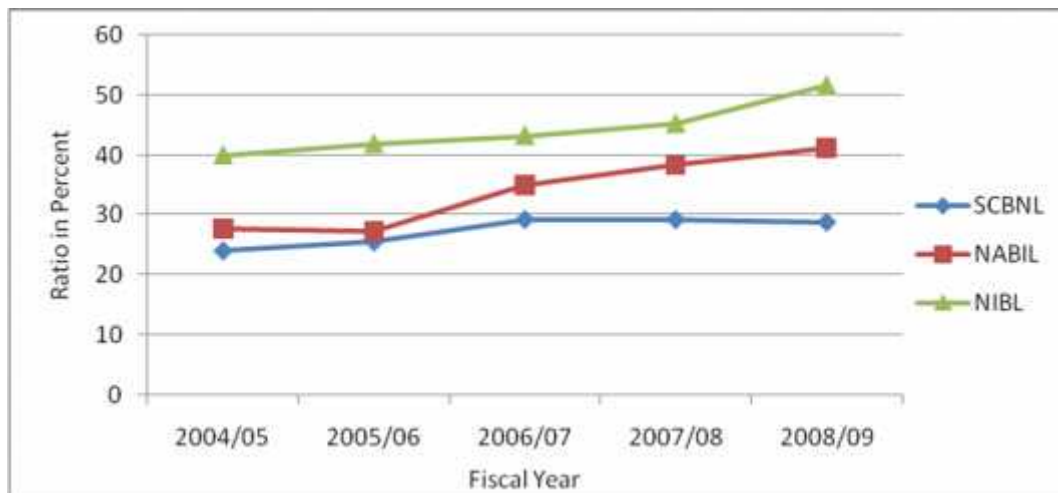
Likewise, the ratio in NIBL was highest, 51.62%, in the fiscal year 2008/09 and lowest, 39.98%, in the fiscal year 2004/05. In average, 44.38% of the total interest income was

spent by NIBL as interest expenses. The coefficient of variation on such ratio was 9.01%, which indicated higher uniformity in the ratio.

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

Figure 4.18

Interest Paid to Interest Income Ratio



Earning Per Share

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

Table 4.19

Earning Per Share

(In Units)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	143.14	105.49	39.50
2005/06	175.84	129.21	59.35
2006/07	167.37	137.08	62.57
2007/08	131.92	108.31	57.87
2008/09	109.99	106.76	37.42
Mean	145.65	117.37	51.34
S.D	23.87	13.14	10.64
C.V %	16.38	11.19	20.72

Source: Financial Reports of SCBNL, NABIL & NIBL

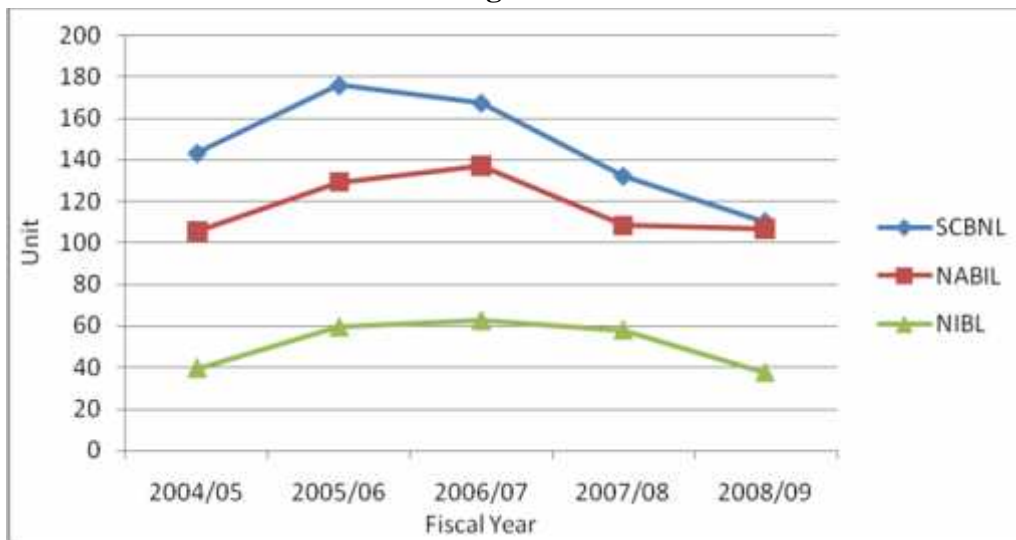
The table 4.19 showed the trend of EPS of the selected sample banks. The EPS of SCBNL fluctuated during the five year periods. The EPS ranged from Rs. 143.14 in the fiscal year 2004/05 to Rs. 175.84 in the fiscal year 2005/06. In average, SCBNL earned Rs. 145.65 per share. Also, the C.V. of 16.38% on the EPS indicated uniformity in the EPS.

Likewise, the EPS of NABIL increased for the first three years, i.e. Rs. 105.49, Rs. 129.21 and Rs. 137.08 in the fiscal years 2004/05, 2005/06 and 2006/07 respectively. Finally, the EPS of NABIL decreased to Rs. 108.31 and 106.76 in the fiscal year 2007/08 & 2008/09 respectively. However, in average NABIL earned Rs. 117.37 per share and the C.V. on such EPS was 14.21%. In contrast, the EPS of EBL followed increasing trend over the entire period. The EPS was Rs. 45.58, Rs. 54.22, Rs. 62.78, Rs. 78.42 and Rs. 91.82 in the fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08. In average, the EPS was Rs. 66.56 and the coefficient of variation was 25.01%.

Eventually, the EPS of NIBL was found to be in fluctuating trend, i.e. Rs. 39.50, Rs. 59.35, Rs. 62.57, Rs. 57.87 and Rs 37.42 in the fiscal year 2004/05, 2005/06, 2006/07 2007/08 and 2008/09 respectively. In average, NIBL earned Rs.51.34 per share and the coefficient of variation on such EPS was 20.72%, which indicated quite uniformity on EPS.

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

Figure 4.19
Earning Per Share



Dividend per Share

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

Table 4.20
Dividend per Share

(DPS in %)

Banks	Fiscal Year					Mean	S.D	C.V %
	2004/05	2005/06	2006/07	2007/08	2008/09			
SCBNL								
C.D	120	130	80	80	85	99	21.5	21.72
B.S.D	0	10	50	50	50	32	22.2	69.37
T.D	120	140	130	130	135	131	6.63	5.06
NABIL								
C.D	70	85	100	60	75	78	13.6	17.43
B.S.D	0	0	40	40	40	24	19.5	81.25
T.D	70	85	140	100	115	102	24.2	23.72
NIBL								
C.D	12.5	20	5	7.5	8.5	53.5	43.1	80.56
B.S.D	0	35.46	25	33.33	35	25.75	13.4	52.03
T.D	12.5	55.46	30	40.83	43.5	36.45	14.4	39.50

Source: Financial Reports of SCBNL, NABIL & NIBL

The Table 4.20 depicted the dividend pattern of the sampled banks. The table showed that SCBNL distributed 120%, 130%, 80%, 80% and 85% of par value as cash dividend in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. Also, the bank distributed bonus share dividend per unit share holding, which was 10%, 50%, 50% and 50% of face value in the fiscal year 2005/06, 2006/07, 2007/08 and 2008/09 respectively. In average, SCBNL disbursed 99% of face value per share as dividend; 32% of face value as cash dividend and 22% of face value as bonus share dividend. The coefficient of variation of 5.06% also indicated higher consistency in the dividend policy.

Similarly, the cash dividend paid by NABIL was 70%, 85%, 100%, 60% and 75% of the face value in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. NABIL disbursed bonus share dividend of 40% of the face value in fiscal year 2006/07 and 2007/08. In average, NABIL paid 78% of the face value per share as dividend, viz, 24% per share as cash dividend and 102% per share as bonus share dividend. Also, the coefficient of variation on dividend payment was 23.72%, indicating inconsistency.

Likewise, NIBL paid 12.50%, 20%, 5% and 7.50% of face value as cash dividend in the fiscal year 2004/05, 2005/06, 2006/07 and 2007/08 respectively. Also the bonus share dividend of 35.46%, 25% and 33.33% of face value was disbursed in the fiscal year 2004/05, 2006/07 and 2007/08 respectively. In average, NIBL paid 53.5% of face value as dividend, viz, 25.75% of face value as cash dividend and 36.45% of face value as bonus share dividend. The coefficient of variation of 39.50% indicated higher irregularity in the payment of dividend.

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

Dividend Payout Ratio

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

Table 4.21
Dividend Payout Ratio

(Ratio in %)

Fiscal Year	SCBNL	NABIL	NIBL
2004/05	83.83	66.36	31.65
2005/06	79.62	65.78	93.45
2006/07	77.67	102.13	47.95
2007/08	78.54	92.33	70.55
2008/09	79.50	90.56	75.68
Mean	79.83	83.43	63.85
S.D	2.31	14.71	21.67
C.V %	2.89	17.63	33.93

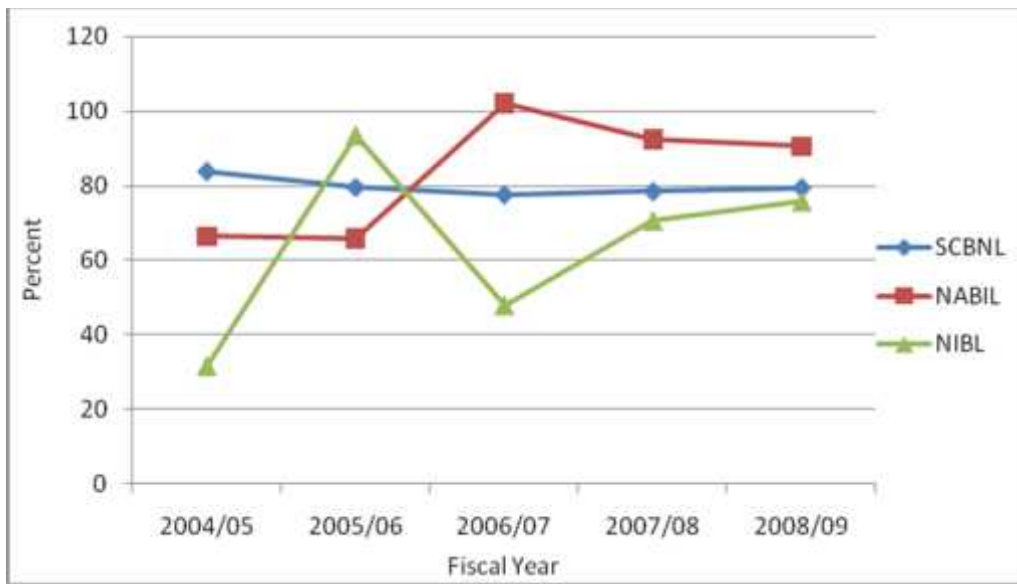
Source: Appendix-III

The table 4.21 showed the dividend payout ratio of the sampled banks, SCBNL, NABIL and NIBL. The table showed that the dividend payout ratio of SCBNL in the five consecutive years were 76.63%, 83.83%, 79.62%, 77.67%, 78.54% and 79.50% respectively. Similarly, the dividend payout ratio of NABIL ranged from 65.78% in the fiscal year 2005/06 to 102.13% in the fiscal year 2006/07. Also, the dividend payout ratio of NIBL ranged from 66.36% in the fiscal year 2004/05 to 93.45% in the fiscal year 2005/06.

In average, SCBNL, NABIL and NIBL distributed 79.83%, 83.43% and 63.85% respectively of the total earnings as dividend to the shareholders of the corresponding banks. Besides these, the coefficient of variations on dividend payout ratio of SCBNL was 2.89%, NABIL was 17.63%, and NIBL was 33.93%.

Although NABIL distributed 102.13% of earnings as dividend in the fiscal year 2006/07, the dividend payout ratio of SCBNL is considered best since the average dividend payout ratio of SCBNL is highest compared to that of other banks. Hence, it can be considered that the shareholders of SCBNL were more satisfied in the form of dividend. Also, on the basis of highest dividend payout ratio, it can be considered that SCBNL is most matured bank than others. In addition, the lowest C.V. of 2.89% of SCBNL indicated that SCBNL has best benchmark and uniformity on dividend payout ratio.

Figure 4.20
Dividend Payout Ratio



4.2 Primary Data Analysis

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

4.2.1 Problems Related to Finance

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

Table 4.22
Problems related to Finance

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

Source: Field Survey, 2009

The table 4.22 depicted that 3 out of 5 respondents of SCBNL, 4 out of 5 of NABIL respondents that the reserve ratio is the major problem while financing. Where as, the amount is major problem in financing, overlooking the overall responses, the majority of the total respondents, 9 out of 15, i.e. 60% of the respondents revealed the fact that reserve ratios are the major problems in financing.

4.2.2 Effect of NRB's Regulation for the Bank

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

Table 4.23
Effect of NRB's Regulation for the Bank

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Yes	4	5	3	12	80
No	1	0	2	3	20
Total	5	5	5	15	100

Source: Field Survey, 2009

The Table 4.23 shows that the majority of each bank, 4 out of 5 respondents of SCBNL, 5 out of 5 respondents of NABIL and 3 out of 5 respondents of NIBL stated that the NRB

regulations are favorable for their respective banks. Similarly, the majority of the total respondents, 12 out of 15, i.e. 80% of the respondents said that the NRB regulations are favorable, while only 3 out of 15, 20% of the respondents, said that the regulations are not favorable. Hence, on the basis of majority, it can be considered that the NRB regulations are favorable.

4.2.3 Reserve Rate on Current and Savings Deposits

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

Table 4.24
Reserve Rate on Current and Savings Deposits

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

Source: Field Survey, 2009

The Table 4.24 showed that the majority of SCBNL, 3 out of 5, and NABIL, 3 out of 5, are in the view that the current reserve rate, i.e. 7%, on current and savings deposits is appropriate for the bank to prevent from turning bankrupt. While, the majority of NIBL, 3 out of 5, said that the reserve ratio should be less than 7%. Gazing the overall responses, 53% of the respondents are in the view that the reserve rate should be exactly 7%, 40% of the respondents are in the view that the rate should be less than 7% and 7% of the respondents said that the rate should be less than 7%. Hence, it can be concluded that the existing rate of 7% is appropriate on the basis of overall majority.

4.2.4 Reserve Rate on Fixed Deposits

As per the NRB rules, each bank has to keep 4.5% of the total fixed deposit as reserve in NRB to protect the depositors amount. To examine the appropriate rate that the bankers

feel, the responses were asked to express their views. The opinions obtained from them are delineated in the Table 4.25.

Table 4.25
Reserve Rate on Fixed Deposits

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

Source: Field Survey, 2009

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

4.2.5 Cash Vault on Total Deposit

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

Table 4.26
Cash Vault on Total Deposit

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Less than 2%	1	0	1	2	13
Exactly 2 %	3	3	2	8	53
More than 2%	1	2	2	5	34
Total	5	5	5	15	100

Source: Field Survey, 2009

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

4.2.6 New Sectors of Investment

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

Table 4.27
New Sectors of Investment

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Corporate Bonds	2	1	1	4	27
Real Assets	3	4	3	10	67
Derivative securities	0	0	1	1	6
Total	5	5	5	15	100

Source: Field Survey, 2009

The Table 4.27 reveals that 67% of the respondents, 10 out of 15, are in the opinion that real assets can be the new sectors of investment for bank. Similarly, 27% of the respondents, 4 out of 15, said that investment in corporate bond can be the new sector for investment. Likewise, 6% of the respondents, 1 out of 15, said that derivative securities can be the new sector for investment. Hence on the basis of majority, it can be concluded that the real assets business is the most appropriate new sector of investment.

4.2.7 Secured Investment Sector

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

Table 4.28
Secured Investment Sector

Responses	SCBNL	NABIL	NIBL	Total	
				Responses	%
Share & Debenture	0	1	0	1	7
Loans & Advance	1	1	0	2	13
Government securities	4	3	5	12	80
Total	5	5	5	15	100

Source: Field Survey, 2009

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

4.2.8 Programs to Increase Business Volume

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

Table 4.29
Programs to Increase Business Volume

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

Source: Field Survey, 2009

The Table 4.29 reveals that 60% of the respondents, 9 out of 15, stated that by increasing the interest rate on deposit, the volume of business can be extended. Similarly, 27% of the respondents, 4 out of 15, opined that the banks should quest new sector for investment to increase the volume of business. However, 13% of the respondents, 2 out of 15, said that by launching new services and offering new facilities to the customer, the volume of business can be increased. Overlooking the majority, it can be considered the volume of business can be extended if the bank offers higher interest rate to its depositors.

4.2.9 Present Problems of Bank

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

Table 4.30
Present Problems of Bank

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

Source: Field Survey, 2009

The Table 4.30 depicts that 47% of the respondents, 7 out of 15, are in the view that the rigid banking policy of NRB is the present problems of banking industry.

Similarly, 40% of the respondents, 6 out of 15, stated that unclear government rules and regulation is the problems of bank. While, 13% of the respondents, 2 out of 15, said that human resource is the major problem of bank, whereas none of the respondents stated financial problem. Thus, on the basis of majority, it can be considered that rigid banking policy of NRB is the major problems of banks.

4.2.10 Financial Strength

To investigate what factor truly represents the financial strength of the bank, the respondents were given a set of objective answers and asked to express their degree of agreement by filling out ‘SA’ for ‘strongly agree’ ‘A’ for ‘Agree’ ‘IND’ for remaining ‘Indifference’ ‘DA’ for Disagree and ‘S.D’ for ‘strongly Disagree’.

Table 4.31
Financial Strength of SCBNL

Responses	SA	A	IND	DA	SD
Earning Rate	2	3	0	0	0
Operating leverage	1	1	0	2	1
Firm size	0	2	0	2	1
Interest rate	1	3	0	0	1
Flexibility	0	1	1	3	0
Control	1	2	0	2	0
Growth opts.	2	1	0	1	1
Debt service capacity	0	1	0	2	2
Market Condition	2	2	0	0	0
Dividend payout	3	2	0	0	0
Goodwill	2	3	0	0	0

Source: Field Survey, 2009

The Table 4.31 depicts that earning rate, interest rate, control, growth opportunities, market condition, dividend payout scheme and goodwill are the representative of the financial strength of SCBNL, as the total agreed responses are greater than the total disagreed responses. While operating leverage, firm size, flexibility and debt service capacity are not the true representatives of the financial strength of the bank. Looking each category, cent percentage of the respondents (2 strongly agreed and 3 agreed) pointed earning rate represent the financial strength. Similarly, 4 out of 5 (1 strong agreed and 3 agreed), 3 out of 5 (1 strongly agreed and 2 agreed), 3 out of 5 (2 strongly agreed and 1 agreed), 4 out of 5 (2 strongly agreed and 2 agreed), 5 out of 5 (3 strongly agreed and 2 agreed) and 5 out of 5 (2 strongly agreed and 3 agreed) stated that interest rate, control, growth opportunities, market condition, dividend payout ratio and goodwill respectively represent the financial strength of SCBNL.

Table 4.32
Financial Strength of NABIL

Responses	SA	A	IND	DA	SD
Earning Rate	3	1	1	0	0
Operating Leverage	0	1	1	2	1
Firm size	1	2	1	1	0
Interest Rate	1	2	0	1	1
Flexibility	0	1	0	2	2
Control	2	2	0	0	1
Growth opportunities	1	3	0	1	0
Debt service Capacity	1	1	1	2	0
Market Condition	1	4	0	0	0
Dividend payout	1	4	0	0	0
Goodwill	1	3	0	1	0

Source: Field Survey, 2009

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

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

Table 4.33
Financial Strength of NIBL

Responses	SA	A	IND	DA	SD
Earning Rate	1	3	1	0	0
Operating Leverage	0	1	2	1	1
Firm Size	1	2	0	1	1
Interest Rate	2	1	0	1	1
Flexibility	2	1	0	0	2
Control	1	2	0	2	0
Growth opportunities	1	1	0	2	1
Debt service capacity	0	1	0	3	1
Market condition	1	3	0	1	0
Dividend payout	2	3	0	0	0
Goodwill	2	3	0	0	0

Source: Field Survey, 2009

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

Viewing each agreed category, 4 out of 5 (1 strongly agreed and 3 agreed), 3 out of 5 (1 strongly agreed and 2 agreed), 3 out of 5 (2 strongly agreed and 1 agreed), 3 out of 5 (2 strongly agreed and 1 agreed), 3 out of 5 (1 strongly agreed and 2 agreed), 4 out of 5 (1 strongly agreed and 3 agreed), 5 out of 5 (2 strongly agreed and 3 agreed), 5 out of 5 (2 strongly agreed and 3 agreed) stated that earning rate, firm size, interest rate, flexibility, control, market condition, dividend payout ratio and goodwill respectively are the financial strength of NIBL.

4.3 Major Findings of the Study

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

Findings from Secondary Data Analysis

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

total assets of SCBNL, NABIL and NIBL were financed through debt capital respectively.

- J The capital base of SCBNL was strongest than that of NABIL and NIBL. SCBNL, NABIL and NIBL kept 15.25%, 12.29% and 11.64% as capital adequacy ratio respectively.
- J The net worth to total assets ratio indicated that NABIL was most successful in mobilizing the net worth to finance total assets. The ratio was 7.06%, 8.21% and 6.63% in SCBNL, NABIL and NIBL respectively.
- J The net profit margin indicated that SCBNL was most profitable than NABIL and NIBL. The net profit margin of SCBNL, NABIL and NIBL were 34.90%, 32.68% and 22.27% respectively.
- J SCBNL was most successful to efficiently utilize the net worth in generating net profit. The return on net worth of SCBNL, NABIL and NIBL were 34.59%, 31.88% and 23.60% respectively. Similarly, the return on total assets of SCBNL, NABIL and NIBL were 2.43%, 2.62% and 1.57% respectively. And the return on total deposit of the same banks was 2.75%, 3.06% and 1.77% respectively.
- J NABIL bank remained most successful in efficiently utilizing the total assets in generating interest income. The interest earned to total assets of SCBNL, NABIL and NIBL were 4.72%, 5.85% and 2.40% respectively. Likewise, the interest paid to interest income ratio of SCBNL, NABIL and NIBL were 26.97%, 30.33% and 42.98% respectively.
- J The average EPS of SCBNL, NABIL and NIBL for the five years period was Rs. 152.36, Rs. 114.54 and Rs. 54.20 respectively. Similarly, the DPS was 126%, 92% and 30.76% of face value and DPR were 83.26%, 79.36% and 54.52% of SCBNL, NABIL and NIBL respectively.

Findings from Primary Data Analysis

- J Cent percentage of the total respondents said that the status of outstanding loan is in increasing trend. And 60% of the respondents said that the reserve ratios create problem in financing.

-) 80% of the respondents said that the NRB's regulation is favorable to operate banking activities. Similarly, 53% of the respondents said that the existing 7% reserve rate on current and saving deposit is appropriate. While 53% of the respondents stated that the reserve rate of less than 4.5% on fixed deposit will be appropriate. Likewise, 53% of the respondents said that 2% cash vault is appropriate.
-) The majority of the respondents, 67%, affirmed that the investment in real assets is the best new sector of investment. Similarly, 80% of the respondents stated that government securities are the most secured sector for investment. In addition, 80% of the respondents said that by increasing interest rate on deposit, the volume of business can be increased. And 47% of the respondents said that the banking policy of NRB is the major problem.
-) Finally, the majority of the respondents agreed that earning rate, interest rate, control over activities, market condition, dividend payout ratio and goodwill truly reflect the financial strength of the bank. As only these indicators are common in the responses of each of the bank.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

A bank is an institution which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services. To the greater extent, economic growth rate is based on the banks and other financial institutions' performance in an economy. Many researches have revealed that banks and economic condition are two wheels of the same chariot. Nowadays, banking activities are spreading all over the world. In the beginning of this thesis, there were twenty five commercial banks operating in Nepal, licensed by NRB up to mid-July, 2009. Besides some other development banks are in the process of their conversion into commercial banks and few other commercial banks are emerging too. This has led to the intense competition in the banking business. Only those banks, providing better services and having a greater profit margin would survive in the long run.

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

The researcher has identified the research problem of the joint venture bank then the objectives are determined on the basis of research problem. Related literatures are reviewed on the bases of the purposive study. Then the data have been collected from the different available sources, i.e. primary and secondary sources. The analysis of data has been done according to the available data and the objectives of this study.

The five years financial statements, covering from the fiscal year 2004/05 to 2008/09, have been examined for the purpose of the study. The analysis and interpretation of data has been done by applying the wide varieties of methodology as stated in earlier chapter. The objective of the study also identified as to come up with conclusion of the financial performance of Standard Chartered Bank Nepal Limited, Nabil bank limited and Nepal

Investment Bank Limited with regard to key financial variables based on the finding of analysis. This will provide possible suggestions that will be beneficial for selected banks, SCBNL, NABIL and NIBL. Financial analysis is done to determine the bank's financial position in order to identify its current strengths and weaknesses and to suggest action that might enable the firm to take advantage of its strengths and correct its weaknesses. By using financial and statistical tools, the overall financial performance of the bank has tried to analyze. Various ratios, statistical tools such as Mean, Standard Deviation, and Coefficient of determination have revealed the financial condition of the bank over the last five years.

5.2 Conclusion

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

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

Besides these, on the basis of debt-equity and debt assets ratio, it can be concluded that the total assets of NIBL was most risky than that of SCBNL and NABIL, as NIBL

financed highest proportion of the total assets through debt financing. Although the capital adequacy ratio of all the banks met the standard set by NRB, the capital base of SCBNL was strongest. In addition, NABIL was most successful to optimally utilize the net worth in financing the total assets.

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

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

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

5.3 Recommendations

After the analysis of financial performance of Standard Chartered Bank Nepal Limited, Nepal Arab Bank Limited and Nepal Investment Bank Limited, and the conclusion

drawn, the following recommendations are given to the banks to overcome weaknesses and inefficiency and improve the financial performance in better way.

- J The current ratio of each sampled banks, SCBNL, NABIL and NIBL, is below the benchmark, i.e. 2:1, which can create problem while paying the debt. Hence, it would be secured form bankruptcy, if all the sampled banks increase the existing ration and meet the standard set out.
- J Both SCBNL and NABIL should increase the utilization of fixed deposit amount while mobilizing loans and advances rather than keeping idle and thus earn more profit. It would be better if NABIL and NIBL recognize the unnecessary interest expenses on the total deposit and try to minimize such expenses to increase profit.
- J Also, NABIL bank remained more successful in mobilizing the total deposit in disbursing loans and advances. Hence, it would be better if SCBNL and NIBL also trace out the fruitful investment sector and try to increase the mobilization of deposit in disbursing loans and advances.
- J NIBL has followed aggressive policy of financing the total assets through debt finance, which might be the cause of lower profit because of higher interest expenses. Hence, NIBL should decrease the ratio of debt financing and mobilize the internal financing to increase profit.
- J Both SCBNL and NIBL should focus on optimally utilizing the total deposit and total assets to generate return. While NABIL and NIBL should concentrate on generating return by utilizing net worth. The EPS, DPS and dividend payout ratio of SCBNL was highest than that of NABIL and NIBL. So, it is recommended that both NABIL and NIBL increase the EPS by tracing out the fruitful and secured sector of investment and thus, increase DPS and dividend payout ratio to retain the existing shareholders as well as to fascinate the potential shareholders.
- J The capacity of flowing highest amount of loan is not shrewd if the bank remains unable to collect the principal in the same speed that the loan has been disbursed. So, it is recommended that all the sampled banks, NABIL, SCBNL and NIBL, introduce the efficient loan collection policy to decrease the amount of outstanding loan.

BIBLIOGRAPHY

- Aryal, Kanchan Raj (September, 2004), “*All the Banks in Profit*”. New Business Age, Kathmandu, Valley Publisher, III (3): 23.
- Basnet, Yug (2005), ‘*A Comparative Study of Financial Performance Between the Commercial Banks*, An Unpublished Master’s Degree Thesis, Kathmandu, Shanker Dev Campus, Faculty of Management, T.U.
- Bedi, M.L. and Mardikar, V.K., (1993) “*Practical Banking advances*”. New Delhi: UBS Publisher’s Distributor’s Ltd.
- Bhandari, Dill Raj (2000), “*Banking and Insurance*”. Kathmandu: Aayush Publication.
- Chhetri, Himal Bahadur (2002), “*Comparative Study of Financial Performance Between Everest Bank Limited and Bank of Kathmandu Limited*. An Unpublished Master Degree Thesis, Kathmandu, Shanker Dev Campus, Faculty of Management, T.U.
- Dahal, Bikram and Dahal, Bishnu P., (2002), *A Hand Book of Banking*”. Kathmandu: Asmita Prakashan.
- Dahal, Ramesh (2004), “*Banking Policy in Tenth Plan*” Kathmandu: Makalu Books and Stationery.
- Dangol, Ratna Man and Dangol, Jeetendra (2004), “*Banking Environment in Nepal*”, Kathmandu: Taleju Prakashan.
- Dhungana, Bhisma Raj, (2004), “*Financial Sector Reform (FSR) Program in Nepal Souvenir*, Kathmandu, Rastriya Banijya Bank, II (2): 10.
- Ghimire, Gopal Prasad, (2003), “*Financial Performance of Commercial Banks “A Comparative Case Study of Nepal Bangladesh Bank Ltd., Himalayan Bank Ltd and Everest Bank Limited*. An Unpublished Master degree thesis, Kathmandu, Shanker Dev Campus, Faculty of Management, T.U.
- Grywinski, K. (1991), “*Fundamentals of Banking and Insurance*” New York: The Dryden Press.
- Gupta, G.P. (2002), “*Banking System and it’s Role in Export Development*”, New Delhi: Universal Law Publishing Co. Pvt. Ltd.
- Gupta, S.N. (1999), “*The Banking law in Theory and Practice*”, New Delhi Universal Law Publishing Co.Pvt. Ltd.

- Ivamy, E.R. Hardy (1993), *“General Principal of Banking and Insurance”*, London: Butterworth Publication.
- Joshi, Jitendra Man (2004), *“Financial Analysis of Nepalese Commercial Banks”* An Unpublished Master’s Degree Thesis, Kathmandu, Shanker Dev Campus Faculty of Management, T.U.
- K.C., Shekher, (1994), *“Banking Theory and Practice”*, New Delhi: Vikas Publishing House P. Ltd.
- Kasaju, Pallava (2006), *“A Comparative Study on Performance Analysis of Top Five Commercial Banks in Nepal”*, An Unpublished Master Degree Thesis, Kathmandu, Shanker Dev Campus, Faculty of Management, T.U.
- Khan, M.Y. and Jain, P.K., (1997), *“Banking Theory and Practice”*, New Delhi: Tata McGraw-Hill Publishing Co. Ltd.
- Khubchandani, B.S., (2002), *“Practice and law of Banking”*, New Delhi: MacMillan India Limited.
- Kothari, C.R., (1989), *“Quantitative Techniques”*, New Delhi: Vikas Publishing House P. Ltd.
- Mishra M.N (2003), *“Banking and Insurance”*, Allahabad: Central Law Agency.
- NABIL (2004/05 to 2008/09), *“Annual Report”*, Kathmandu: NABIL.
- Natarajan, K. (2001): *“Banking Theory and practice”* New Delhi: Himalaya Publishing House.
- NEPSE (2008/09), *“Annual Report”*, Kathmandu: NEPSE.
- NIBL (2004/05 to 2008/09), *“Annual Report”* Kathmandu: NIBL.
- Pandey, I.M. (1989): *“Financial Management”* New Delhi: Vikas Publishing House Pvt. Ltd.
- Pant, P.R., (2006): *“Banking Development in Nepal”* Kathmandu: Buddha Academic Publishers and Distributors P. Ltd.
- Paudel, Deepak Prasad (2006), *“A Comparative Study of Financial performance of NABIL Bank limited and Nepal Bangladesh Bank Limited”*. An Unpublished Master Degree Thesis, Kathmandu, Shanker Dev Campus, Faculty of Management, and T.U.

- Reed, E.W., Cotter, Richard V., Gills, and K. (1976), “*Commercial Banking*” New Jersey: Prentice Hall Inc.
- Saeed, M. and Singh, Y.P., (1990), “*Encyclopedia Dictionary of Commerce*” , New Delhi: Akash Deep Publishing House.
- SCBNL (2004/05 to 2008/09), “*Annual Report*”, Kathmandu: SCBNL.
- Shrestha, Manohar Krishna (2004), “*Commercial Banks Comparative Performance Evaluation*” Kosh Samachar, Kathmandu, Karmachari Sanchya Kosh, and II (3).
- Shrestha, Prakash (1990), “*Commercial Banks Comparative Performance Evaluation*” Banking Samachar, Kathmandu, and NRB, I (2): 15.
- Thapa, Nara Bahadur (2004), “*Role of Monetary and Fiscal Policy*” Kathmandu: Makalu Books and Stationery.
- Udas, Shyam Kumar (2001), “*A Comparative appraisal on financial performance of Nepal of Nepal Bangladesh Bank and Bank of Kathmandu*”, An Unpublished Master Degree Thesis, Kathmandu, Shanker Dev Campus, Faculty of Management and T.U.
- Vaidya, Shakespear, (1999): “*Banking Management*”, Kathmandu: Monitor Nepal.
- Van Horne J.C (2000), “*Financial Management and Policy*”. New Delhi: Prentice-Hall of India Private Limited.
- Yadav Bijaya Kumar (Aug 2009) “*A Comparative Study of Financial Performance of Commercial Banks in Nepal*”, An Unpublished Master Degree Thesis, Kathmandu, Shanker Dev Campus, Faculty of Management and T.U.
- Kuikel Madhav Prasad (2008) “*A comparative study of top commercial banks in Nepal*”. An Unpublished Master Degree Thesis, Kathmandu, Shanker Dev Campus, Faculty of Management and T.U.
- Bhattarai Uttarai (2009), “*Financial Performance Analysis for Profit Planning of commercial banks in Nepal*”. *With reference to Everest Bank Limited, NABIL Bank Limited, Bank of Kathmandu Limited.* An Unpublished Master Degree Thesis, Kathmandu, Shanker Dev Campus, Faculty of Management and T.U.

Websites

- www.nabilbank.com.np November 11, 2009.
- www.nibl.com.np November 11, 2009.
- www.standardcharteredbank.com.np November 11, 2009.