FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS

(With Key Focus on NIBL, HBL, SBI, EBL & BOK)

By

SUNIL SHRESTHA

Shanker Dev Campus

Campus Roll No.: 371/063

T.U. Regd. No.: 7-2-39-266-2003

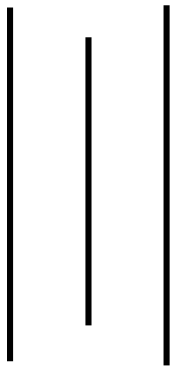
2nd Year Exam Symbol No.: 2981

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University



In partial fulfillment of the requirement for the degree of Master of Business Studies (MBS)

Kathmandu, Nepal

April 2011

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Sunil Shrestha

Entitled:

FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS

(With Key Focus on NIBL, HBL, SBI, EBL & BOK)

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

……...……..……..	.....……..…….……	……..……..…….
Prof. Dr. K.D. Manandhar	**Prof. Bishweshor Man Shrestha**	**Prof. Dr. Kamal Deep Dhakal**
(Thesis Supervisor)	**(Head, Research Department)**	**(Campus Chief)**

…...……..……..

Dhruba Subedi

(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by:

Sunil Shrestha

Entitled:

FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS
(With Key Focus on NIBL, HBL, SBI, EBL & BOK)

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 the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department **……..……**

Member (Thesis Supervisor) ……..……

Member (Thesis Supervisor) ……..……

Member (External Expert) ……..……

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Financial Performance of Nepalese Commercial Banks (With Key Focus on NIBL, HBL, SBI, EBL & BOK)**" 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 degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. K.D. Manandhar** and **Dhruba Subedi** of Shanker Dev Campus, T.U.

……..

Sunil Shrestha

Shanker Dev Campus

Campus Roll No.: 371/063

T.U. Regd. No.: 7-2-39-266-2003

2nd Year Exam Symbol No.: 2981

ACKNOWLEDGEMENT

I express my sincere gratitude to all the authors and learned personalities, whose writings have been quoted in this study. I also express my sincere gratitude to those authors whose writings though are noticed but helped and inspired me in making my vision clear and reaching on conclusion.

I extend my deep sense of indebtedness to my respected supervisors Professor Dr. K.D. Manandhar and Dhruba Subedi for their precious guidelines, inspiration and suggestion thoroughly during the period of this research. Without their valuable insight, I would not think of accomplishment of this thesis paper.

I acknowledge my insightful gratitude to the sampled Banks for the cooperation shown and providing necessary data.

I want to give thanks for the staff members of Shanker Dev Campus Library who provided the reference and reading materials during the period of research.

Finally, I would like to express my sincere gratitude to all my family members and friends for their assistance, timely encouragement in every step and all kind of support. Also the special thanks to Mr. Rangit Sapkota who provided me crucial support, is also part of my sincere thanks.

Sunil Shrestha

TABLE OF CONTENTS

CHAPTER – IV DATA PRESENTATION AND ANALYSIS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

A.D.	:	Anno Domini
ANOVA	:	Analysis of Variance
ATM	:	Automated Teller Machine
B.S.	:	Bikram Sambat
BOK	:	Bank of Kathmandu Limited
C.V.	:	Co-efficient of Variation
CRR	:	Cash Reserve Ratio
DPS	:	Dividend Per share
EBL	:	Everest Bank Limited
EPS	:	Earning Per Share
F.Y.	:	Fiscal Year
FDI	:	Foreign Direct Investment
GDP	:	Gross Domestic Product
HBL	:	Himalayan Bank Limited
HBL	:	Himalayan Bank Limited
i.e.	:	That is
JVBs	:	Joint Venture banks
Ltd.	:	Limited
MVPS	:	Market Value Per Share
NEPSE	:	Nepal Stock Exchange
NGOs	:	Non-Government Organizations
NIBL	:	Nepal Investment Bank Limited
NPA	:	Non-Performing Assets
NPM	:	Net Profit Margin
NRB	:	Nepal Rastra Bank
P/E Ratio	:	Price-Earning Ratio
RBB	:	Rastirya Banijya Bank Ltd.
ROA	:	Return on Assets

S.D.	:	Standard Deviation
S.E.	:	Standard Error
S.N.	:	Serial Number
SBI	:	Nepal SBI Bank Limited
SWOT	:	Strength, Weakness, Opportunity & Threats (Analysis)

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Economic development plays the key role for the development of any nation. Thus the primary goal of any Nation including Nepal is need of rapid economic development to promote the welfare of the people and nation as well. To rapid growth of economic growth, must require thing is to investment in productive sectors or enterprises. To establishment of productive enterprises, huge amount of investment is required. Nepal is the one of the undeveloped nation. Causes' behind Nepal's underdeveloped economy is not only due to the lack of resources but also to the improper utilization of the resources in the effective manner too.

For the entire development of Nation, each and every sector should be strong and capable. Among them, economic sector is one of the major sectors. Normally each and every measure of the level of the development of the nation depends upon the economic development. In fact financial sector plays an important role for economic development. Banks are among the most important financial institution in the economy. They are principle sources of credit for millions of individuals and families and for many units of government. Moreover for small local businesses ranging from grocery store to automobile dealers banks are often the major sources of credit. ‘‘A financial intermediary accepting deposits and giving loans affairs the widest menu of services of many financial institution” (Rose, 2002:4).

A bank is an institution which deals in money receiving deposits from customers, honoring customer's drawings against such deposits on demand, collecting cheques for customers and lending and investment surplus deposits until they are required for repayment. Commercial banks are established to improve people's economic welfare and facilities, to provide loans to agriculture, industry and commerce and offer banking services to the people and the country.

1.2 Concept of Commercials Banks

Commercial banks are those banks, which pool together the saving of the community and arrange them for the productive use. They accept deposits form the public and provide same deposits to the public as loan and advances. In fact, they circulate the money and create credit. The concept of the commercial banks made the economy strong. And now it's playing important role to make country economically strong. According to the Black's law Dictionary "Commercial Bank" means a bank authorized to receive both demand and time deposits, to engage in trust services, to issue letter of credit, to rent time-deposit boxes, and to provide similar services. Likewise section 2(a) of the Commercial Bank Act 2031 has defined that "Commercial Bank" means a bank which operates currency exchanges transactions, accepts deposits, provides loan perform, dealings, relating to commerce except the banks which have been specified for the co-operative, agricultural, industry of similar other specific object (Bhandari, 2003).

Hence, the term commercial bank is used taking meaning of all banking habits. That's why joint stock banks, member banks, and credit banks are frequently used interchangeably with the term commercial banks. But it is different that central bank. Central Bank cannot be interchangeable with other banks. In this way, a commercial bank is different from a central bank. While the primary objective of a commercial bank is the maximization of profit the central bank is primarily concerned with the effects of its operations on the functioning of the economy. Moreover, while there may certainly be many competing commercial banks, there exits only one central bank in a country. While the commercial banks compete against each other, the central bank comes out if any; ordinary banking business for the general public, incomplete if confines itself mainly to controlling the operations of the banking system in country

1.3 History of Banking in Nepal

Similar to other countries goldsmith and landlords were the ancient bankers in Nepal. TejarathAdda established during the tenure of then Prime Minister Rannodip Singh was the first step towards the institutional development of banking in Nepal thought all the banking activities were carried out by it. TejarathAdda did not collect deposits

from the public but provided loans government employees and public against bullions.

Banking in true sense terms started with the inception in Nepal Bank Limited on 30th Kartik 1994 B.S. right from inspection, it carried out functions of a commercial bank. Nepal Bank Limited had a Herculean responsibility of attracting people towards banking sectors from predominant non institutional transactions as well as introducing other banking services. Being a commercial bank, it is the one of government to look into neglected sector too.

This is the main reason of establishing Nepal Rasta Bank as a central bank of Nepal in 2013 B.S. Since then it has been functioning as a government bank it has its own limitations and reluctances of NBL to go the unprofitable sectors. To cope with these difficulties, government set up RastriyaBanijya Bank in 2033 B.S as a fully government owned commercial bank. Gradually, Agricultural Bank and Industrial bank came into existence. Deposit all these efforts of the government, financial sector was found sluggish. Banking service to the satisfaction of the customer's was a far cry.

However, the inception of Nepal Arab Bank Limited in 2041 B.S. as a first joint venture bank proved to be a milestone in the history of banking. The process of development of banking system in Nepal was satisfactory after the establishment of joint venture banks and other commercials bank. After the restoration of democracy, the government took the liberal policy in banking sector as an open policy of the government to get the permission to invest in banking sector from private and foreign investor under commercial bank act 2013. Different private banks have been established with joint venture of other countries and/or private investment of Nepalese citizens.

The main objectives of these banks are carrying out activities according to the commercial bank Act, Nepal Rastra Bank Act and Contract Act. The function of these banks are to accept deposits to provides loans agency function, utility function,

oversees trading services, and other services. But there are some problems faced by these banks such as political influence upon banks, banks are not free from corruption, lack of effective control and correct direction, lack of investment in productive sectors, centralization and urbanization of banks, trainings and uncertain problems, Traditional Theory.

It is clear that growth of banking in Nepal is satisfactory but not enough as compared to other countries because the banks are not enough, the competition is not found in banking function, the banks are increased in urban areas, modern and joint investment banks are not established in rural areas. Hence, the rural people are not getting banking service as they should be.

At present there are 31 Commercial Banks (2 of them are not operating yet), 88 Development banks, 79 finance Company, 19 Micro credit development banks, 16 saving and credit co-operatives and 45 NGOs *(Operating Financial Activities)*. They all have got their own rules and regulations and own vision but ultimately they are serving nation to build huge financial resources and mobilizing it in the beat possible way.

1.4 Focus of the Study

The establishment of the Commercial banks has given a new horizon to the financial sector of Nepal. These commercial banks play a vital role in the economic growth of the country. Likewise they are equally liable to the benefits of their shareholders, customers, and depositors and overall to the whole society. Amidst the unfavorable circumstances their success mainly depends on their financial decisions. This thesis focuses on the analysis of their financial performance to disclose the truth about their financial decisions, present problems and recommendations for corrections.

The study is mainly focused on the performance of Commercial bank namely Nepal Investment Bank, Himalayan Bank, Nepal SBI Bank, Everest Bank and Bank of Kathmandu in the Five year period form 59/60 to 63/64.

1.5 Statement of the Problem

The number of commercial banks is increasing now a day. In this contest due to crisis in the political stability and global economic crisis has led down the economic growth, many business sectors are not doing well. Economic and Financial System has been passed from very difficult situations. In this situation, Commercial bank has to perform better than that of others to survive in the system.

Today's new banks are being established and existing banks are opening their branches in different areas. There is vast competition among the banks. Commercial banks are at high time to focus their eyes for the better productive management for survival and growth. Commercial banks have lot of deposits but very little investment opportunities they are even discouraging people by offering very low interest rate. That is why people are now interested to invest on land, building, Vehicles, ornaments rather than banks. This will definitely make bad impact on economy of the country.

Commercial banks are closely watched by their customers, Regulators and by the in the money and capital market. The performance of the bank is evaluated not only relative to the institution's own goals but also relative to the institution's competitors. Mainly four dimensions of bank performance tend to be the most closely followed in the industry

The principle of financial management teach that a bank's stock price is usually the single best indicators of how well the firm is performing because its shareholders must be satisfied they are earning a competitive return on their capital. However, many banks around the world either do not have stockholders or have stock that is so infrequently traded that a realistic value cannot be determined. This is why many banks have to pay close attention to measure various ratios to managing their performance.

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:

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

1.6 Objective of the Study

The basic objective of the research is to examine the performance of sample commercial banks. More specifically these are the main objectives of the study

- To evaluate the combined effect of liquidity, assets management, and debt management on operating result.
- To find banks long-run survival credit and liqudity risk.
- To find banks interest rate risk.
- To find out banks operating efficiency.
- To provide suggestion and reromendation for the future improvement.

1.7 Importance of the Study

There are many studies has been done in this topic. Some studies have been conducted regarding investment policy of commercial bank, Liquidity assessment of banks financial performance of banks and so on. They only research about financial ratio but no student till today has researched on about managing performance of the commercial bank. So this may be the new research done in management faculty of Tribhuvan University, in addition to this, the result of this study may help the different areas like students, researcher, investor, financial manager, policy maker etc.

- It can help us to understand combined effect of liquidity, assets management, and debt management on operating results.
- It can help to know about Default Risk, Credit Risk, Liquidity Risk and Operating Efficiency ratio.
- It can be a guide line to the future researches who are interested on this topic.
- Especially, it fulfills the requirement of degree of Master of Business Studies.

1.8 Limitation of the Study

Research is the systematic process of searching something to find out the solution of a problem. The findings might not be equally applicable to all the problems. Every research has some limitations. A single research can't be perfect in itself. The present research too, cannot be an exception. The research is made for the partial fulfillment of the requirements for the Degree of Master of Business Studies (MBS) and not a comprehensive study. Hence the major limitations of this research are:

- This study is confirmed to five commercial banks. Thus the findings may not be applicable to the other banks and financial institution.
- The reliability of the study is heavily dependent of the secondary sources of data, Validity of secondary data relies opens the source.
- The study has covered only five years data.

1.9 Organization of the Study

The study has been organized into five chapters in order to make the study easy to understand.

Chapter I: Introduction

It includes general introduction, Statement of problems, Objectives of study, Importance of the study, Limitation of the study and Organization of the study.

Chapter II: Review of Literature

This chapter consists of the conceptual review and review of articles, Journals, Reports and other relevant study materials.

Chapter III: Research Methodology

It covers on Research design, Population and sample, Data gathering procedure and analytical tools etc.

Chapter IV: Presentation and Analysis of Data

This chapter attempts to analyze and evaluate data with the help of analytical tool and interprets the result obtain.

Chapter V: Summary, Conclusion and Recommendations

It sums up the result obtain through analysis and recommends some suggestions.

Bibliography and other annexes used will be attached at the end of the thesis

CHAPTER - II

REVIEW OF LITERATURE

In introduction chapter we describe about background of the study, Concepts of commercial bank, history of banking in Nepal, Focus of the study, Profile of the sample banks, Statement of the problems, Objectives of the Study, Importance of the study, limitations of the study, Research Methodology and Organization of the Study.

This chapter deals with the review of the financial performance of the commercials banks in more details and descriptive manners. For this purpose, various Books, Journals, Articles from various newspapers and other related study have been reviewed.

Therefore, the chapter is categorized under three main heading. Conceptual framework is concern with fundamental of supportive text that will ensure the interpretation whether it is under the principles and doctrine of the theories related to the topic. Review of related studies is about the legislations related to commercial banks studies of previous thesis, related books and previous researcher in similar topics. The last is research gap which will describe the difference between the previous thesis and current thesis.

2.1 Conceptual Framework

2.1.1 Concept of Commercial Bank

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

The Bank is financial institution, which play a significant role in the nation. It facilitates the growth of trade and industry, and boost natio0nal economy. However, a bank is resources of economic development, which maintain the self-confidence of various segment of society and extend credit to the people.

Commercial banks are the financial institution which deals on accepting deposits of people and institution and giving loans against securities. They provide working capital needs of the trade, industry, and even to agriculture sector. Commercial banks are also provides technical and administrative assistance to trade, industries and business enterprises. Commercial bank is a corporation, which accepts demand deposits, subject to check and makes short term loans to business enterprises, regardless of the scopes of its other services.

A commercial banker is a dealer in money and substitute for money, such as cheque or bill of exchange. It's also provides a variety of financial services (The New Encyclopedia Britannica, 1985:605).

An American institute of banking has laid down for function of the commercial bank i.e. receiving and handling deposits, handling payment for its clients, granting loan and investment and creating money by extension of credit (American Institute of Banking, 1985:609).

According to the "Nepal Commercial bank Act, 2031 B.S", "A commercial bank is one which exchanges money, deposits money, accept deposits, grand loans and performs commercial banking functions and which is not a bank meant co-operation, agriculture, industries or for such specific purpose."

Under the commercial bank Act 2031 B.S, it has also mentioned that, "The commercial banks are those banks, which provide short term and long-term debts whenever necessary for trade and commerce. They accept deposits from the public and grand loans in different forms. They purchase and discount the bill for exchange promissory notes, and exchange foreign currency".

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 activities to borrows, individual’s

business firms, and services from the producers to customers and the financial activities of the government. They provide a large portion of the medium of facts show that the commercial banking system of the nations is important for the functioning of the economy (Cotter and Smith, 1975).

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

In Nepal 31 Commercial banks are established and operating so far, they are:

S.N.	Names	Operation Date (A.D.)
1	Nepal Bank Limited	1937/11/15
2	Rastriya Banijya Bank	1966/01/23
3	Agriculture Development Bank Ltd.	1968/01/02
4	Nabil Bank Limited	1984/07/16
5	Nepal Investment Bank Limited	1986/02/27
6	Standard Chartered Bank Nepal Limited	1987/01/30
7	Himalayan Bank Limited	1993/01/18
8	Nepal SBI Bank Limited	1993/07/07
9	Nepal Bangladesh Bank Limited	1994/06/05
10	Everest Bank Limited	1994/10/18
11	Bank of Kathmandu Limited	1995/03/12
12	Nepal Credit and Commerce Bank Ltd	1996/10/14
13	Lumbini Bank Limited	1998/07/17
14	Nepal Industrial & Commercial Bank Ltd	1998/07/21
15	Machhapuchhre Bank Limited	2000/10/03
16	Kumari Bank Limited	2001/04/03
17	Laxmi Bank Limited	2002/04/03
18	Siddhartha Bank Limited	2002/12/24
19	Global Bank Ltd.	2007/01/02
20	Citizens Bank International Ltd.	2007/06/21
21	Prime Commercial Bank Ltd	2007/9/24
22	Sunrise Bank Ltd.	2007/10/12
23	Bank of Asia Nepal Ltd.	2007/10/12
24	Development Credit Bank Ltd.	2008/05/25
25	NMB Bank Ltd.	2008/06/05
26	Kist Bank Ltd.	2003/02/21
26	Kist Bank Ltd.	2003/02/21
27	Janta Bank Nepal Ltd.	2010/04/05
28	Mega Bank Nepal Ltd.	2010/07/23
29	Commerz and Trust Bank Nepal Ltd.	2010/09/20
30	Civil Bank Ltd.	2011
31	Century Bank Ltd.	2011

Sources: www.nrb.com.np

2.1.2 Functions of Commercial Bank

Commercial Banks are the important type of financial institution for the nation in term of aggregate assets. The business of banking is very broad in modern business age. The number and variety of services provided by commercial bank will probably expand. Recent innovation in banking includes the introduction of credit cards, accounting services in banking business firms, factoring, and leasing participation in the Euro dollar market and lock-box banking (Cotter and Smith, 1976).

The function of commercial banks can be defined as in several area and disburse cash, they provide short-term credit, they offer several kinds of short- term investments, they serve as a fiduciary, they provide consulting services in cash management and other fields, they may provide as brokerage function that permits customers to buy and sell securities like commercial papers, bond and stocks, and they can offer some kinds of insurance. The following sections discuss some of these functions in more brief (Hill and Sartoris, 1995).

2.1.2.1 Depository Function

Banks offer several types of depository accounts. There are two basic types of depository accounts, time and demand. For time deposits, the cash in the account receives interest and must be held in a bank for a specified time period. Demand deposits may be withdrawn at any time by the account holder or other party on presentation of a valid draft or cheque drawn on the account.

2.1.2.2 Collection, Concentration, and Disbursement Functions

Banks serve as clearing house for cheque. When a firm receives a cheque in payment for some good or service, the firm deposits the cheque in a bank. The bank gives there firm credit for the cheque and returns the cheque to the bank on which it was drawn. Banks also serve as initiating receiving points for wires and automated clearing house transfers.

After cash has been collected in one bank, the cash balance generation is usually concentrated or pooled into a larger account at a centralized bank. Banks offer a number of services to assist firms to concentrating their cash. On the outflow side, disbursement cheques sent to vendors are drawn on banks.

2.1.2.3 Short-Term Credit Function

Banks provide financing to corporations to help meet short-term cash needs. Since banks take in cash in the form of short-term deposits, they in turn led cash primarily in the form of short-term loans. The short-term loans may be as the form of a credit line, revolving credit line, and term loans acceptance financing, letter of credit etc.

2.1.2.4 Investment Function

In addition to be the interest-bearing deposits mentioned, commercial banks provide other opportunities for cash managers to invest short-term funds. They are major brokers of notes and bonds, government agency securities, and municipal notes note and bonds. They also sell bank commercial paper and deal extensively in repurchase agreements.

2.1.2.5 Fiduciary Function

Many banks are empowered to operate a trust department. A fiduciary act on behalf of another party. Banks that provide trust services invest, manage and distribute money as requested in wills, trusts, estates and retirement plans. A trust department may be appointed to serve as a corporate trustee or overseer for a corporate bond or preferred stock issue. The bank monitors compliance with indenture agreements, ensures that the corporation pays interest to the bondholders, and redeems bond as required by the agreement. In addition, a bank may serve as a transfer agent to deep records of the sale and purchase of a corporations stocks and bonds, or as a registrar to maintain lists of current stockholders and bondholders for the purpose for remitting dividend and interest payments.

2.1.2.6 Consulting Services Function

Large banks generally offer consulting services, especially in the area of cash management. Such services are used in designing optimal collection, disbursement and concentration systems.

2.1.2.7 Brokerage and Insurance Function

Banks were permitted to purchase brokerage firm to help their customers buy and sell stocks and bonds. The law states, however, that a bank can own only a discount brokerage firm one that performs transactions but does not give investment advice. Additionally, banks can now offer certain types of insurance to bank customers.

i. Accepting Deposits

It is fair deduction that no person or body, corporate or otherwise, can be banker who does not take deposits, issue & pay cheques& collect cheques from his customers. Here, all functions are related with the acceptance of deposits. Therefore, accepting deposits by bank is the oldest function of bank.

A bank accepts deposits in three forms viz. saving, current & fixed. Saving deposit is one of the deposits collected from small depositors & low-income depositors. The banks usually pay small interest to depositors for their deposits. Current account is also known as demand deposits. Under this, any amount may be deposited. There are no restrictions regarding number & amount of withdrawals as contrary to saving account. The banks don’t pay any interest on such account but charge small amount on the customers having current account. A fixed or time deposit is one where customers are requested to keep a fixed amount in the bank for specific period, generally by those who don’t need money for stipulated time. The bank pays a higher interest on such deposits.

ii. Advancing Loans

The second major function of a commercial bank is to provide loans & advances from the money, which it receives by way of deposits for the development of industry, trade, commerce, services, & agriculture. The main purpose of commercial bank is to boost up the development pace of communities & the economy as a whole.

iii. Agency Services

The bank also performs number of services on behalf of the customers. The following are the agency functions provided by the bank.

- Dealing with the transaction of foreign exchange business
- Serving as an agent of correspondent on behalf of the customers
- Issuing letter of credit, circulate note, traveler's cheques, etc.
- Purchasing & selling different kinds of securities & remitting funds
- Keeping valuable article in safe custody
- Providing financial advice to various persons & bodies whenever required

iv. Creating Money

The major function of the bank that separates it from other financial institution is the ability to create money & to destroy money, which is accomplished by lending & investing activities. The power of the commercial banking is of great economic significant as it results in the elastic credit system that is necessary for the economic progress at a relatively steady growth rate (American Institute of Banking, 1985).

2.1.3 Financial Performance Analysis

Traditionally, banks act as financial intermediaries to channel funds surplus units to deficit units. Unlike other non-banking financial companies, commercial banks don not produce any physical goods. They produce loans and financial innovations to facilitate trade transactions because of special role they play in the economy, concerned authorities heavily regulate them. Analysis of banks financial statement is different from threat of other companies due to the special nature of assets and liabilities.

Balance sheet profit and loss account and the accompanying notes are the most widely aspects of financial statement of the bank. The bank's balance sheet includes financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets appear in small portion out of the total assets. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items. Interest received on loans advances and investment and paid in deposit liabilities are major components of profit and loss account. The other sources of income are fee, commission and discounts, foreign exchange income, dividend on investment, other service charge etc.

The users of financial statement of bank require relevant, reliable and comparative information to evaluate the financial performance and position and hence make economic decision regarding the bank. According to 'Commercial Bank Act 2031' the audited balance sheet and profit and loss account must be published in the leading national; newspaper for the information of general public.

Most of the users of financial statements seek to assets the bank's overall performance. Following factors affect the evaluation of bank overall performance;

- The structure of balance sheet and profit and loss account.
- Operating efficiency and internal management system.
- Managerial decisions taken by the top management regarding interest rate lending policies exchange rates etc.
- NPA
- Environment changes such as changes in Technology, Government Competition, and Economy etc.

2.1.4 Financial Statement Analysis

Financial statement is the indicator of business performance that whether business is profitable or not. Therefore, financial analysis reflects the financial position of a firm, which is the process of determining the operational and financial characteristics of firm. Different types of financial statement analysis can be used on the basis of this

research's objectives. Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable situation of a business concern. Financial performance is the main indicator of success or failure of the company.

The main function of financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statements, by making comparison of various components and by examining their content. This can be used by financial managers as the basis to plan future financial requirements by means of forecasting and budgeting procedures (Man Mohan and Goyal, 1997).

According to the Hampton "Financial analysis is used primarily to gain insight in the operating and financial problems confronting the firms, with respect to these problems we must be careful to distinguish between the cause of problem and symptom of it". It is thus an attempt to direct the financial statements in to their components on the basis of purpose in hand and establish relationship as between these components on the one hand as between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability an financial condition of the business organization (Hampton, 2002: 99).

Financial analysis is the process of determining financial strengths and weakness of Analysis Company by establishing strategic relationship between the components of analysis balance sheet and other operative data (Pandey, 1994).

Weston, Basley and Brigham have stated, "Financial statement analysis involves a comparison of analysis firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable

the firm to take advantage of the strength and correct its weakness (Weston, Besley and Brigham, 1996).

Financial statement analysis is largely is largely analysis study of relationship among the various financial factors in analysis business as disclosed by the single set of statement and analysis study of the trend of these factors as shown in analysis series of statement (Myer, 1961).

Financial analysis is process if identifying the financial strength and weakness of the form by property establishing relationship between the items of the balance sheet, which represents analysis snapshot of the firm's financial position analysis at analysis moment in time and next, income statement, that depots analysis summary of the firm's profitability overtime (Vanhorn and Watchowcz, 1997).

Interest parties in financial statement analysis are management, investors or shareholders or owner, creditors, employees and trade union, bankers and lender and government etc. (Dongol and Dangol, 2061). Financial statement analysis technique of answering various questions regarding the performance of a firm in the past, present and the future (Pradhan, 2004).

2.1.4.1 Financial Statement

Financial statements provide information about a firm's position at a point in time as well as its operation over some past period. However the real value of financial statement lies in the fact that they can be used to help predict the firm's financial position in the future, and to determine expected earnings and dividends from an investors standpoint, predicting the future is what financial statement analysis is useful both as a way to anticipate future conditions and more important as a starting point for planning actions that will influence the future course of events (Weston and Brigham, 1990).

Financial statements are vital sources of information to a company's stakeholders in learning about the financial health of the company and how their respective interest is there by affected (Chitrakar, 2003). Financial statements are prepared primarily for users outside an organization; managers also find their organization's financial statements useful in making decision (Hilton & Ronald, 2002).

There are primarily four components of financial statement:

- Balance Sheet
- Income Statement
- Statement of Retained Earnings
- Statement of cash Flows

2.1.4.1.1 Balance Sheet

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

2.1.4.1.2 Income Statement

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

2.1.4.1.3 Statement of Retained Earnings

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

2.1.4.1.4 Cash Flow Statement

It shows how cash obtained during the period and how it was used. The cash flow statement is designed to convert the accrual basis of accounting used to prepare the income statement and balance sheet back to a cash basis. This may sound redundant but it is necessary .The accrual basis of accounting generally is preferred for the income statement and balance sheet because it more accurately matches revenue sources to the expenses incurred generating those specific sources.

However, it also is important to analyze the actual level of cash flowing into and out of the business. Like the income statement, the statement of cash flow measures financial activity over a period of time. And the cash flow statement also tracks the effects of changes in balance sheet accounts. The cash flow statement is one of the most useful financial management tools to run business.

It is useful in providing information to the users of financial statements about the ability of the enterprise to generate cash and cash equivalents and the need of the enterprise to utilize those case flows (Wagle and Dahal, 2004).

2.1.4.2 Importance of Financial Statement Analysis

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

2.4.1.3 Objectives of Financial Statement Analysis

- To judge the financial health of the firm.
- To judge the profitability of the business undertaking.

- To evaluate the capacity to repay the loans and interests there on.
- To evaluate the solvency position of the firm.
- To examine and evaluate the return on investment and or capital employed.

2.4.1.4 Limitations of Financial Statement Analysis

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

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

2.1.5 Analytical Technique Used

Four analytical tools are used in widespread in analyzing financial statements.

- Horizontal Analysis
- Trend Analysis
- Common-size/ Vertical analysis
- Ratio Analysis

2.1.5.1 Horizontal Analysis

Horizontal analysis is the analysis of financial statement over a series of years. The calculation of changes in absolute amount or percentage changes in the statement item or totals is horizontal analysis (Bajracharya et.al, 2004).

When the financial statement of previous year along with current year are presented horizontally with added columns to reflect absolutely changes in amount and percentage for each item from the previous year to current yea, it forms the horizontal analysis (Wagle and Dahal, 2004:10.2). for example, assume that the sales figure forth

eh previous year and current year amounts to Rs. 200000 and Rs 300000 respectively. This can be reflected in comparative income statement as:

Table 2.1

Horizontal Analysis of Financial Statement

Items	Previous Year	Current Year	Increase/ Decrease	
			In Amount (Rs.)	In %
Sales	200000	300000	100000	50%

2.1.5.2 Trend Analysis

Trend analysis is nothing more than the extension of horizontal analysis for several years. It is carried out by assigning a value of 100 to the items of base year (Year with normal financial and operating environment) financial statements and then expressing the financial statements items in the following years as a percentage of base year value. It is also known as time series analysis (Wegle and Dahal, 2004).

Trend ratios involve a comparison of the ratios of a firm over time that is present ratios are compared with post ratios for the same firm. Trend ratios indicate the direction of change in the performance-improvement, deterioration or constancy-over the years (Khan and Jain, 2006). Trend analysis is the comparison over the three or more years (Hilton and Ronald, 2002).

2.1.5.3 Common Size Statement Analysis

Common size analysis is a vertical analysis. It expresses all items in the statement as percentage of a selected item (the base) in the statement. Financial statement that shows only percentage and no absolute amounts are common-size statements. This is the first step in a comprehensive ratio analysis. Management performance and be evaluated through common-size statement analysis. It should be evaluated from the prospective of liquidity, profitability and stability, activity & possibility management itself can be using these parameters to improve the organization's performance of future. It is also known as vertical analysis. Financial analysts use vertical analysis to

gain insight into the relative importance or magnitude of various items on the financial statements (Hilton and Roland, 2002).

2.1.5.4 Ratio Analysis

Ratios are the tools for measuring liquidity, solvency, profitability and management efficiency of the firm and it is also equally useful to the internal management, prospective investors and creditors and outsides etc. An analysis of the firm's ratios generally is the first step in financial analysis (Weston and Brigham, 1990).

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

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

Ratio analysis is a tool of scanning the financial statements of the firm. Through this one comes to know in which areas of the operation the organization is strong and in which areas it is weak (Bajracharya et.al., 2001). Ultimately, ratio analysis is a tool of scanning the financial statement of the firm.

Nature of Ratio Analysis

In financial analysis, ratio analysis is used as an index of yardstick for evaluating the financial position and performance of the firm. It helps in making decisions as it helps establishing relationship between various ratios and interprets there on. It helps analysts to make quantitative judgment about the financial position and performance of the firm. Ratio analysis involves the following four steps.

1. Selection of relevant data from the financial statement depending upon the objectives of the analysis.
2. Calculation of required ratio from the data presenting them either in pure ratio form or in percentage.
3. Comparison of calculated ratios with:
   - The ratio of the same concern over a period of year to know upward or downward trend or static position to help in estimating the future or
   - The ratio of another firm in the same line or
   - The ratio of projected financial statements or
   - The ratio of the industry average
   - The pre-determined standards of
   - The ratio between the department of the same concern assessing either the financial position or the profitability or both.
4. Interpretation of the ratio

The ratio analysis is classified into seven broad groups for better understanding and analysis:

- Liquidity Analysis
- Profitability Analysis
- Activity ratio analysis
- Long-Term Debt and Solvency Analysis
- Market value Analysis
- Other Relevant ratio
- NPA Analysis

2.1.5.4.1 Liquidity Analysis/ Working Capital Analysis

It measures the adequacy of a firm's resources to meet its near term cash obligations. It is pre-requisite for the very survival of firm. Liquidity analysis measures the liquidity position and short-term obligation.

To meet the current or short-term obligations, commercial banks must maintain adequate out in commercial banking. NRB has directed all the banks to maintain adequate CRR to meet its current obligations. Thus to measures the banks liquidity positions. CRR assumes the key indicator has other ratios. It is also found that central banks practically pay more attention towards the CRR of commercial banks.

Cash Reserve Ratio (CRR)

CRR measures the ability to meet short-term obligation and reflect the short-term financial strength and solvency of the bank. The cash reserve ratio (CRR) is being used as a prime and effective instrument to inject liquidity to and absorb liquidity from the economy. The CRR, which has been used particularly for last few to reduce the cost of resources of commercial banks and to manage necessary liquidity in the economy, has been gradually lowered in the neighboring countries as well as the majority of the countries in the world in complement to the prevalent use of indirect monetary instruments and prudential regulatory measures. "In this context, the CRR has been maintained at 5% for FY 2067\68 (Monetary Policy, 2067/68: NRB).

2.1.5.4.2 Profitability Ratio Analysis

A company should earn profit to service and grow over a long-term period of time. Profits are essential but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profits irrespective of social consequences.

Profit is the differences of revenues and expenses over a period of time. Profit is the ultimate output of a company and it will have no future if it fails to make sufficient profits. Therefore the financial manager should continuously evaluate the efficiency of

its company. So the profitability ratio measures the net income of the firm relative to its revenue and capital. The following major profitability ratios are calculated to measure the efficiency of banks.

Net Profit Margin

This ratio measures the overall profitability of the firm by establishing relationship between profit and sales revenue. The relationship between the net profit and sales indicated management's ability to operate the business with sufficient success not only to recover the cost of production, operating expenses of business and cost of borrowed mat also to leave margin of reasonable compensation to the owners for providing their capital at risk. This ratio is calculated by:

$$\textbf{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Total Income}} \times 100$$

= ……%

Return on Assets (ROA)

It measures the productivity of the assets. It is a measure in terms of relationship between net profit and assets. The income figure used in computing this ratio should be operating income (Munakarmi, 2002). This ratio is calculated by:

$$\text{Return on Assets} = \frac{\text{Net profit}}{\text{Total Assets}} \times 100$$

= ..... %

Interest Income on Loan and Advances

The major source of operating income of any commercial bank is interest income. Among the interest income should, loans and advance and overdraft are the major source of interest income. Investment on government securities and debentures are also the major source of interest income. Interest income to loan and advance ratio shows the high utilization of loan and advances. Higher percentage income reflects better operational efficiency or higher level of risk due to higher volume of investment in loan and advances (Shrestha, 2003). This ratio is calculated by:

$$\text{Interest Income on Loan and Advances} = \frac{\text{Interest Income}}{\text{Total loan and Advance}} \times 100$$

= .....%

Operating Ratio

Operating ratio of banks tries to establish relationship between operating expenses and total income. Operating expenses include administrative expenses, interest on short-term loan, discount allowed and bad debts (Munakarmi, 2002).

This ratio is calculated as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expanses}}{\text{Total Assets}} \times 100 \quad \frac{\text{Operating Expanses}}{\text{Total Income}} \times 100$$

= ……. %

2.1.5.4.3 Activity Ratio Analysis

Funds of creditors and owners are invested in various assets to generate sales and profits. The better utilization of assets is the make large the amount of sales. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilized its assets.

These ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over ratio into sales. Activity ratios, thus involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well. Several activity ratios can be calculated to judge the effectiveness of asset utilization (Pandey, 1997). Various activity ratios are calculated to find out the degree of effective utilization of resources by the bank.

Credit Deposit Ratio

Loan and advances to total deposit ratio is calculated by dividing total function is to be mobilize the funds from the depositors to the borrowers. To measures the activity position of commercial banks, loan and advances to total deposit ratio is calculated (Shrestha, 2003). This ratio is calculated by:

$$\text{Credit Deposit Ratio} = \frac{\text{Total Loan and Advance}}{\text{Total Deposit}} \mid 100$$

= ……. %

2.1.5.4.4 Long-term Debt & Solvency Analysis

It is also known as "Leverage or Capital Structure Ratio". Solvency analysis may be defined as financial ratios, which through light on the long-term solvency of a firm reflected in its ability to assure the long-term creditors with regard to (a) periodic payment of investors during the period of loan and (b) payment of principal on

maturity or in predetermined installments at due dates. There are aspects of the long-term solvency of the firm:

- Ability to repay the principal when due and
- Regular payment of the interest (Khan and Jain, 1996).

To measure banks capacity of borrowing as means of capital accumulation i.e. over extension of credit and borrowing power, which determine the long-term solvency of the banks; several capital structure ratios are calculated. These ratios help to calculate the proportion of outsides and owners contributions of these banks. To highlight on debt serving capacity financial health, strength and weakness assets of the bank, it is better to calculate capital-structure ratio.

Capital Adequacy Ratio

Capital adequacy ratio is calculated by dividing total capital fund (Net worth) by total deposits. Capital adequacy has remained one of the biggest issues in banking industry and the appropriate capital adequacy ratio for commercial banks has always been a controversial issue. According to capital adequacy principal, safety and stability fragile system ultimately rests upon the confidence of the depositors and creditors. NRB emphasizes upon capital as cushion to absorb unexpected losses arising from various risks that can create instability in banks earnings. Thus they prescribe a ratio of capital to total assets.

As per the directions of NRB, the commercial banks must maintain minimum percentage of adequacy of capital fund on risk weighted assets of the bank. NRB has provided a risk of on balance that and off-balance sheet of assets with risk rates on the basis of which commercial bank should calculate risk weighted assets. As per the directive of NRB in the 2067, capital adequacy ratio (CAR) to be maintained by the banks and financial institutions on the basis of risk-weighted assets (RWA) will be at 10.0%, with core capital at 6%. The ratio of core capital supplementary capital and total capital fund on risk-weighted assets in case of the banks has been as follows:

1. **Core Capital**

It is the combination of paid up capital, share premium, non-redeemable preference share, general retained fund and retained earnings of banks.

2. Supplementary Capital

It is combination of general loan loss provision, exchange equalization reserve, assets re-valuation reserves, hybrid capital instrument, unsecured sub-ordinates term debt and other free reserves.

3. Total Capital Fund

It is the addition of core capital and supplementary capital. In other words, it is total assets minus current liabilities or the net worth.

Interest Expenses to total Deposit Ratio

Ratio measures the cost of the deposits with borrowing in relative term. Interest expenses are the major expenses of the operation expenses of the commercial banks. Interest expenses consist of interest paid on various deposits (saving fixed call) etc. and borrowings.

The performance banks independent upon its ability to generate cheaper fund. Gate the cheaper the fund, more profitability generating on loan and advances and vice-versa. High ratio is indicative of costly fund and his adversely affects the lending activities of bank. It is calculated by:

$$\text{Interest Expenses to Total Deposit Ratio} = \frac{\text{Interest Expanses}}{\text{Total Deposit}} \mid 100$$

= …… %

2.1.5.4.5 Market Value Analysis

The market value ratios represent a group of ratio that relate to the firms stock price to its earning and book value per share. These ratios give management an indication of

what investors think of the company/banks past performance and future prospectus. If the firm's liquidity, asset management, debt management and profitability ratios are all good then its market value ratio will be high its price will be probably be as high as can be expected (Weston and Brighan, 1996).

Earnings per Share

Apart from the rate of return, the profitability of a firm from the profit view of the ordinary shareholders is the earning per share (EPS). It measures the profit available to the equity shareholders on per share basis i.e. the amount they can get on each share held. In other words, this ratio measures the earning available to an equity shareholder on a per share basis. The objectives of computing this ratio is to measure the profitability of the firm on per equity share basis. There are two components of this ratio that are as under:

- Net profit after preference dividend.
- Number of equity shares outstanding

It is computed by dividing the next profit after preference dividend by the number of equity shares outstanding. It is expensed as an absolute figure.

$$\text{Earnings per Share} = \frac{\text{Net Profit After Tax - Preference Dividend}}{\text{No. of Euuity Share Outstanding}} \times 100$$

Price-Earnings Ratio

Price-earnings ratio is widely used by the security analyst to value the firm's performance as expected by investors. It reflects investors' expectation about the firm's growth in the firm's earning. This ratio measures investors' expectation and the market appraisal of the performance of the firm (Munakarmi, 2002). Price-earnings ratio shows how much investor is willing to pay per dollar of reported profits (Weston and Brigham, 1996). This ratio is calculated as follows:

$$\text{P-E Ratio} = \frac{\text{Market Price of Share}}{\text{Earnings Per Share}} \times 100$$

= …….. %

So, calculation of P/E ratio of commercial banks is more appreciate by an investor's point of view.

Cash Dividend on Share Capital

The amount of earning distributed and paid as cash dividend is considered as the cash dividend on share capital or dividend per share. The net profit after taxes belongs to the equity shareholder (Munakarmi, 2002:489). This ratio is computed by dividing the amount of dividend distributed to shareholders by the number of common shares outstanding. It may be expressed as under:

$$\text{Dividend per Share} = \frac{\text{Earning Dividend Paid to Shareholders}}{\text{No of Equity Share}} \times 100$$

= Rs. ……

2.1.5.4.6 Other Relevant Ratios

To measures commercial bank's performance it is necessary to study other relevant ratios too. This ratio includes:

- Staff Expenses to Total operating Expenses
- Staff Bonus to total staff expenses.
- Weighted average interest rate spread
- Exchange/ Fx - fluctuation gain to Total Income

Staff Expenses to Total Operating Expenses Ratio

Staff expenses to total operating ratio are the contribution of total staff expenses in total operating expenses. It is conclude that higher ratio means the bank has provided better salary and other allowances. It is also the f\sign of highly motivated staff (Panta, 2005). On the other hand, the high ratio affects the net profit. This ratio is calculated as follows:

$$\text{Staff expenses to Total Staff Expenses Ratio} = \frac{\text{Staff Expanses}}{\text{Total Operating Expanses}} \times 100$$

= …….. %

Staff Bonus to Total Staff Expenses Ratio

This ratio is calculated with provision for staff bonus in terms of expenses. Provision of staff bonus, one of the important operating expenses of the banks refers to the extra incentives services. Bonus helps to uplift the morale of the staff as well as make them prompt for the next operation. Bonus is distributed if the banks have more profit. A high portion of staff bonus shows that bank has high operating profit. This ratio is calculated as follows:

$$\text{Staff Bonus to Total Staff Expenses Ratio} = \frac{\text{Staff Bonus}}{\text{Total Staff Expanses}} \times 100$$

= …… %

Weighted Average Interest Rate Spread

It is the difference between interest rate charged by a bank on loan and advances and interest rate offered on deposits. Generally commercial banks charge more interest rate on lending than they provide interest rate on deposits. Interest rate spread is calculated as follows:

Interest Rate Spread = Spread Rate on Lending- Interest Rate on Deposits

High spread shows the bank charges rate for the borrowers than they provide for depositors.

Exchange Gain to Total Income Ratio

Foreign exchange gain is another source of income, which includes trading income and re-evaluation income. This ratio is computed by dividing exchange gain by total income of the commercial bank. NRB has given instruction to allocate a portion of these incomes as "Foreign exchange Fluctuation Fund" and to retain one third of his income and show it in the balance that as payable to NRB. This ratio is income of commercial bank. It also represents high foreign currency transactions. The higher transactions give the higher percentage of ratio.

$$\text{Forex- fluctuation Gain to Total Income Ratio} = \frac{\text{Forex - fluctuation Gain}}{\text{Toatl Income}} \times 100$$

= ……. %

2.1.5.4.7 Non-Performing Asset (NPA)

Non- performing asset (NPA) in terms of banking sectors consists of those loans and advances which are not performing well and likely to be turn as bad loan. It may be simply define as bad loan. As per NRB directives, it has been categorized all classifieds loans and advances. NPA has several impacts on the financial institution. On the one hand investment becomes worthless, as expected return cannot be realizable. The profitability is directly affected.

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

Table 2.2

NPA of Commercial Banks on Different Fiscal Years

Year	NPA%
2005	18.79%
2006	13.16%
2007	10.56%
2008	6.08%
2009	3.53%
2010	3.01%

Source: Banking & financial Statistics- mid Jan, 2010, NRB

This shows that, NPA reduction is still tough challenge for banking industry due to high rate than international standards. So, NPA is becoming imminent challenge for banking industry.

- **Causes of NPA in Nepalese Commercial Banks**
  - Lack of clear lending policy
  - Lack of proper analysis of loan and advances
  - Lack of good governance debt management inside the bank
  - Overall economic crisis in the country
  - Weakness in consortium financing
  - Lack in internal control and auditing system
  - Lack of proper supervision of central bank
  - Bad intention of borrowers

2.1.6 NRB Directives on Classification of Loan and Provisioning

Nepal Rastra bank has issued Unified Directives to bank and financial institution. This also contains the new directive No. 2/067 concerning classification of loan portfolios and provisioning. Except a few important changes, this directive has retained most of the previsions.

2.1.6.1 Classification of Loan and Advances

The classification criteria are as follows:

1. Pass Category

All loans and advances the principal of which are not past due or past for a period up to 3 (three) months. Only loans falling under PASS category are termed as "Performing Loan".

2. Substandard Category

All loans and advances the principal of which are past due for a period of more than 3 months and up to 6 months.

3. Doubtful Category

All loans and advances the principal of which are past due for a period of more than 6 months and up to 1 (one) year.

4. Loss Category

All loans and advances the principal of which are past due for a period of more than 1 (one) year.

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

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

2.1.6.2 Loan Loss Provisioning

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

Table 2.3

Loan Loss Provision as per Loan Classification

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

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

- A minimum of 12.5% provision shall be made on restructured or rescheduled loans.
- In respect of restructuring or rescheduling of deprived sector loan and guaranteed of insured priority sector loan, the requisite provisioning shall be only 25% of the rates stated above.
- Where the installment of principal and interest of restructured or rescheduled loan is services regularly for two consecutive years, such loan can be converted into PASS loan.

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

3. Full provisioning shall be made against the uninsured priority, deprived sector loans and small and medium scale industrial loans.

However, in case of insured loans the provisioning requirement will be only 25% of the prescribed normal rates. Concession provisioning is not limited to priority/ deprived sector and small/medium industries only as was the case earlier. The

condition is purchase of insurance cover. According all loans, including priority sector/ deprived sector, not covered by the insurance (presumably with Deposit insurance and credit Guarantee Corporation) fall under normal category. The norms of classification remain same for these loans and advances also.

In the case of rescheduling/ restructuring of insured credit, the proportion of loan loss provisioning would be 3.125% (being 25% of 12.5%). However, in the case of recommended sick industries, the minimum provisioning requirement wick is 6.25% (25% of 25%).

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

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

NPA as categorized by NRB are classified loans and advances; for the probable loss on lending that cannot be recovered even after liquidation. NRB has directed to maintain loan loss provision. The loan loss provision is to maintain by debiting profit

and loss account. Thus as the quality of loan degrades the ratio of loan loss provision is increased.

2.1.6.3 Effect of NPA on Profitability of the Bank

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

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

Sharpe'e Portfolio Performance Measure

Willam Sharpe, Who developed a ratio called sharpe ratio to evaluate the performance of portfolio. It's also called an index of portfolio performance measure the amount of return from an investment portfolio for a given level of risk. Higher the Index Better the Performance of portfolio. This ratio used to ranking the portfolio.

The Sharpe,s Performance Measure calculated as fallows:

Sharpe Index of Portfolio Performance (Sp) $= \frac{\overline{r_p}\ Z r_f}{\sigma_p}$

Where

$\overline{r_p}$ = Average return on portfolio

r_f = Risk Free Rate

$\pm_p$ =Standard Deviation of Portfolio.

Treynor,s Portfolio performance Measure

This measure was developed by Jack Treynor in 1965. Treynor (helped developed CAPM) argues that, using the characteristic line, one can determine the relationship between a security and the market. Deviations from the characteristic line (unique returns) should cancel out if you have a fully diversified portfolio.*(http://www.cbe.wwu.edu)* The concept of Treynor is not different from Sharpe's, But Treynor used systematic risk instead of total risk to calculate the measure. Therefore Treynor suggest the use of beta coefficient of portfolio to measure the index.

The treynor's Performance Measure calculated as fallows:

Treynor Index of Portfolio Performance (Tp) $= \frac{\bar{r}_p Z r_f}{b_p} s$

Where

$\bar{r}_p$ = Average return on portfolio

r_f = Risk Free Rate

b_p = Beta Coefficient

2.2 Review of Related Studies

2.2.1 Review of Journal and Articles

Some of the journals and articles published by management experts in financial aspects have been reviewed in this section:

Edward I. Altman (1968), in *"Journal of Finance*" employed financial ratios to predict corporate bankruptcy through multiple discriminate analyses. Out of the twenty two financial ratios examined, Altman selected the five that did the best combine job in predicting bankruptcy. These ratios were working capital to assets, retained earnings to total assets, earnings before interest and taxes to total assets, market value of equity to book value of total debt, and sales to total sales to total assets, market value of

equity to book value of total debt & sale to total assets. Using these ratios Altman found the discriminate model to be an accurate predictor bankruptcy.

Dambolena and Khoury (1980), in *"Journal of Finance"* the main focus of their study was to know the stability of all financial ratios over time as well as their ratios as explanatory variables in the derivation of a discriminate function. The data were collected from 68 firms half of them failed and half of them did not fail. The study revealed: Profitability ratios, Activity and turnover ratios, liquidity ratios, Indebtedness ratios. The major findings of this study were: (i) Standard deviation of ratios over times appeared to be the strongest measure of ratio stability. (ii) The ratios of net profit to sales net profit total asset, fixed assets to net worth funded debt to net working capital total debt to net working capital and fixed assets to net worth funded debt to net working capital relevant in predicting corporate failure.

Beaver (1996), in *"Journal of Accounting Research"* tested the ability of financial ratios to predict failure. This study revealed five ratios which could discriminate between failed and non-failed firms. The ratios are case; case flow to total debt; net income to total asset; total debt total asset; total debt to total assets; working capital to total asset and current ratios. It was obvious that failed firms had more debt and low return on asset. They had less cash but more receivable as well as low current ratios.

Poudel (2053), in the journal entitled, *"Financial statement Analysis: An Approach to Evaluate Bank's Performance"* which was published NRB Samachar (An annual publication-2053) is reviews as follows: According to Poudel, Balance sheet, profit and loss a/c and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank's balance sheet and profit and loss a/c. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet item. According to Poudel the principle objectives of analyzing financial statement are to identify: Liquidity, Profitability and

solvency. Most of users of the financial statements are interest in assessing the bank's overall performance which is affected by the following factors:

- The structure of Balance sheet and profit and Loss account
- Operating efficiency and internal management system
- Managerial decision taken by top management regarding interest rate, exchange rate, lending policies etc.
- Environmental changes (Technology, Government, Competition and economy).

The other factors to be considered in analyzing the financial statement of bank are to assess the capital adequacy ratio and liquidity position. in the line of adequacy of bank is assessed on the basis of risk weighted assets. In indicates a bank's strength and solvency. Bank facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Thapa GB, in his articles *"Nepal Banking System: can on the mess be Managed"* stated that the joint venture banks have been earning a huge profit not from fund based lending but from investing outsides. That is why, there banks have been less interested to lending aggressively in the domestic market. Economics activities have slowed down in Nepal for several years; however commercial banks have not lowered their lending rate to revitalize the economy. On the contrary, the commercial banks have been discouraging the deposit to get rid of excess liquidity. And new avenue that is investing aboard has been opened for the commercial banks to earn profit rather than motivating then to invest locally.

The above journals & articles focus in the various aspects of the bank's economic environment. What over aspects of the bank the above journals target, they all have to be combinable assessed and kept in strict consideration for effective & efficient financial performance of the banks in the Nepalese economy.

2.2.2 Review of Previous Thesis

Gurung (1995), in his study entitled "*A Financial study of Joint Venture Banks in Nepal: a Comparative Study of Nepal Grindlsya Bank LTD and Nepal Indosuez Bank Ltd"* with the basic objectives to evaluate the performance of two joint venture banks: Nepal Grindllays Bank LTD and Nepal Indosuez Bank LTD time period covered by the research was five years from fiscal year 1989/90 to 1993/94. He concluded that:

- Both joint venture banks indicate unsatisfactory in liquidity position and interest coverage ratios.
- The capital structure of both the banks is extremely leveraged but they have been maintaining sound capital adequacy ratio as directed by Nepal Rastra Bank.
- Both the joint venture banks have been efficient in utilizing most of their total assets.
- Profitability records of both banks have registered an increasing trend during the first half in the study period and have decreased thereafter.

He has recommended maintaining improved capital structure by increasing equity base. Both banks should pay due attention in liquidity and coverage position. He further suggested extending their banking facilities even in rural areas by opening up branches.

RestaJha (1998), has conducted a research on a topic *"Comparative Analysis ofFinancial performance of the selected Joint Venture Banks"*. Mr. Jha has mainly focused is research in examining different financial ratios of four commercial banks namely NABIL, NIBL, NGBL & HBL. Time period covered by the research was five years from fiscal year 1993/94 to 1996/97. Necessary data and other information had been collected mainly from secondary sources of data. In this research, Mr. Jha had pointed out the major findings as:

- ROA of NIBL was highest as compared to other sample banks respectively. Return on total deposits was also highest in case of NIBL. Interest earned on total assets was also highest in case of NIBL.
- Return on net worth or shareholders fund was highest in case of HBL.

- Current cash and bank balance to deposit ratio fount that NIBLs current ratio at the end of FY 1996/1997 stood highest as compared to other banks.
- Among the analysis of leverage ratio (total debt to total asset ratio, long-term debt to total asset ratio, total debt to net worth ratio & long-term debt to net worth ratio) the total debt to total assets ratio was above 85 percentage for all the selected banks during 1996-1997, which signifies the excessive use of debts or outsider to finance total assets.

Shrestha (2003), had conducted a research on a topic *"A comparativeAnalysis of Financial Performance of the Selected joint Venture Banks"*. She had mainly focused her research on comparative examining the overall performance of NABIL, HBL and NB Bank through financial analysis. Time period covered by the research was five years from 1997/1998 to 2001/2002. Necessary data and other information had been collated mainly from the secondary sources of data. Shrestha had pointed out various findings. Some remarkable findings of the research were:

- Liquidity analysis indicates better liquidity position of NB Bank. Although liquidity position of HBL and NABIL are lower, they were still able to meet their current obligations.
- Activity/Turnover analysis that the loan and advance to total deposit and to saving deposit ratio of NB bank was the highest with NABIL in the second place while that of HBL was the least. This implied NB Bank was efficiently utilizing its deposit on loan and advances.
- Leverage/ Capital structure analysis indicated the long-term debt to net worth ratio of NB Bank was the highest and NABIL was the lowest. An unbalanced capital structure was the common situation in all the commercial banks. The banks were using excessive debt capital.
- Capital adequacy ratio calculated for these banks below the prescribed ratio by NRB.
- Profitability of these were reflected by the determination of return on investment, return on shareholder equity, interest earned to total assets ratio, interest income to interest expenses ratio.

- The market value ratio such as price-earnings ratio dividend payout ratio of NBIL was the highest and HBL was the second highest.

Gopal Prasad Ghimire (2003), had conducted a research on a topic *"Financial Performance of Commercial Banks: A Comparative case study of NB Bank, HBL andEBL"*. He had mainly focused on his study in examining the financial performance of those three banks such as profitability, liquidity, activity and capital structure analysis. Time period covered by the research was five years from 1996/97 to 25001/02. Necessary data and other information were primarily based on secondary data such as annual reports and other related journals and books etc. In this research, Ghimire had pointed out various findings:

- The liquidity position of banks was not satisfactory.
- The HBL was more efficient in utilizing the deposits in loans and advances or other more profit-generating sector.
- The banks did not do a lot of exercises in more credit creation and reducing the interest rate for loan and advance for more competitiveness.
- The banks did not maintain the CRR as per NRB directives.
- The EPS of HBL had been rapidly decreasing over the period. However the EPS of another two banks were in increasing trend.

Acharya (2005), had conducted a research on a topic. *"A Comparative Study on Financial Performance of Nepal SBI Banks and Everest Bank Ltd"*. He had mainly focused on his study in examining financial performance of those banks through profitability, liquidity and activity analysis. Time period covered by the research was five years from fiscal year 052/53 to 056/57. Necessary data and other information was primarily base on secondary data. In this research Acharya had pointed out various findings:

- They had not a special attention towards NPA
- Both banks had higher operating expenses.
- Both banks had not found out the new productive sectors for their investment purpose.
- Both banks had not given attention towards attracting new deposits.

Basnet (2005), had conducted a research on a topic *"A Comparative Study on Financial Performance Between the Commercial Banks"*. The study had covered only two banks i.e. NB Bank and Nepal SBI bank. He had mainly focused on his study in examining the financial performance of these two banks. Time period covered by the research was five years from fiscal year 1998/99 to 2002/03. Necessary data was primarily based on secondary sources of data. In this research, Basnet had pointed out some remarkable findings:

- Liquidity analysis indicates the banks did not maintain sufficient liquidity.
- The efficiency analysis showed that the ratio is in fluctuating trend of Nepal SBI Bank and decreasing trend of NB Bank.
- The profitability position of NB Bank was comparatively better than the same of Nepal SBI Bank.
- Capital structure ratio of both banks was highly levered.

Panta (2005), had conducted a research on a topic "*A Comparative Study of Everest Bank Ltd. and Nepal Industrial & Commercial Bank Ltd."* He had mainly focused on his study in comparing and analyzing liquidity, profitability, solvency and activity ratio analysis as well as so other major ratio a\such as weighted avg. interest rate spread Fx-fluctuation gain to total income ratio etc. Time period covered by the research was six years data from FY 1998/99 to 2003/04. Necessary data and other information have been collected from the secondary sources of data. In this research, Panta had pointed out various remarkable findings were:

- CRR of the banks were maintained as per the directives of NRB.
- Both banks had maintained NRB balance to deposits ratio remarkable higher than the standard prescribed by the NRB.
- Both banks were maintaining lower capital adequacy ratio. The total assets, net worth to total deposit and not worth to total credit seemed less satisfactory.
- They should encourage small, medium and large-scale organizations to avail their services.
- Both banks were suggested to review their overall structure and investment portfolio to make better mix in capital structure as well as investment portfolio.

Ghimire (2005), has conducted a research on a topic *"Non-performingAssets of Commercial Banks: Cause and Effect"*. He had mainly focused his research in analyze and identify the impact, cause and consequences of NPA of commercial banks namely NBBL, Nepal SBI bank and BOK. Time period covered by the research was five years from fiscal 1997/98 to 2001/02. Necessary data and other information were collected from secondary sources of data. In this research Ghimire had pointed out various findings. Some major findings of the research were. There is positive growth of operating profit maintained by all the samples banks but the growth of net profit is negative due to increase in loan loss provisioning.

- It is found that there is some relationship between credit expansion and increment of NPA. NBA (Non-banking Assets) is created due to having NPA. But it is not certain that NPA always creates NBA.
- In regard to the creation of high level of NPA, it has been found that relationship of borrowers with top management is the major determining factor in lending. Commercial banks are giving least weight on personal integrity of the borrower. Follow up of overdue loan and advances in commercial banks starts one month later the maturity of the loan. It proves the poor loan recovery system in those banks.
- Bad intention of borrower, weak monitoring and mi-management are the most responsible factor of NPA growth. Similarly weak legal provision and credit concentration are found as the least preferred in turning good loan to bad loan. Lack of portfolio analysis, not being effective credit policy and shortfall on security were also identified as factors affectively in NPA growth.
- Supervision and monitoring system have been identified as average factor. It is also identified that banks give highest priority to trade found that the service sector is not given mush priority.

Yadav, (2009), has conducted a research on a topic*"A Complete Study on Financial Performance Analysis of Commercial Banks of Nepal"*. He had mainly focused on financial analysis of standard Chartered bank Ltd., NABIL bank limited and Nepal

Investment bank limited on the basis of market capitalization and market value position. Time period covered by the research was five year from 2003/4 - 2007/8. Data were collected from secondary sources. Yadav pointed some remarkable findings.

- Sample banks have poor liquidity
- Successful to utilize the deposit in loans and advances.
- Level of loans and advances ware increasing trend.
- Banks have been efficient in utilizing most of their total assets.

Chand, (2009), has conducted a research on a topic "*A Comparative Study of Financial Performance of Joint Venture Bank in Nepal"*. He had mainly focused on analysis of financial performance to disclose the truth about sample bank's financial decision and present problems. Time period covered by the research was 5 year from 2003/4 to 2007/8. Mrchand pointed these remarkable findings.

- Both sample banks have good liquidity position.
- Both have favorable capital adequacy ratio.
- Profitability of both banks ware satisfactory.
- EBL paid higher dividend to stockholder.
- EPS of EBL was increasing.
- NBBL has higher debt ratio.

2.3 Research Gap

Commercial Bank invests its deposit in different profitable sector according to the directives and circulars of the Nepal Rastra bank and guidelines and policy of their own bank. Financial analysis statement has to prepare according to direction of NRB. Nepal Rastra Bank's policy and guidelines are changing according time. So, the up to dated study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial Data and analysis is done within the latest guidelines and curriculum of Nepal Rastra Bank. There is a certain gap between the present research and past research. Previous research conducted generally on comparative financial analysis of

two or three 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. Thus to fulfill this gap the present research is conducted. The analysis based on expressing all items in the statement as a percentage taking the most recent data. Most important point to remember about performance analysis is that every financial measure should be compared across time and across over same line of companies to be meaningful. Banks as a service organization, only few financial ratios would be sufficient to compare the performance, however different sources and different analyses use different lists or combination of financial ratio analysis. Prior research has been conducted on the basis of traditional financial ratio analysis. The value of the approach was quantitative relations. The world is becoming more dynamic and subject to rapid changes. This research will be based upon the modern approaches to financial analysis; in which comparable group approach and include consideration of economic and strategic factors where feasible.

Even the study will base upon those core indicators especially related with banking sector as well as it will compares across time and across same line of banks i.e. maximum of leading five commercial banks (NIBL, HBL, SBI, EBL and BOK). Thus the research will be an interest to a wide range of its stakeholders and other government regulatory interests.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic study. In other words, research methodology describes the methods and process applied in the entire of the study. It 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 are generally adopted by a researcher in studying his/ her research problem along with the logic behind them. Thus, this deals with the research design, nature of procedures and tools of analysis.

3.1 Research Design

A research design is the plan structure & strategy of investigation. It is the arrangement of condition purpose with economy in procedure. It is a blueprint for the collection measurement and analysis of data. "Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do form the writing the hypothesis and their operational implications to the final analysis of data" (Kerlinger, 1986).

The present research tries to analyze the comparative performance of commercial banks in the present e-generation. The research followed analytical and descriptive research design. The study was based on most recent financial data provide by the concerned banks i.e. the data become secondary sources to the research work. Only leading four comparative data of commercial banks presented in such a way, so as to make the research informative to the readers. Financial as well as statistical tools were used to analyze and interpret.

3.2 Population and Sample

There are many financial institutions in Nepal; however the research basically covered leading four commercial banks ranked by NEPSE. All commercial banks i.e.23 commercial banks operating in the country were the total population for the study. Only leading four commercial banks ranked by NEPSE were selected as a sample using purposive sampling technique. The sampled banks were:

1. Nepal Investment Bank Ltd.
2. Himalayan Bank Ltd.
3. Nepal SBI Bank Ltd.
4. Everest Bank Ltd.
5. Bank of Kathmandu Ltd.

3.3 Nature and Sources of Information/ Data Collection Procedure

The main sources of information were the concerned Banks and their published reports, NRB and its published reports, Experts views, Newspaper and many other published and non-published sources. Mainly the secondary sources of data were collected in order to achieve the real and fact data as far as available.

The secondary sources of data the information received from books, journals, newspapers, published reports and dissertations and concerned websites etc. The major sources of secondary data were as follows:

- Annual reports of the concerned banks.
- Related websites of concerned banks.
- Economic survey, Ministry of finance
- NRB Samachar, NRB Directives.
- Bank and financial Institution Ordinance 2062.
- Banking and financial statistics of NRB.
- Survey, reports, journals issued by NRB.
- Annual reports, NEPSE.
- Book related to financial performance analysis.
- Previous Dissertations.

- Newspaper, Journals and Business magazines.
- Other publications etc.

3.4 Data Processing and Presentation Procedure

The information or data obtained from the different sources were in raw form. From that information, direct presentation was not possible so it was necessary to process data and converts it into required form. Only after then, the data were presented for this study. For this study, only required data were taken from the secondary sources (Bank's publications) and presented in this study. For presentation different tables were used. Similarly in same case graphical presentation were also made. For reference, the photocopies of raw data were annexed. So far a computation was concerned. It has been done with the help of scientific calculator and computer software program.

3.5 Tools for Analysis and Presentation

Various percentage data were collected as per the nature of the study and this study required more financial tools cum statistical tools for analysis and presentation of used data to attain the objectives of the study.

3.5.1 Financial Tools

Several financial tools were used to measure the strength and weakness of commercial banks. In addition, Non-performing asset and weighted average interest rate spread also been studied under this research work.

1. Liquidity Analysis

- CRR

2. Solvency Analysis

- Capital adequacy ratio
- Interest expenses to total deposit ratio.

3. Profitability analysis

- Net profit to total income ratio
- Return on assets.

- Interest income on loan and advances.
- Operating ratio.

4. Activity or Turnover analysis

- Loan and advances to total deposits ratio

5. Market value analysis

- Per share income
- Market value per share
- P-E ratio
- Cash dividend in share capital
- Dividend in share capital (including bonus)

6. Other relevant ratios analysis

- Staff expenses to total operating expenses
- Staff bonus to total staff expenses.
- Weighted average interest rate spread.
- Exchange- Fluctuation gain to total income

7. NPA

8. Portfolio Performance Evaluation

- Sharpe's Performance Measure
- Treynor's Performance measure

3.5.2 Statistical Tools

1. Arithmetic Mean

An arithmetic man of a gain given set of observations is the sum of the observation divided by the number by the number of observations. In such a case all the items are equally important.

We have,

$$\text{Mean } (\overline{X}) = \frac{X}{n}$$

Where,

ΣX = Sum of all values of the observations.

n = Number of observations.

X = Values of variables.

2. Standard Deviation

The standard deviation usually denoted by the letter sigma (σ). Karl Pearson suggested it as a widely used measure of dispersion and is defined as the given observation 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:).

We have,

Standard deviation ($\pm$) = $\sqrt{\frac{\int X \, Z \, \bar{X} Å}{n \, Z1}}$

3. Coefficient of Variation (C.V)

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

C.V. = $\frac{\pm}{\bar{X}} \mid 100$

Where,

$\pm$ = Standard deviation

$\bar{X}$ = Mean value of variables

Coefficient of variation being a pure number is independent of the units of measurement and thus is suitable for comparing the variability or uniformity of two or more distributors. The distribution having less C.V. is said to be less variable or more consistent or more stable. A distribution having greater C.V. is said to be more

variable or less consistent or less stable. C.V. is used in this for comparing the variable of sample banks.

4) Correlation Analysis

Correlation is the statistical tool, which studies the relationship between tow variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. There are different methods of correlation analysis but in this research, Karl Pearson's coefficient of correlation has been used. It is simply denoted by 'rxy' or 'r' has been calculated in this study for two purposes.

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 tow 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.

The correlation is calculated as follows:

$$r_{xy} = \frac{N \quad xy \; Z \quad x \quad y}{\sqrt{\left(N \quad x^2 \; Z f \quad x\right)\left(N \quad y^2 \; Z f \quad y\right)}}$$

Where:

N= No. of observations of X and Y

ΣXY= sum of the product of the observations in series X and Y

ΣX= sum of the observations in series X

ΣY= sum of the observations in series Y

ΣX2= sum of square of variables in series X

Σy2= sum of square of variables in series Y

Probable Error of Correlation Coefficient

Probable error of correlation coefficient usually denoted by P.E. is an old measure of testing the reliability of an observed value and test of significance of correlation coefficient in so far as it depends upon the conditions of random sampling. If r is the observed correlation coefficient in a sample of n pairs of observations than its standard error, usually denoted by P.E. is given by:

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

Probable error of the correlation coefficient is given by:

P.E. = 0.6745 x S.E. (r)

Where,

r= the value of correlation coefficient

n= number of pairs of observations.

P.E. is used in interpretation whether the calculated value of r is significant or not.

i. If r< P.E. (r) i.e. if the observed value of r is less than its P.E., then correlation is not at all significant.
ii. If r< 6P.E. (r)= i.e. If observed value of r is greater than 6 times its P.E., than ris definitely significant.
iii. If P.E. <r< PE, nothing can be concluded with certainty.

3.5.3 Diagrammatic Representation

Diagrams & graphs are visual aids that give bird's eye view of a given set of numerical data. They represent the data in simple and readily comprehensive form. Multiple bar diagrams are used for presenting a comprehensive picture of the four banks selected for the research study.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

Raw Data were properly processes, tabulated and analyzed in this chapter to appraise the performance of selected commercial banks. For better understanding and presentation; financial cum statistical tools were used. Tables were based on data provided by concerned banks & charts were also created according the selected table. An attempt has been made to analyze & interpret financial data of the subject matter in sequential order.

4.1 Ratio Analysis

4.1.1 Liquidity/ Working Capital Analysis

Basically, commercial banks need liquidity to meet loan demand and deposit withdraws. Liquidity is also needed for the purpose of meeting cash reserve ratio (CCR) requirement prescribed by NRB. The failure of the bank to meet its cash obligation due to lack of sufficient liquidity will result bad credit worthiness and loss of creditors confidence. A very high degree of liquidity is also bad: idle or non-performing assets earn nothing. Therefore, it is necessary to strike a proper balance between liquidity crunch and liquidity crisis.

4.1.1.1 Cash Reserve Ratio (CRR)

A bank must ensure that it has a sound liquidity position to face the instant claims by its creditors. So, CRR measures the ability to meet short term obligation and reflect the short term financial strength and solvency of the bank.

Adequate liquidity is must also in the banking sector in order to protect its solvency and to honor its short term obligations & liabilities. Failing to do so, banks might have gone for liquidation and hence to protect the creditors interest. Central Bank (NRB) has directed all the banks to maintain the adequate CRR by the provisioning of 5 percent of total deposit.

Table 4.1

Cash Reserve Ratio (in percentage)

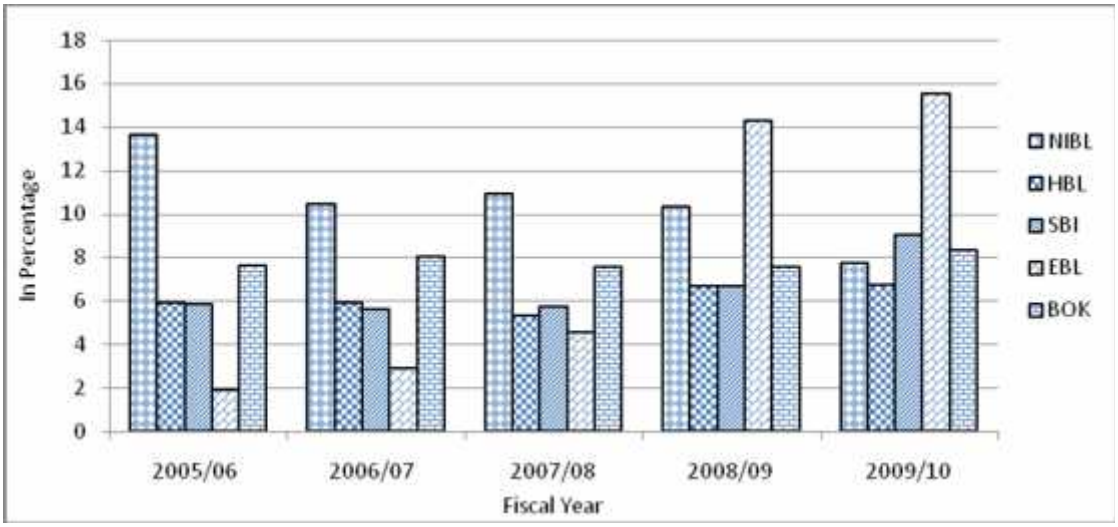
Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	13.61	5.92	5.83	1.88	7.64	
2006/07	10.47	5.92	5.60	2.94	8.02	
2007/08	10.91	5.31	5.72	4.56	7.57	
2008/09	10.32	6.67	6.67	14.26	7.58	
2009/10	7.77	6.76	9.03	15.53	8.32	**Industry Average**
Mean	**11.33**	**5.96**	**5.96**	**5.91**	**7.70**	**7.37**
S.D.	**1.54**	**0.56**	**0.49**	**5.67**	**0.21**	**1.69**
C.V.	**13.61**	**9.35**	**8.16**	**96.02**	**2.78**	**25.98**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.1 is computed using scientific calculator. This shows the average CRR of NIBL, HBL, SBI, EBL and BOK is 11.33, 5.96, 5.96 5.91 and 7.70 percent respectively. Similarly the CV of the same banks is 13.61, 9.35, 8.16, 96.02 and 2.78 percent respectively. This shows that the average CRR of NIBL is high and EBL has low. This has also been depicted in Figure 4.1. It is above NRB directive in case of NIBL, HBL, SBI and BOK. But the average CRR of EBL is 2.76%, which is less than 5%. It means, EBL was unable to maintain CRR as per the directives. On the basis of CV, It indicates that the value of BOK is more consistent due to lower CV than other banks and CV of EBL is higher than average of all banks i.e. 96.02, which is more risky because more liquidity is not profitable for bank.

Figure 4.1

Below shows that the trend of Maintaining CRR of all Sample Banks



4.1.2 Profitability Analysis

The operating efficiency of the banks and its ability to ensure adequate return to its shareholders depends ultimately on the profit earned by the banks. Sufficient profits must be obtained from investors for expansion and growth and to continue towards the social overheads for welfare of the society. Thus profitability ratios are computed to measure to efficiency of banks in terms of profit margin, return on assets, interest on loan & advance and operating ratio.

4.1.2.1 Net Profit Margin (NPM)

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

Table 4.2

Net Profit Margin (In Percent)

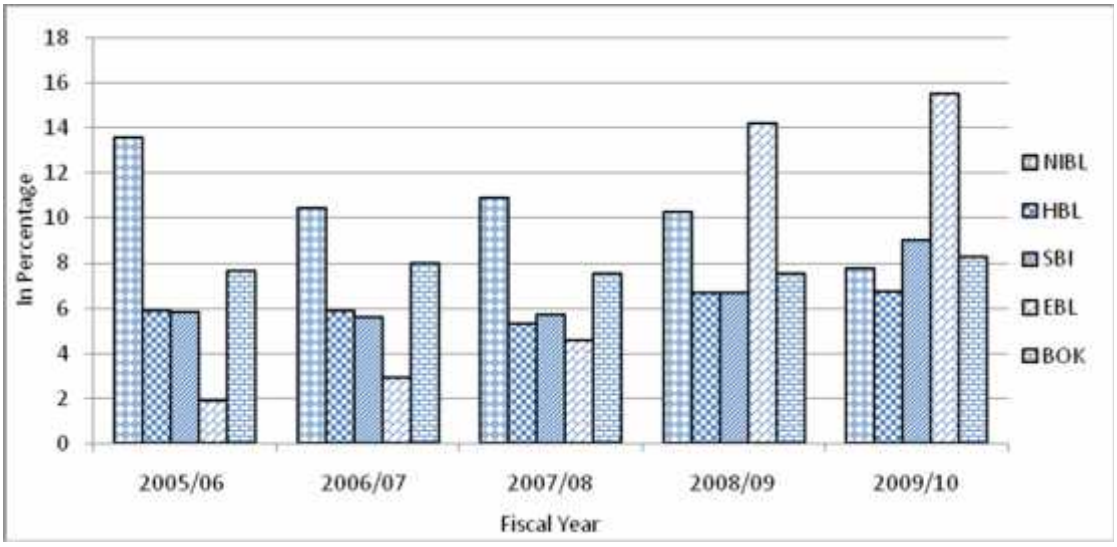
Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	23.99	35.16	14.63	22.2	35.11	
2006/07	25.07	34.9	26.95	21.6	38.75	
2007/08	25.33	40.73	22.67	24.2	41.89	
2008/09	22.97	39.96	19.14	24.92	41.42	
2009/10	23.67	24.17	15.36	16.49	37.93	**Industry Average**
Mean	**24.21**	**34.98**	**19.75**	**21.88**	**39.02**	**27.97**
S.D.	**0.98**	**6.61**	**5.15**	**3.31**	**2.76**	**3.76**
C.V.	**4.06**	**18.89**	**26.09**	**15.13**	**7.08**	**14.25**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.2 depicts the computation of average net profit margin of BOK has higher value than that of other sample banks and HBL was second thereafter, and lowest average NPM was of SBI i.e. 19.75% . On the basis of CV of NPM; NIBL is lowest among all, showing greater in consistency and highest CV of SBI shows that inconsistency of profit margin. Figure 4.2 reveals it more obvious.

Figure 4.2

Below Shows That the Trend of Maintaining Net Profit Margin of all Sample Banks



4.1.2.2 Return on Assets (ROA)

The effectiveness in using the total fund supplied by the owners and creditors is judged by this ration. Higher ratio shows the higher return on assets used in business thereby indicating effective use of the resources available and vice-versa.

Table 4.3]

Return on Assets in Percent

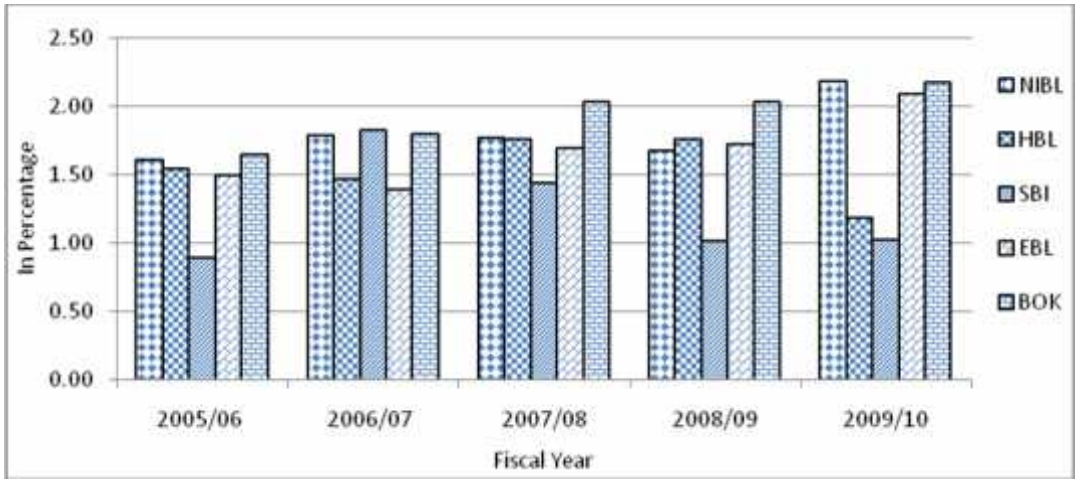
Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	1.61	1.55	0.9	1.5	1.65	
2006/07	1.79	1.47	1.83	1.4	1.8	
2007/08	1.77	1.76	1.44	1.7	2.04	
2008/09	1.68	1.76	1.02	1.73	2.04	
2009/10	2.19	1.19	1.03	2.09	2.18	**Industry Average**
Mean	**1.81**	**1.55**	**1.24**	**1.68**	**1.94**	**1.64**
S.D.	**0.23**	**0.24**	**0.39**	**0.27**	**0.21**	**0.27**
C.V.	**12.47**	**15.31**	**31.03**	**15.76**	**10.96**	**17.11**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.3 shows the average ROA of NIBL, HBL, SBI, EBL and BOK are 1.81, 1.55, 1.24, 1.68 and 1.94 percent respectively. As such BOK has higher percentage of ROA. This show BOK was able to utilize their assets efficiently. NIBL EBL and HBL also utilized their assets efficiently because they are not far from industry average of 1.64 percent. On average SBI has lowest average ROA which indicate SBI was not able to utilize their assets efficiently. On the basic of C.V., the ratio seems more consistent of BOK and NIBL. HBL and EBL have almost same CV and considerable. But in case of risk SBI has Higher CV i.e. 31.03 which was more risky. It becomes clearer in the figure below.

Figure 4.3

Below Shows That the Trend of Maintaining ROA of All Sample Banks



4.1.2.3 Interest Income on Loan & Advances

Interest income is the major source of income from loan and advances that comprises higher rate of interest income. It shows higher utilization of loan & advances.

Table 4.4

Interest Income on Loan & Advances (in percent)

Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	7.32	10.32	7.38	7.60	9.89	
2006/07	7.33	9.98	7.01	6.90	8.71	
2007/08	6.93	9.73	6.75	7.10	8.30	
2008/09	7.89	9.18	7.56	7.57	7.27	
2009/10	10.51	10.81	9.80	9.95	10.02	**Industry Average**
Mean	**8.00**	**10.00**	**7.70**	**7.82**	**8.84**	**8.47**
S.D.	**1.45**	**0.61**	**1.22**	**1.23**	**1.15**	**1.13**
C.V.	**18.09**	**6.13**	**15.79**	**15.67**	**12.99**	**13.73**

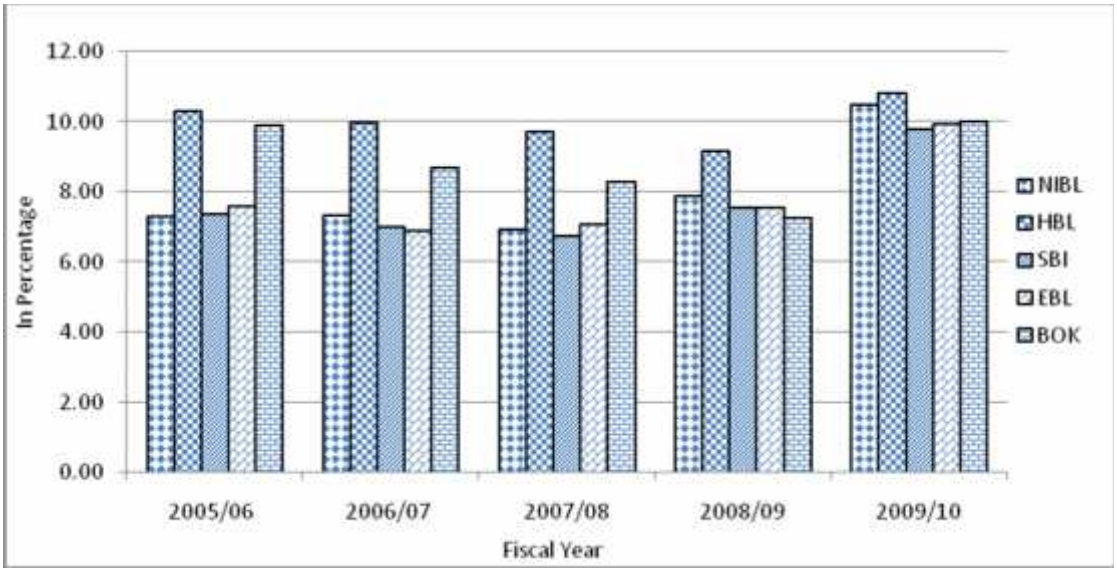
Source: Annual Reports (2005/06 - 2009/10)

Table 4.4 shows that, the average interest income on loan & advances of HBL has higher value than other banks i.e. 10.00%. The average interest on loan & advances of NIBL,

SBI, EBL and BOK seems 8.0, 7.70, 7.82 and 8.84 percent respectively. It indicates that HBL is able to get high rate of interest income on Loan & Advances than others. Besides its interest Income on loan & advance is most consistent among related banks, which is depicted by lowest CV i.e. 6.13 %. NIBL has more fluctuating Interest income on loan & advances i.e. 18.09% respectively. Following diagram makes it clearer.

Figure 4.4

Below Shows That the Trend of Maintaining Interest Income on Loan & Advances of All Sample Banks



4.1.2.4 Operating Ratio

The operating ratio indicates on operating efficiency increased on total assets. It determines the operational efficiency.

Table 4.5

Operating Ratio (in percent)

Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	1.71	1.07	3.74	4.1	5.36	
2006/07	1.43	1.5	3.72	3.9	4.59	
2007/08	1.38	1.43	4.21	3.6	4.32	
2008/09	1.27	1.72	3.97	3.7	4.05	
2009/10	1.23	5.47	5.64	5.2	6.35	**Industry Average**

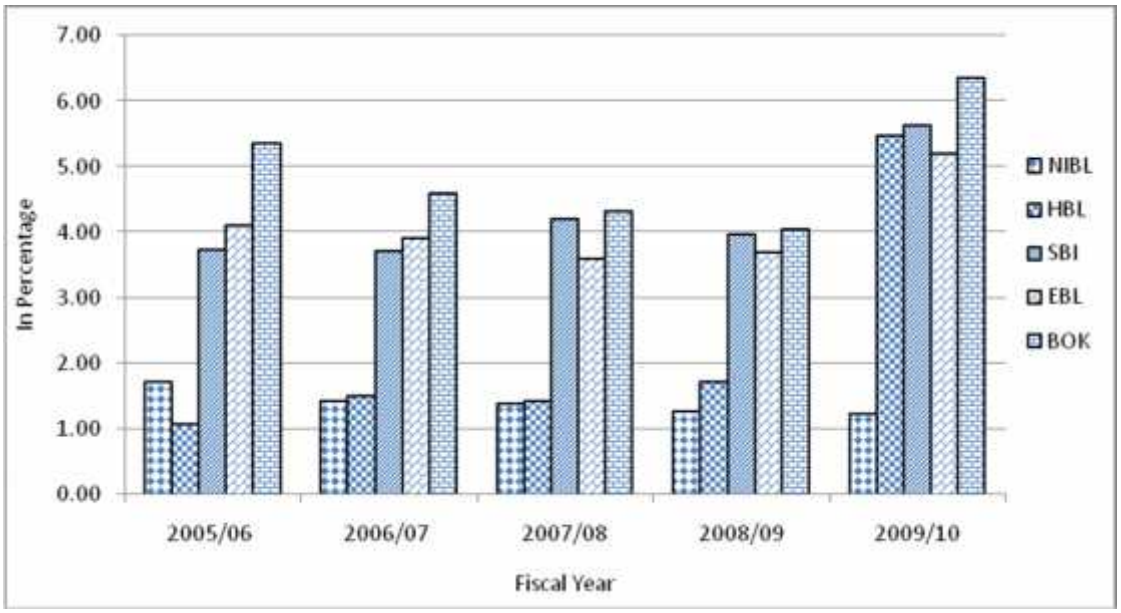
Mean	**1.40**	**2.24**	**4.26**	**4.10**	**4.93**	**3.39**
S.D.	**0.19**	**1.82**	**0.80**	**0.64**	**0.93**	**0.88**
C.V.	**13.47**	**81.40**	**18.77**	**15.71**	**18.86**	**29.64**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.5 shows that the average operating ratios of NIBL, HBL, SBI, EBL and BOK are 1.4, 2.24, 4.26, 4.10 and 4.93 percent respectively. IT indicates that BOK incurs highest operating expenses on total assets which higher than that of others. SBI and EBL have satisfactory level in expenses operating ratio and somewhat at similar level. On the basis of CV, NIBL seems more consistent than other banks in spite of lowest average operating ratio. But HBL has most inconsistent operating ratio Figure 4.5 has been shown below to give its clear picture.

Figure 4.5

Below Shows That the Trend of Operating Ratio of All Sample Banks



4.1.3 Activity Ratio Analysis

The activity ratios measure the effectiveness of assets utilization, reflecting the management efficiency to used available resources. the banks used the funds of creditors and owners in various profit generating assets like loan & advances, investments etc. So, the activity ratios are employed to evaluate the efficiency of the banks in terms of utilizing its assets.

4.1.3.1 Credit Deposit Ratio

Banks accepts deposit and lends them bay charging a higher rate of interest to the borrowers than they pay to the depositors thereby banks make profit. The credit deposit ration confessors the extent to which the banks are successful to mobilize the outsider fund (i.e. total deposit) in loans & advances for the purpose of profit-generation. Comparative CD ratio of selected loading banks has been tabulated below:

Table 4.6

Credit Deposit Ratio in Percent

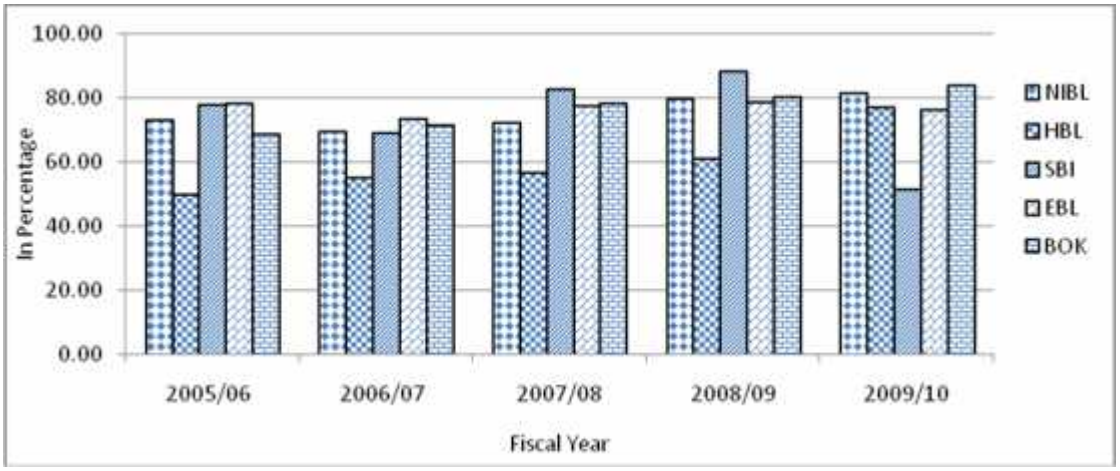
Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	73.33	50.07	77.87	78.2	68.87	
2006/07	69.63	55.27	69.32	73.4	71.42	
2007/08	72.56	56.57	82.66	77.4	78.25	
2008/09	79.91	61.23	88.32	78.6	80.51	
2009/10	81.74	77.32	51.48	76.24	83.9	**Industry Average**
Mean	**75.43**	**60.09**	**73.93**	**76.77**	**76.59**	**72.56**
S.D.	**5.15**	**10.42**	**14.35**	**2.09**	**6.28**	**7.66**
C.V.	**6.83**	**17.34**	**19.41**	**2.72**	**8.20**	**10.90**

Source: Annual Reports (2005/06 - 2009/10)

Using scientific calculator for computation, Table 4.6 shows the average credit deposit ratio of EBL & BOK are almost same and having higher value than other banks i.e. 76.77%. & 76.59%, it is comparatively higher than average of sample banks. The table shows that average CD ratio of HBL seems least, whereas NIBL & SBI is able to almost satisfactory level comparison to EBL and BOK. Also on the basis of CV, EBL has most consistent CD ratio. CV of SBI is least consistent. The figure below makes it more obvious.

Figure 4.6

Below Shows That the Trend of Credit Deposit Ratio of All Sample Banks



4.1.4 Bankruptcy/Solvency/Capital-Structure Analysis

A bank should have strong short term as well as long term financial position. The long term financial position of the banks is judged by the bankruptcy or average or capital structure ratio. It measures the extent of the bank's total debt burden. It self-acts the bank's ability to meet its short term as well as long term obligation.

To measure banks capacity of borrowing as means of capital accumulation i.e. over extension of credit & borrowing power which determines the long term solvency or bankruptcy of the banks several ratios are calculated as follows:

4.1.4.1 Capital Adequacy Ratio

Capital Adequacy ratio shows whether the commercial banks re maintaining sufficient amount of shareholders fund (net worth) in compression to total amount of their deposits. Extremely high or low ratio is inappropriate in terms of lowered return of lowered solvency repetitively. For this several capital adequacy ratios are calculated.

4.1.4.1.1 Core Capital

Table 4.7

Capital Adequacy Ratio (Core Capital in percent)

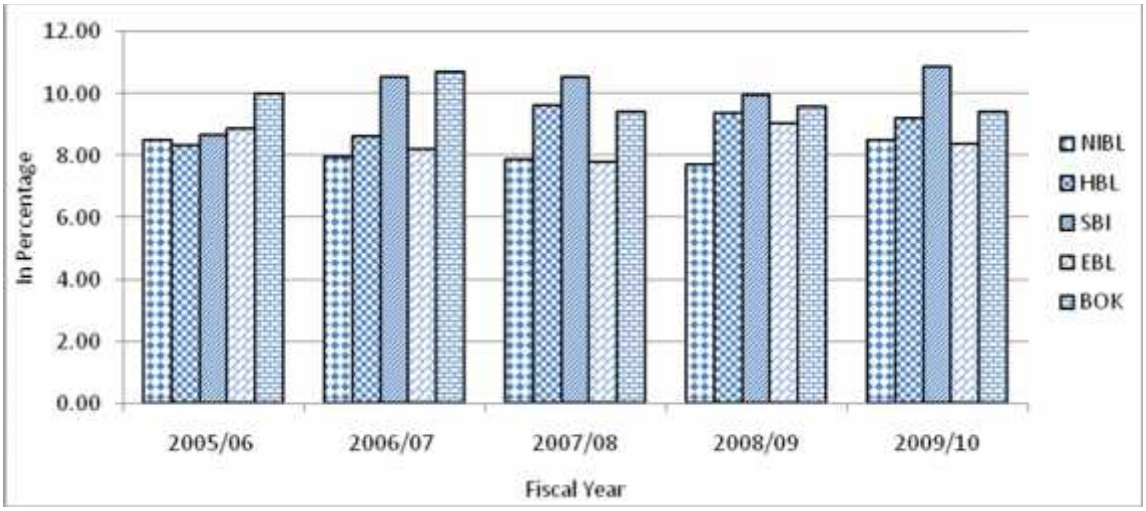
Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	8.52	8.33	8.68	8.88	10.02	
2006/07	7.97	8.65	10.53	8.21	10.71	
2007/08	7.90	9.61	10.53	7.82	9.43	
2008/09	7.71	9.36	9.97	9.04	9.57	
2009/10	8.50	9.21	10.89	8.39	9.41	**Industry Average**
Mean	**8.12**	**9.03**	**10.12**	**8.47**	**9.83**	**9.11**
S.D.	**0.37**	**0.53**	**0.87**	**0.50**	**0.55**	**0.56**
C.V.	**4.54**	**5.84**	**8.59**	**5.87**	**5.61**	**6.09**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.7 shows the average core capital ratio of SBI is higher than other banks i.e. 10.12%. It means, SBI has been giving higher contribution to maintain core capital. The average core capital of NIBL, HBL, EBL and BOK are 8.12, 9.03, 8.47 and 9.83 percent respectively. On the basis of C.V. it can be said that core capital of NIBL is more consistent than that of others. SBI's CV shows less constancy of core capital due to higher fluctuation. Figure 4.7 makes it more obvious.

Figure 4.7

Below Shows That the Trend of Capital Adequacy Ratio (Core Capital) of All Sample Banks



4.1.4.1.2 Supplementary Capital

Table 4.8

Capital Adequacy Ratio (Supplementary Capital in Percent)

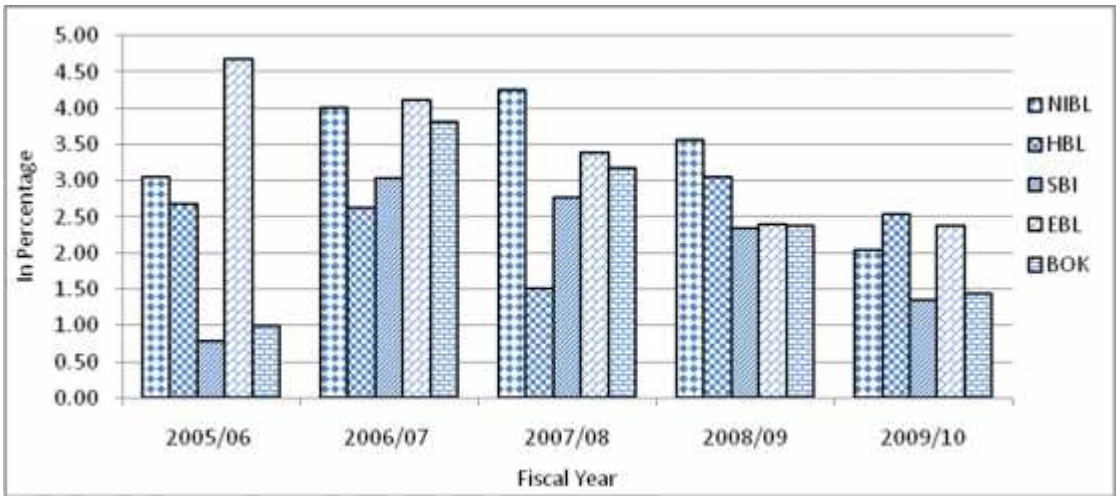
Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	3.06	2.68	0.79	4.69	1.00	
2006/07	4.01	2.62	3.04	4.11	3.81	
2007/08	4.26	1.51	2.76	3.38	3.18	
2008/09	3.57	3.06	2.35	2.40	2.37	
2009/10	2.05	2.53	1.36	2.38	1.44	**Industry Average**
Mean	**3.39**	**2.48**	**2.06**	**3.39**	**2.36**	**2.74**
S.D.	**0.88**	**0.58**	**0.95**	**1.03**	**1.17**	**0.92**
C.V.	**25.88**	**23.33**	**46.29**	**30.24**	**49.56**	**35.06**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.8 shows the average supplementary capital of NIBL, HBL, SBI, EBL and BOK are 3.39, 2.48, 2.06, 3.39 and 2.36 percent respectively. Also the CV is 25.88, 23.33, 46.29, 30.24 and 49.56 percent respectively. On the basis of CV, HBL has the most consistent & less fluctuating ratios and BOK has High fluctuating Supplementary Capital. It has been clearly depicted in the chart below.

Figure 4.8

Below Shows That the Trend of Capital Adequacy Ratio (Supplementary Capital) of All Sample Banks



4.1.4.1.3 Total Capital Fund

Table 4.9

Capital Adequacy Ratio Total Capital Fund (in percent)

Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	11.58	11.01	9.47	13.57	11.20	
2006/07	11.97	11.26	13.57	12.32	14.52	
2007/08	12.17	11.13	13.29	11.20	12.62	
2008/09	11.28	12.42	12.32	11.40	11.93	
2009/10	10.55	11.02	11.92	10.55	11.68	**Industry Average**
Mean	**11.51**	**11.37**	**12.11**	**11.81**	**12.39**	**11.84**
S.D.	**0.64**	**0.60**	**1.63**	**1.17**	**1.30**	**1.07**
C.V.	**5.54**	**5.25**	**13.42**	**9.92**	**10.46**	**8.92**

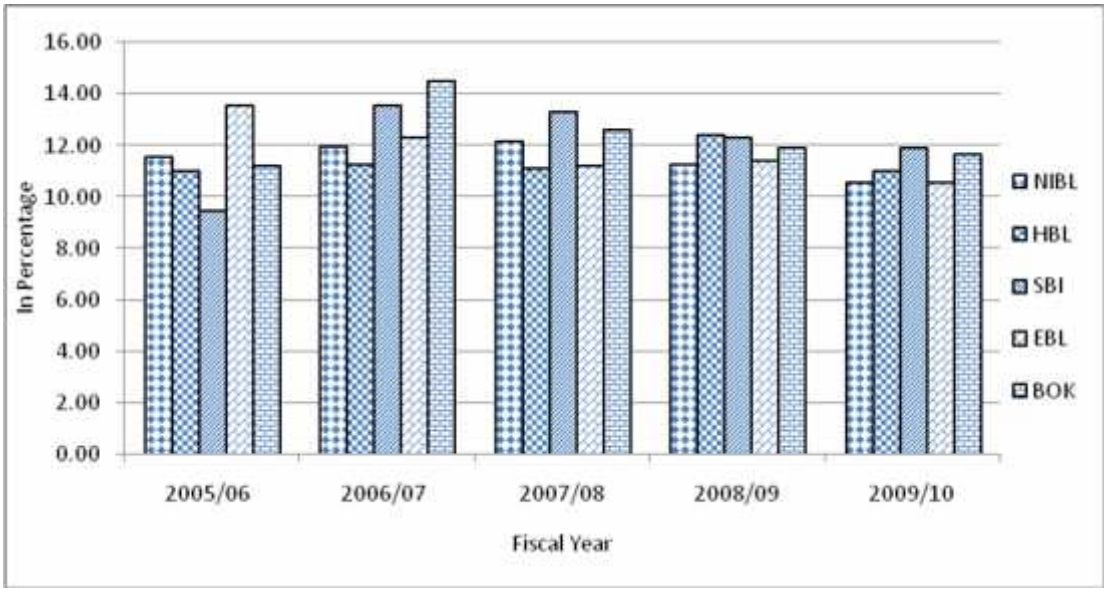
Source: Annual Reports (2005/06 - 2009/10)

By computation, Table 4.9 shows the average mean of total capital fund of NIBL, HBL, SBI, EBL and BOK is 11.51, 11.37, 12.11, 11.81 and 12.39 percent respectively. Similarly the CV is 5.54, 5.25, 13.42, 9.92, and 10.46 percent respectively. So, considering the above table it shows that the average total capital fund of BOK has higher value than other banks i.e. 12.39 percent. It means SBI had

strong total capital fund, but all of sample banks have almost same level of totalcapital fund. On the basis of CV SBI has highest CV which indicates the nature of fluctuation and risk, on the other hand HBL has more consistent capital adequacy ratio.Figure 4.9 below show it more clearly.

Figure 4.9

Below Shows That the Trend of Capital Adequacy Ratio Total Capital Fund of All Sample Banks



4.1.4.2. Interest Expenses to Total Deposit Ratio

Interest expenses to total deposit Ratio is analyzed to find out how the banks were successful to generate cheaper fund.

Table 4.10

Interest Expenses to Total Deposit Ratio (in percent)

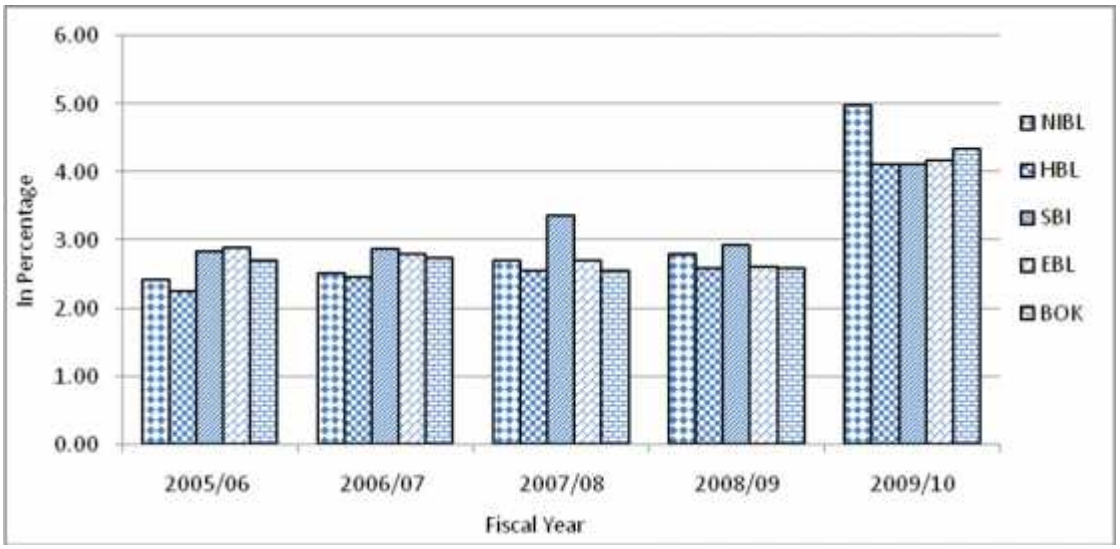
Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	2.43	2.26	2.83	2.90	2.70	
2006/07	2.52	2.45	2.88	2.80	2.74	
2007/08	2.71	2.55	3.36	2.70	2.55	
2008/09	2.79	2.59	2.93	2.60	2.59	
2009/10	4.99	4.12	4.11	4.18	4.34	**Industry Average**
Mean	**3.09**	**2.79**	**3.22**	**3.04**	**2.98**	**3.02**
S.D.	**1.07**	**0.75**	**0.54**	**0.65**	**0.76**	**0.76**
C.V.	**34.75**	**26.98**	**16.74**	**21.38**	**25.54**	**25.08**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.10 shows that the average of ratio of interest expenses to total deposit of all banks are between 2.79 to 3.22. It means all is able to generate cheaper fund among them HBL generate cheaper fund i.e. 2.79. The average ratio of NIBL, SBI, EBL and BOK is 3.09, 3.22, 3.04, 2.98 percent respectively. SBI has higher average ratio that means SBI is less efficient to quote their fund. On the basis of CV SBI's ratio are more constants that others banks, due to lower CV. But NIBL's ratio is lest consistent. Figure 4.10 makes it more obvious.

Figure 4.10

Below Shows That the Trend of Interest Expenses to Total Deposit Ratio of All Sample Banks



4.1.5 Market Value Analysis

Market value analysis indicates the market value of the banks as compared to the bank value and measured the stock price relative to earnings. In this part the researcher analyzes and compares the various market related ratio analysis such as EPS, P-E ratio, Cash divided on share capital & dividend (including bonus) on share capital for better presentation.

4.1.5.1 Earning Per Share (EPS)

EPS shows the profitability of the banks on per share basis. It shows the earning available to each shareholder out of the total earning. It is the major stake with regards to banks shareholders.

Table 4.11

Earnings Per Share (in Rs.)

Year	NIBL	HBL	SBI	EBL	BOK
2005/06	39.50	47.91	13.29	54.22	30.10
2006/07	59.35	59.24	18.27	62.78	43.67

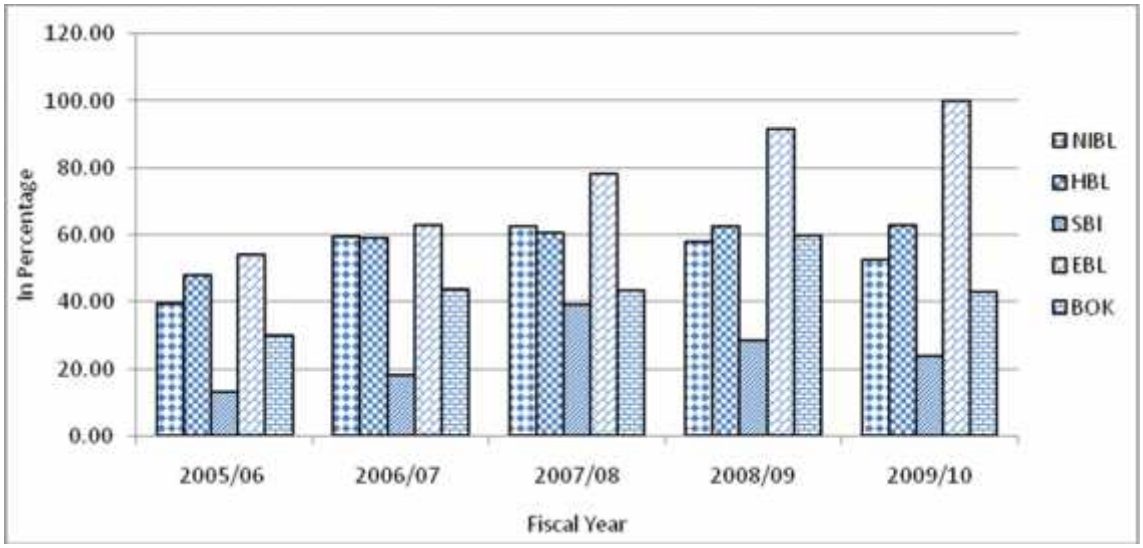
2007/08	62.57	60.66	39.35	78.42	43.50	
2008/09	57.87	62.74	28.33	91.82	59.94	
2009/10	52.55	63.00	23.69	100.16	43.08	**Industry Average**
Mean	**54.37**	**58.71**	**24.59**	**77.48**	**44.06**	**51.84**
S.D.	**9.07**	**6.23**	**10.00**	**19.22**	**10.59**	**11.02**
C.V.	**16.67**	**10.62**	**40.69**	**24.81**	**24.03**	**23.36**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.11 shows that average of EBL is far higher value than other banks. Ie.77.48. the average EPS of NIBL, HBL, SBI and BOK is 54.37, 58.71, 24.59 and 44.06 rupees respectively. As such EPS, EBL has earned more profit on per share basis. HBL is second to earn higher EPS. On the basis of CV also HBL has more consistent EPS than the other banks i.e. 10.62%. NIBL is second in consistency on EPS (16.67%). But SBI is least consistent i.e. 40.69%.

Figure 4.11

Below Shows That the Trend of Earnings per Share of All Sample Banks



4.1.5.2 Price Farming Ratio (P/E Ratio)

Price Earnings ratio is used to assess the banks performance as expected by the investors. Higher the ratio the better it is for the owners.

Table 4.12

Price Earnings Ratio (in times)

Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	21.23	18.57	33.49	21.97	19.46	
2006/07	27.63	28.69	29.89	30.99	31.61	
2007/08	42.33	31.56	53.34	34.11	39.21	
2008/09	37.10	28.43	52.52	24.55	33.37	
2009/10	13.43	29.35	31.28	16.27	19.50	**Industry Average**
Mean	**32.07**	**26.81**	**42.31**	**27.91**	**28.63**	**31.55**
S.D.	**9.45**	**5.68**	**12.36**	**5.61**	**8.81**	**8.38**
C.V.	**29.46**	**21.17**	**29.20**	**20.11**	**30.79**	**26.14**

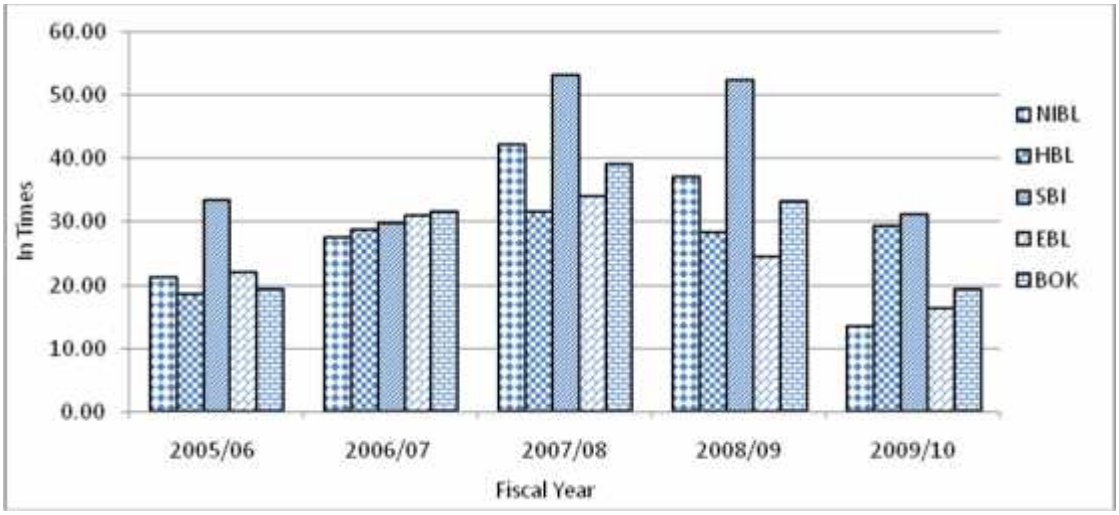
Source: Annual Reports (2005/06 - 2009/10)

Table 4.12 depicts that the average P/E ratio of all banks are in increasing pattern up to 2007/08 and decreasing from 2008/09. SBI has higher value of average PE than the

other banks i.e. 42.31 times. In spite of the increasing trend, HBL has lowest value i.e. 26.81 times. On the basis of CV, BOK has higher inconsistency (i.e. CV=30.79%) due to higher increasing trend. As such EBL has more consistent P/E ratio.

Figure 4.12

Below Shows That the Trend of Price Earnings Ratio of All Sample Banks



4.1.5.3 Cash Dividend on Share Capital

It measures the market value or profitability of the banks on dividend per equity share. In general higher the ratio, better it is and vice versa. Generally, this ratio is affected by two competent:

1. Amount of earning distributed as dividend.
2. No of equity common shares

Table 4.13

Cash Dividend on Share Capital (in percent)

Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	12.50	11.58	0.00	0.00	15.00	
2006/07	20.00	30.00	5.00	25.00	18.00	
2007/08	5.00	15.00	12.59	10.00	20.00	
2008/09	7.50	25.00	0.00	20.00	2.11	
2009/10	25.00	12.00	5.00	30.00	15.00	**Industry Average**

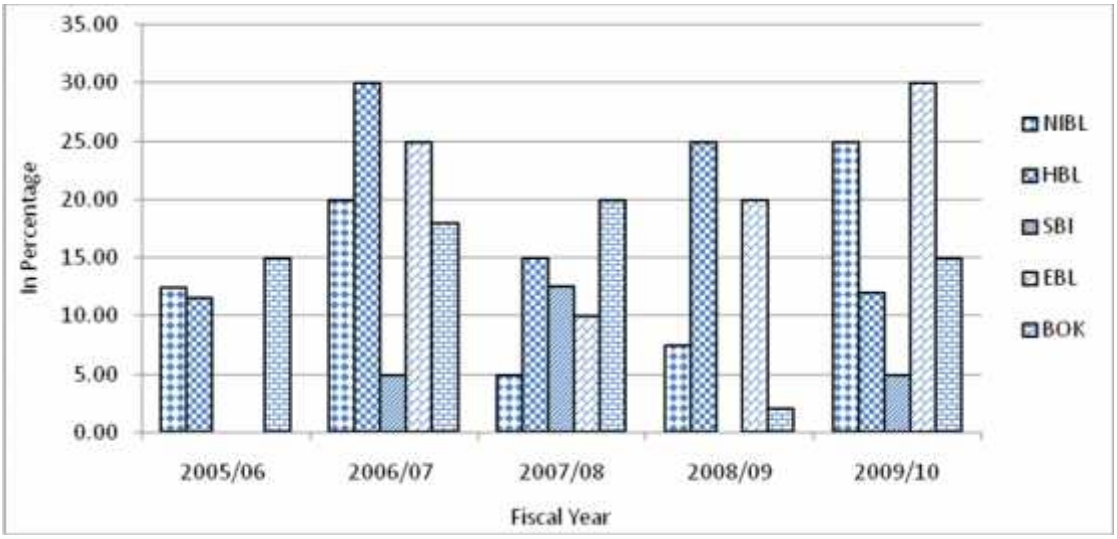
Mean	**14.00**	**18.72**	**4.52**	**17.00**	**14.02**	**13.65**
S.D.	**8.40**	**8.32**	**5.16**	**12.04**	**6.99**	**8.18**
C.V.	**60.03**	**44.43**	**114.18**	**70.83**	**49.84**	**67.86**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.13 shows that the average cash dividend ratio of HBL is higher than other banks ie. 18.72. The average cash dividend ratio of NIBL, SBI, EBL and BOK is 14, 4.52,17 and 14.02 percent respectively. Thus, HBL's equity shareholders are getting the highest dividend, which is lowest to SBI's shareholder. On the basis of CV, it seems that the HBL's cash dividend ratio is most consistent too NIBL next to it but SBI has least consistency. The figure below makes it more obvious.

Figure 4.13

Below Shows That the Trend of Cash Dividend on Share Capital of All Sample Banks



4.1.5.4. Dividend (Including Bonus) on Share Capital

Table 4.14

Dividend (Including Bonus) on Share Capital (in percent)

Year	NIBL	HBL	SBI	EBL	BOK
2005/06	12.50	31.58	0.00	20.00	15.00
2006/07	55.46	35.00	5.00	0.00	48.00
2007/08	30.00	40.00	47.59	30.00	20.00

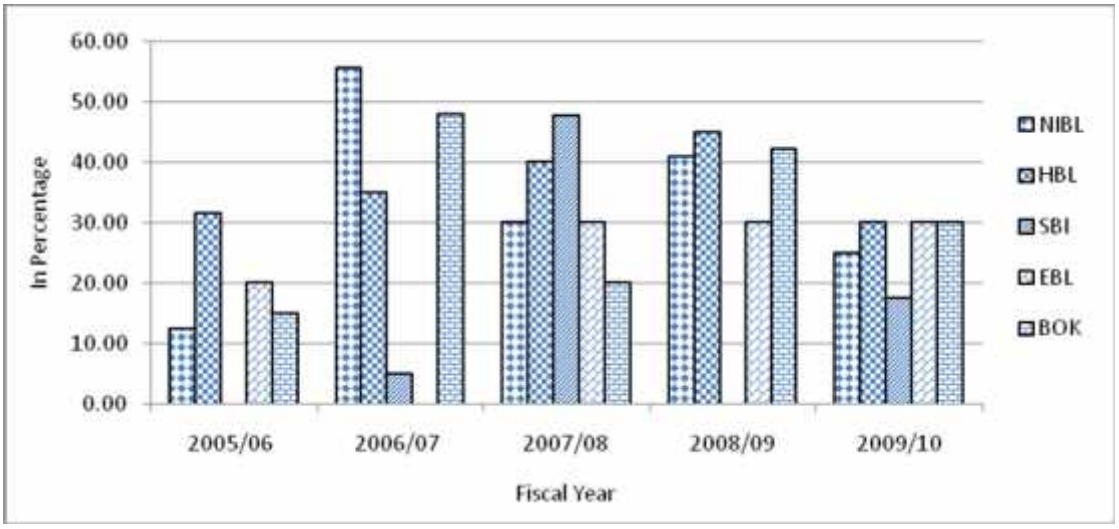
2008/09	40.83	45.00	0.00	30.00	42.11	
2009/10	25.00	30.00	17.50	30.00	30.00	**Industry Average**
Mean	**32.76**	**36.32**	**14.02**	**22.00**	**31.02**	**27.22**
S.D.	**16.27**	**6.19**	**20.08**	**13.04**	**14.06**	**13.93**
C.V.	**49.66**	**17.03**	**143.28**	**59.27**	**45.31**	**62.91**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.14 shows the average of such ratio of HBL allows higher value than other banks i.e. 36.32%. The average of such ratio of NIBL, SBI, EBL and BOK is 32.76, 14.02, 22 and 31.02 percent respectively. It indicates that shareholder of HBL are more satisfied. SBI especially, has failed to provide dividend (including bonus) in the fiscal year 2005/06 & 2008/09. That's why its ratio is the least among all. Also on the basis CV, SBI's ratio is more fluctuating (143.28%) due to that reason. Whereas, HBL is the most consistent in providing dividend. Besides, CV of NIBL, EBL & BOK is 49.66, 59.27, 45.31% respectively. Following chart reflects it more clearly.

Figure 4.14

Below Shows That the Trend of Dividend (including bonus) of All Sample Banks



4.1.6 Other Relevant Ratios

To make more analytical & better permeation of comparative performance analysis it is also necessary to compute following relevant ratios.

4.1.6.1 Staff Expenses to Total Operating Ratio

Table 4.15

Staff Expanses to Total Operating Ratio

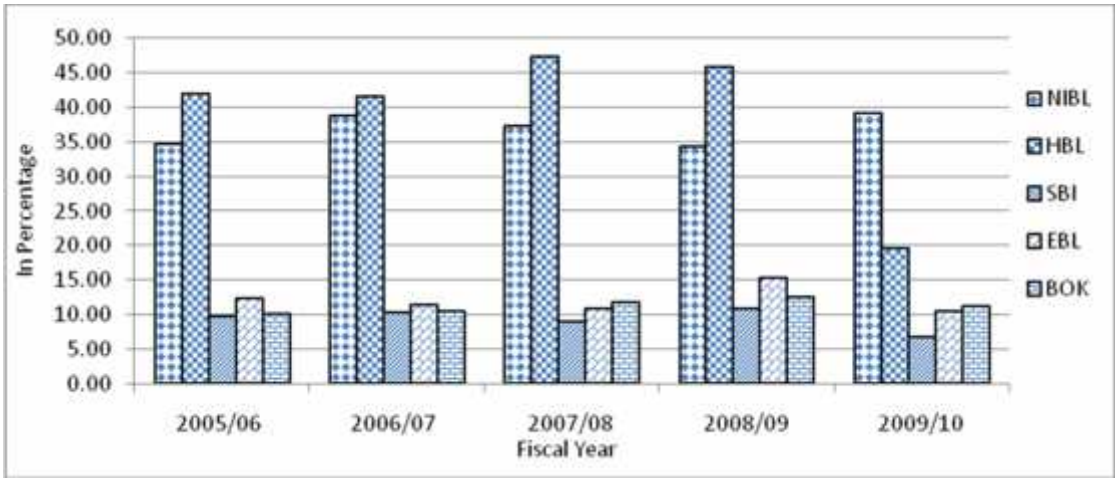
Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	34.65	41.95	9.72	12.40	10.18	
2006/07	38.77	41.57	10.43	11.50	10.50	
2007/08	37.39	47.40	9.09	11.00	11.80	
2008/09	34.41	45.91	10.98	15.40	12.64	
2009/10	39.23	19.61	6.80	10.52	11.35	**Industry Average**
Mean	**36.89**	**39.29**	**9.40**	**12.16**	**11.29**	**21.81**
S.D.	**2.26**	**11.28**	**1.62**	**1.94**	**0.99**	**3.62**
C.V.	**6.13**	**28.72**	**17.24**	**15.93**	**8.79**	**15.36**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.15 shows that the average of such ratio of HBL is higher than that of other banks 39.29. It means HBL has been paying more benefit allowance staff expense. The average of such ratio of NIBL, SBI, EBL and BOK is 36.89, 9.40, 12.16 and 11.29 percent respectively. As such, SBI is providing least to its staff EBL and BOK are maintaining staff expenses to the same considerable level.. On the basis of CV it can be said that the ratio of NIBL is more consistent than other banks due to lower CV other banks have some fluctuating pattern to staff expenses. The figure 4.15 makes it more obvious.

Figure 4.15

Below Shows That the Trend of Staff Expanses to Total Operating Ratio of All Sample Banks



4.1.6.2 Staff Bonus to Total Staff Expenses

Table 4.16

Staff Bonus to Total Staff Expanses

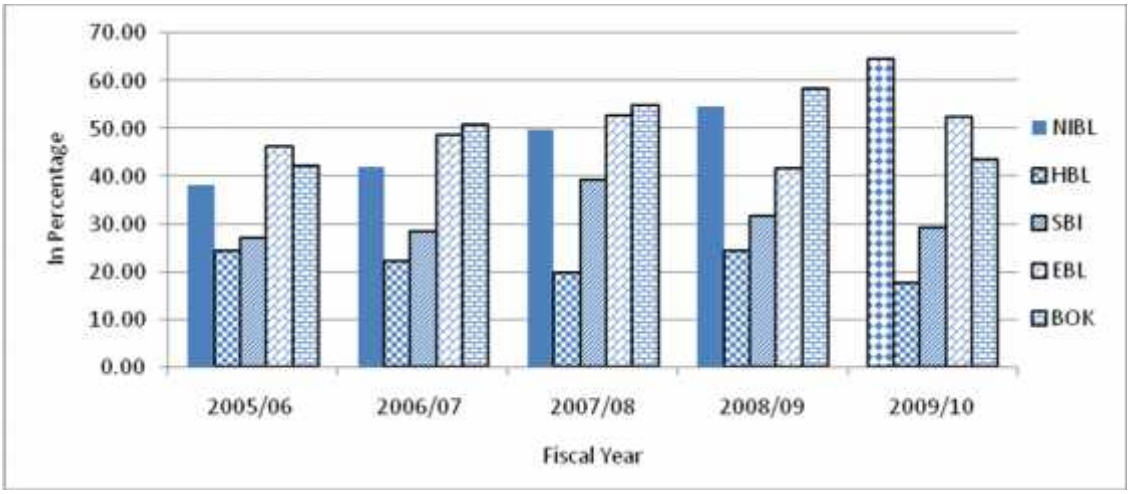
Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	38.22	24.53	27.01	46.30	42.17	
2006/07	41.84	22.28	28.33	48.70	50.95	
2007/08	49.76	19.78	39.30	52.80	54.98	
2008/09	54.50	24.51	31.73	41.70	58.27	
2009/10	64.61	17.60	29.23	52.48	43.43	**Industry Average**
Mean	**49.79**	**21.74**	**31.12**	**48.40**	**49.96**	**40.20**
S.D.	**10.47**	**3.03**	**4.89**	**4.62**	**7.05**	**6.01**
C.V.	**21.04**	**13.94**	**15.70**	**9.55**	**14.10**	**14.87**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.16 shows the average staff bonus to total staff expenses of BOK and NIBL are almost same and higher value on the last five year than other banks. Considering the above table, it may be concluded that the average EBL also have near value to BOK and NIBL. But HBL has less satisfactory in comparison with each other. On the basis of CV, the ratios of all banks are less fluctuating, especially of EBL i.e. 9.55%. Besides, CV of NIBL, HBL, SBI, and BOK is 21.04, 13.94, 15.70 and 14.10 percent respectively. This is shows in the figure below:

Figure 4.16

Below Shows That the Trend of Staff Expanses to Total Operating Ratio of All Sample Banks



4.1.6.3 Weighted Average Interest Rate Spread

Table 4.17

Weighted Average Interest Rate Spread

Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	3.90	3.80	3.33	3.99	3.64	
2006/07	3.99	3.57	3.01	3.91	4.04	
2007/08	4.00	3.66	3.11	4.34	4.35	
2008/09	3.94	3.66	2.84	4.40	4.72	
2009/10	4.36	4.18	2.76	4.78	5.16	**Industry Average**
Mean	**4.04**	**3.77**	**3.01**	**4.28**	**4.38**	**3.90**
S.D.	**0.18**	**0.24**	**0.23**	**0.35**	**0.59**	**0.32**
C.V.	**4.57**	**6.40**	**7.50**	**8.16**	**13.44**	**8.01**

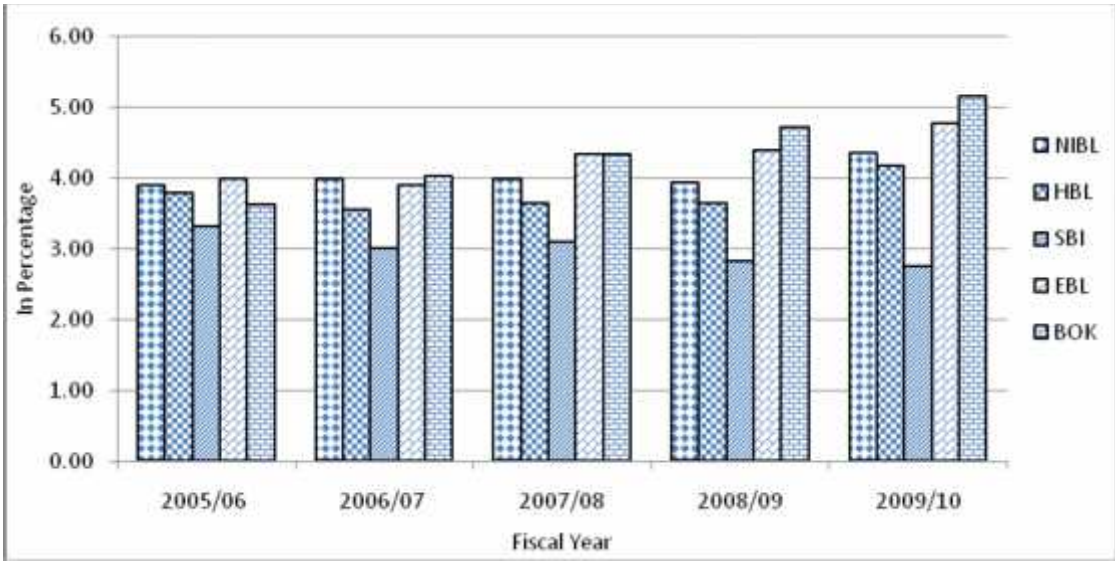
Source: Annual Reports (2005/06 - 2009/10)

Table 4.17 shows that the average of such ratio of SBI has lower value than other banks i.e. 3.01%. The average of such ratio of NIBL, HBL, EBL and BOK is 4.04, 3.77, 4.28 and 4.38 percent respectively. Such ratio of remaining banks have been much scattered than NIBL. The weighted average inserted rate spread of these banks has ranged from 2.76% to 5.16. The CV of NIBL, HBL, SBI, EBL and BOK is 4.57,

6.40, 7.50, 8.16 and 13.44% respectively. On the basis of CV, NIBL is more consistent than other banks due to lower C.V. i.e. 4.57%. BOK's CV is the highest i.e. 13.44% ; the most fluctuating. The banks had been charging more interest rate on loan than on the deposit. The diagram below makes it more obvious.

Figure 4.17

Below Shows That the Trend of Weighted Average Interest Rate Spread of All Sample Banks



4.1.6.4 Exchange Gain to Total Income

Table 4.18

Exchange Gain to Total income

Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	8.06	9.42	5.38	2.20	2.74	
2006/07	6.77	6.71	5.23	2.10	2.55	
2007/08	6.03	8.27	4.76	3.50	2.59	
2008/09	4.73	8.51	3.71	2.44	3.06	
2009/10	4.19	8.33	2.76	1.37	6.26	**Industry Average**
Mean	**5.96**	**8.25**	**4.37**	**2.32**	**3.44**	**4.87**
S.D.	**1.56**	**0.98**	**1.11**	**0.77**	**1.59**	**1.20**
C.V.	**26.17**	**11.84**	**25.44**	**33.16**	**46.20**	**28.56**

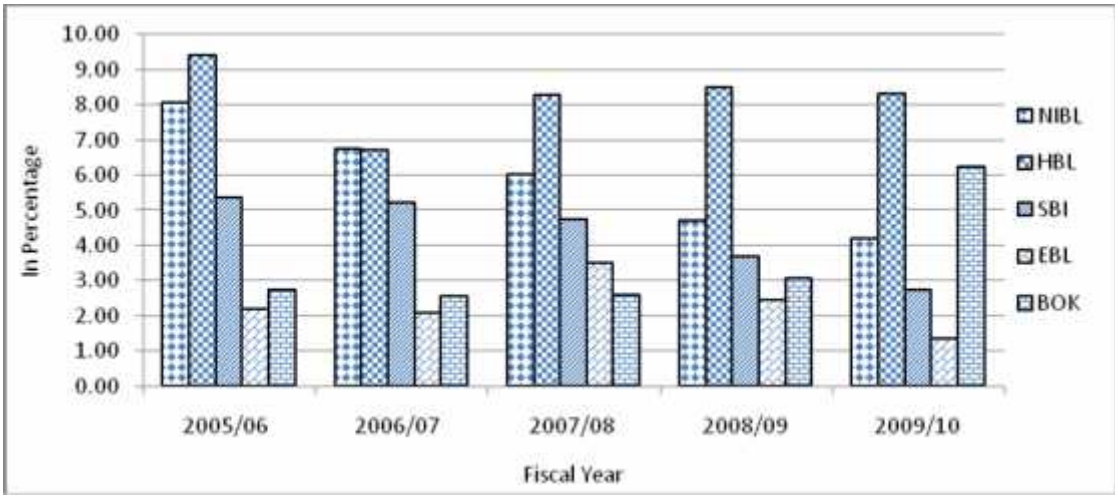
Source: Annual Reports (2005/06 - 2009/10)

Table 4.18 shows that the average exchange gain of NIBL, HBL, SBI, EBL and BOK is 5.96, 8.25, 4.37, 2.23 and 3.44 percent respectively. It indicates that HBL is in higher level in foreign exchange gain whereas EBL is in unsatisfactory level due to its

far lower average in comparisons with other banks. The CV of NIBL, HBL, SBI, EBL and BOK is 26.17, 11.84, 25.44, 33.16 and 46.20 percent respectively. So, on the basis of CV, it seems that BOK's ratio is most inconsistent. EBL is next to it whereas HBL has most Consistent because it has lower CV among all banks. This is demonstrated in the diagram below:

Figure 4.18

Below Shows That the Trend of Exchange Gain to Total Income of All Sample Banks



4.1.7 Non-Performing Assets (NPA)

NPA is mostly considered as the banks efficiency indicator of assets utilization and efficient lending & recovery. At present practices, NPA is the major concern for measuring the banking performance.

Table 4.19

Non-Performing Assets (in percent)

Year	NIBL	HBL	SBI	EBL	BOK	
2005/06	2.07	6.60	6.13	1.27	2.72	
2006/07	2.37	3.61	4.56	0.80	2.51	
2007/08	1.12	2.36	3.83	0.68	1.86	
2008/09	0.58	2.16	2.02	0.48	1.27	
2009/10	0.62	2.16	1.48	0.16	1.51	**Industry Average**
Mean	**1.77**	**4.43**	**4.62**	**0.97**	**2.67**	**2.89**

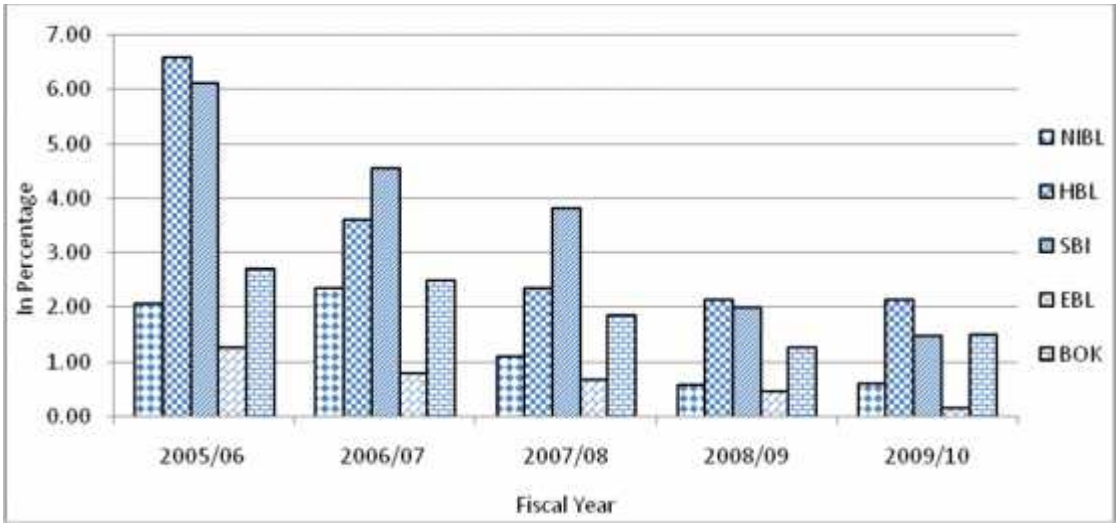
S.D.	**0.89**	**2.44**	**1.83**	**0.47**	**1.42**	**1.41**
C.V.	**50.13**	**55.10**	**39.58**	**48.22**	**53.05**	**49.22**

Source: Annual Reports (2005/06 - 2009/10)

Table 4.19 shows that the average NPA of EBL is comparatively lower than other banks i.e. 0.97%. This is very good sign, it means, it is more efficient to utilize its assets and loan recovery. That may be the reason behind its achievement of the bank of the year. Award, 2006. The average NPA of NIBL, HBL, SBI and BOK is 1.77, 4.43, 4.62, 2.67 percent respectively. This shows that NIBL Have considerable level of NPA. But SBI and HBL has the worst among them. The CV of NIBL, HBL, SBI, EBL and BOK is 50.13, 55.10, 39.58, 483.22 and 53.03 percent respectively. On the basic of CV it can be said that NIBL, HBL & BOK have similar level and most inconsistent. SBI has more consistent CV. Following Figure 4.19 makes it more obvious.

Figure 4.19

Below Shows That the Trend of Non-Performing Assets of All Sample Banks



4.1.8 Sharpe's Portfolio performance Measure

William Sharpe, Who developed a ratio called Sharpe ratio to evaluate the performance of portfolio. It's also called an index of portfolio performance measure

the amount of return from an investment portfolio for a given level of risk. Higher the Index Better the Performance of portfolio. This ratio used to ranking the portfolio.

Table 4.20

Sharpe's Portfolio performance Measure

	NIBL	HBL	SBI	EBL	BOK
Average Return	0.11	0.15	0.35	0.23	0.33
Standard Deviation	0.52	0.31	0.61	0.48	0.66
Risk Free Rate	0.05	0.05	0.05	0.05	0.05
Sp	0.11	0.31	0.49	0.37	0.42
Ranking	**5**	**4**	**1**	**3**	**2**

Sharpe performance measure calculated above shows that SBI is the best portfolio for investment. BOK get the second position, EBL was third, HBL was fourth and NIBL was the last position of the rank.

4.1.9 Treynor's Portfolio Performance Measure

The concept of Treynor is not different from Sharpe's, but Treynor used systematic risk instead of total risk to calculate the measure. Therefore Treynor suggest the use of beta coefficient of portfolio to measure the index

Table 4.21

Treynor's Portfolio Performance Measure

	NIBL	HBL	SBI	EBL	BOK
Average Return	0.11	0.15	0.35	0.23	0.33
Beta	0.39	0.23	0.46	0.38	0.50
Risk Free Rate	0.05	0.05	0.05	0.05	0.05
Tp	0.14	0.42	0.64	0.46	0.55
Ranking	5	4	1	3	2

Treynor's performance measure shows the same result of sharp measure. Again SBI get the first position, BOK has second, EBL has Third HBL has fourth and NIBL has last position of the rank.

4.2. Statistical Tools

4.2.1 Correlation Analysis

Correlation analysis so the statistical tool that we can use to describe the degree of relationship between two or more variables. Its value are limited between the range (+1) & (-1). Thus if the variable were perfectly correlated the returns on theses would move up and loan together. In case of negatively correlated opposite would happen risk can be culminated completely. But perfect negative correlation almost never found in the real world. In this research this tool in used to predict the total deposit, loan & advances, investments NPA net profit, MVPS, EPS & DPS under this study Karl Pearson's coefficient of correlation in being used.

4.2.1.1. Correlation between Total Deposit and Loan & Advances

Deposit is the man tool for mobilizing the banking performance. Likewise loan & advances are the key part to mobilize the collected deposits. The coefficient of correlation between deposits and Loan & Advances measures the degree of relationship between these two variables. For this study, deposit is taken as independent variable (x) and loan & advances are dependent variables (y). The purpose of computing 'r' between these two variables is to justify whether deposit are significantly used as loans & advances in proper way or not. Here the coefficient of determination (r2) is used to find by what the relation is explain by dependent variable.

Table 4.22

Coefficient of Correlation between Total Deposit and Loan & Advance

(Rs. in Million)

Banks	**NIBL**	**HBL**	**SBI**	**EBL**	**BOK**
R	0.9994	0.9798	0.9378	0.9984	0.9986
r^2	0.9988	0.9600	0.8794	0.9969	0.9971
P.E. (r)	0.0004	0.0121	0.0364	0.0009	0.0009
6 P.E. (r)	0.0022	0.0725	0.2183	0.0057	0.0052
Level of Significance	**Significant**	**Significant**	**Significant**	**Significant**	**Significant**

Source: NRB Banking & Financial Statistics and Annual Reports of Banks

The Coefficient of Correlation for all the sampled banks found to be almost '1' which indicates there is proportional relationship between the Deposit's and Loan & Advances for all the banks. While testing of 6 PE (r) for all sample banks found to be 'significant" as the r-value for all the banks are greater than 6PE (r) value. This implies there found to be perfect correlation. It shows that the loan & Advance depends upon the deposits and all sample banks are successful in mobilizing the deposit to loan & advances efficiently.

4.2.1.2 Correlation between Total Deposit & Investment

Investment is also a major part of banks to mobilize deposits. By investing in different profitable area like share & debentures government securities, banks maximize the profit. Therefore, it is important to study the relation between the deposit and investment. For this analysis total deposit is taken as independent variable (x) and investment as dependent (y) variable.

Table 4.23

Coefficient of Correlation between Total Deposit and Total Investment

(Rs. in Million)

Banks	**NIBL**	**HBL**	**SBI**	**EBL**	**BOK**
r	0.9089	-0.6097	0.9913	0.6841	-0.2622
r^2	0.8260	0.3717	0.9827	0.4680	0.0687
P.E. (r)	0.0525	0.1895	0.0052	0.1605	0.2809
6 P.E. (r)	0.3148	1.1372	0.0313	0.9630	1.6855
Level of Significance	**Significant**	**Insignificant**	**significant**	**Insignificant**	**Insignificant**

Source: NRB Banking & Financial Statistics and Annual Reports of Banks

Table 4.23 shows that the coefficient of correlation of BOK and HBL was negative, which indicates that there no correlation between deposit and investment of these

banks. Their relationship between total deposit & investment is insignificant since r < 6PE (r). However the correlation coefficient NIBL, SBI & EBL are highly strong. Also they have significant relationship between total deposit & investment. This indicates that NIBL, SBI and EBL's investment depends upon the deposits.

4.2.1.3 Correlation between Non-Performing Assets (NPA) and Net Profit

NPA consist those loans & advances which are not performing well and likely to be turned as bad loan. It has direct impact on income and profitability normal. So, here the degree of relation between NPA & Net profit is studied by taking NPA as independent Variable (x) and net profit as dependent variable (y).

Table 4.24

Coefficient of Correlation between NPA and Net Profit

Banks	**NIBL**	**HBL**	**SBI**	**EBL**	**BOK**
R	0.5561	0.0360	0.1254	0.4326	-0.6608
r^2	0.3092	0.0013	0.0157	0.1871	0.4366
P.E. (r)	0.2084	0.3013	0.2969	0.2452	0.1699
6 P.E. (r)	1.2503	1.8076	1.7814	1.4712	1.0197
Level of Significance	**Insignificant**	**Insignificant**	**Insignificant**	**Insignificant**	**Insignificant**

Source: NRB Banking & Financial Statistics and Annual Reports of Banks

As shown Table 4.24, the correlation between NPA & Net profit is negative for all the banks. Testing of significant of all banks shows insignificancy of relationship. To sum up, the relation between NPA & Net profit is negative & insignificant.

4.2.1.4 Correlation between EPS and MVPS

EPS is the profitability of a firm from the profit point of view of ordinary shareholders. It is the profit available to the equity shareholders on per share basis. On the other hand MVPS measures the Per-stock price on the market demand-supply basis. The profitability of firms EPS has impact of MVPS. This is analyzed as shown

in Table 4.23, taking EPS as impendent variable (x) and MVP as dependent variable (y).

Table 4.25

Coefficient of Correlation Between EPS and MVPS

Banks	NIBL	HBL	SBI	EBL	BOK
R	0.2883	0.5952	0.7169	0.4040	0.9427
r^2	0.0831	0.3543	0.5139	0.1633	0.8886
P.E. (r)	0.2766	0.1948	0.1466	0.2524	0.0336
6 P.E. (r)	1.6595	1.1687	0.8798	1.5145	0.2016
Level of Significance	**Insignificant**	**Insignificant**	**Insignificant**	**Insignificant**	**Significant**

Source: NRB Banking & Financial Statistics and Annual Reports of Banks

The coefficient of correlation of BOK is highly strong i.e. nearly '1'. This indicates proportional relationship between EPS & MVPS. But all of other banks have negative correlation between EPS and MVPE which means MVPS is not depends upon EPS except BOK. The testing of significance empirically proves this insignificant relationship for all the banks since r < 6P.E. (r) for all of them except BOK.

4.2.1.5 Correlation between DPS and MVPS

Dividend is the earning or profit distributed to shareholders by a company. It may be in cash, shares & securities or a combination of these. How much the bank is paying or distributing to its shareholder have some effect on its market price. Taking DPS as independent variable (X) and MPS as dependent variable (Y), the correlation coefficient has been examined as in Table 4.24 below:

Table 4.26

Coefficient of Correlation between DPS and MVPS

Banks	NIBL	HBL	SBI	EBL	BOK
R	0.25098	0.79305	0.40668	0.65557	0.23538
r^2	0.06299	0.62892	0.16539	0.42978	0.05540
P.E. (r)	0.28265	0.11194	0.25176	0.17201	0.28494
6 P.E. (r)	1.69592	0.67163	1.51058	1.03206	1.70965
Level of Significance	**insignificant**	**Significant**	**insignificant**	**insignificant**	**insignificant**

Source: NRB Banking & Financial Statistics and Annual Reports of Banks

The coefficient of correlation between DPS and MVPS of all banks was positive. The empirical test of significance of correlation with the help of probable error shows that the relation is insignificant for all banks except HBL.

4.3 Major Findings

The main findings of the study are carried out on the basis of the analysis of financial data of the selected banks; which are as follows:

1. Liquidity Analysis

- The analysis of liquidity (CRR) indicates better liquidity managed by all the banks except EBL over the past five year's period. EBL was unable to maintain the liquidity (CRR) as per the directives of central bank (NRB) up to 2007/8. It obviously strikes that EBL was failure to meet short-term obligations.

2. Profitability Analysis

- The analysis of Net Profit Margin indicates satisfactory in comparison over the five years period to each other among NIBL, HBL and EBL with less fluctuation. SBI has least ratio.
- The analysis of ROA indicates BOK have higher than other banks i.e. they effectively using the total fund supplied by the owners and creditors. They also have successful to get higher return on the assets used in business.
- The analysis of Interest Income on Loan and Advances indicates HBL and BOK earned high rate of interest income on loan and advances over the study period. It means, they had high utilization of loan and advances. Among all, SBI is earning lowest.
- The analysis of Operating ratio indicates NIBL and HBL are more successful to minimize the operating ratio. But in case of HBL, Operating ratio of year 2009/10 had higher than average.

3. Activity Ratio Analysis

- The analysis of Credit Deposit Ratio indicates BOK and EBL had higher value over the study period or in overall average too. NIBL holds third position. Similarly, SBI had fourth, whereas HBL had least. It means, HBL did not make profit by lending or utilizing the deposits by charging a high rate interest to the borrower than they pay the depositors.

4. Solvency Analysis

- The analysis of Capital Adequacy Ratio indicates all the banks had lower capital adequacy ratio in terms of core capital except SBI. SBI is successful on maintaining capital adequacy ratio as per the directives of central bank. However, NIBL, HBL, EBL and BOK had not significant differences as per the directives i.e. 10% should be maintained. NIBL had least ratio. Off course it is inappropriate in terms of lowered return of lowered solvency point of view.
- The analysis of Interest Expenses to Total Deposit Ratio indicates HBL had ability to generate cheaper fund than other banks. NIBL, SBI, EBL and BOK had moderate ratio. Among them, SBI had comparatively higher ratio. It means, SBI fails to generate cheaper fund among them.

5. Market Value Analysis

- The analysis of Earning per Share (EPS) indicates EBL had undoubtedly higher ratio. EBL hold first position and in second position HBL with 54.37%. NIBL and BOK had similar moderate ratio. EBL had the highest profitability on per share.
- The analysis of P/E ratio indicates all banks NIBL, HBL, SBI, EBL and BOK had getting more competitive value. This shows they all had better P/E ratio. Among them, SBI is the highest.
- The analysis of Cash Dividend on Share Capital indicates HBL had distinctly higher value and it had been providing greater cash dividend on share capital to its shareholders. EBL had second position, NIBL and BOK had moderate values whereas SBI had least value.

- The analysis of Dividend including bonus of Share Capital indicates that HBL had been providing 36.02 percent dividends including bonus on share capital, whereas SBI had least on an average and not providing such dividend on each year for the study period.

6. Other Relevant Ratios

- The analysis of Staff Expenses to Total Operating Ratio indicates HBL had contributed more staff expenses in total operating expenses. NIBL hold moderate value, whereas SBI, EBL and BOK had least values. It means, SBI, EBL and BOK had not been contributing more staff expenses in total operating expenses. It means, they have not been providing sound salary and other allowances in comparison with other banks.
- The analysis of Staff Bonus to Total Staff Expenses indicates BOK had higher value whereas NIBL and EBL had moderate value, SBI had following them. HBL had lower value. It means, HBL has been providing lower staff bonus to its staff with comparison among the four banks.
- The analysis of Weighted Average Interest Rate Spread indicates EBL and BOK had almost same and higher average value. NIBL and HBL had moderate spread. Weighted average interest rate spread of SBI had comparatively lower.
- The analysis of Exchange Income/Gain indicates HBL had higher average value than other banks. NIBL had moderate average value. EBL and BOK had least value with comparison to them. It means, HBL has been gaining more income from foreign exchange income whereas SBI has not been gaining satisfactory among the sampled banks.

7. Non-Performing Assets (NPA)

- The analysis of NPA indicates that EBL had comparatively lower average of such ratio which is less than 1%. SBI had comparatively high average. EBL has lowest and is more consistent in NPA; which indicates its sound lending & recovery policy.

8. Portfolio Performance Evaluation

- The analysis of Sharp performance measure and Treynor performance measure shows the ranking of assets on the basis of risk and return. It shows that the stock of SBI is more profitable to invest among 5 banks.

9. Correlation Analysis

- The correlation analysis between Total Deposit and Loan & Advances results strongly significant relationship between the variables for all banks.
- The correlation between Total Deposit and Investment comes out varied outcome. It is significant to NIBL and SBI, whereas other banks have significant relationships.
- The correlation between NPA & Net Profit is absolutely insignificant for all banks. It validates negative impact of NPA on the bank's profitability.
- The correlation analysis of EPS & MVPS comes out significant relationship only for BOK. It shows, BOK's earning has direct reflection on its stock price but in case of other banks, Market value is not reproducing by EPS.
- The correlation between DPS & MVPS is significant for HBL only. It is insignificant for all other sample banks, which means DPS is not affecting market values of banks.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Commercial banks are the real intermediaries who transfer savings to the borrowers so that the money can be used in the productive sector. As a financial intermediary, commercial banks are giving greater contribution to GDP for economic development. At present, there are 32 commercial banks operating in the country. They are guided & regulated under Company Act 2053, Commercial Bank Act 2031 & NRB directives.

Financial analysis shows the relationship between the various component from Balance Sheet and Profit & Loss statement. The analyzed statements contain such information which is useful for management, shareholders, creditors, investors, depositors, etc. As in other industries, banking industries also need financial analysis for evaluating a bank's performance as compare to the other and also with own past performance.

The research work entitled the performance analysis of five leading commercial banks that includes Nepal Investment Bank Limited, Himalayan Bank Ltd., Everest Band Ltd., SBI Bank Ltd. And Bank of Kathmandu. To satisfy the queries specified as the statement of the problem, the researcher collected mainly the secondary sources of published documents. Obviously, it helped to construct conceptual framework. Then the research work was analyzed and interpreted by financial tools such as cash reserve ratio, net profit margin, return on assets, earning per share, P/E ratio, NPA as well as statistical tools such as mean, standard deviation, CV and correlation. On the basis of data analysis and presentation, the researcher extracted some major findings. Finally, the researcher reached in the conclusions keeping in the previously set objectives in mind and recommend on the research problem to its stakeholders in this chapter.

In order to know the real performance of banks, the researcher observed and analyzed the comparative performance analysis of top five commercial banks for five years

period. The comparative performance analysis of top four commercial banks will give a rational result and represent the overall banking scenario in terms of performance analysis.

5.2 Conclusions

On The Basis of Data Analysis, the researcher had to make these conclusions. EBL has failed to maintain cash reserve ratio up to year 2007/08, which is below the NRB directives (i.e. 5% of total deposit). Obviously, EBL has been facing the problem to meet short-term obligations, but in year 2008/9 and 2009/10 EBL maintain highly more than 5%, which is not suitable for their profitability. EBL have been getting lower net profit out of total income with comparison to all banks ie. 21.88%, however this not least among sampled bank, SBI had only 19.75% only. SBI comparatively fails to utilize their assets because they had least ROA i.e. 1.24% only whereas BOK had 1.94%. SBI have been suffering from ineffectively using the total fund. All banks have been earning sufficient interest income on loan and advances, among them SBI had least interest income i.e. 7.70%.

Comparatively, EBL is successful in utilizing the deposits by charging higher rate of interest to the borrowers than pay to the depositors. Its Credit Deposit ratio is 76.77% with CV only 2.72%. But, SBI is comparatively unsuccessful (i.e. 19.41%). Except SBI, the remaining banks have been maintaining lower capital adequacy ratio as per the NRB directive (ie. 10%). EBL have been getting comparatively more EPS than other banks. EBL has better and consistent P-E ratio (ie. 20.11%). However, Nabil shows inconsistent and with lowest P/E ratio (ie. 17.60%) but SI had highest P/E. HBL has been providing comparatively much greater Cash Dividend on Share Capital (ie. 18.72%) in a consistency manner. EBL is next to HBL, whatever doesn't pay for year 2005/6. Most remarkably, SBI has not provided dividend (including bonus) on share capital annually but HBL provided consistently. SBI has not been bearing sound salary and other allowances to total operating expenses. SBI shows the least ratio (ie. 9.40%). HBL has not been comparatively focusing to provide staff bonus (ie.

21.74%), rather it bears sound salary and allowances benefit than other banks (ie. 39.29%).

SBI and HBL have been charging comparatively lower spread, whereas HBL shows more consistency than SBI. BOK's spread rate is highest (ie. 4.38%).HBL had highest exchange gain among all i.e. 8.25%. But an EBL effort towards exchange gain is less satisfactory than others (ie.2.23%). Performance of all banks in maintaining NPA is satisfactory, except SBI (ie. 4.62%). NIBL and BOK are at satisfactory level. EBL's performance is comparatively most sound (ie. 0.97%).

The correlation between Total Deposits and Loan & Advances is strongly positive for all banks. But, relation of Total Deposits and Investment is significant only to NIBL and SBI. The correlation of NPA & Net Profit is negative and absolutely insignificant for all banks. It means, decrease in NPA from sound lending & recovery leads to increase in net profits.

5.3 Recommendations

- For strengthening the liquidity position; it is strongly recommended to EBL to maintain CRR as per the directives of central bank.
- Profit is generated form proper use of the assets. This is reflected on ROA ratio. SBI and HBL are recommended to effective utilization of total fund (assets) so as to make more profitability. Interest income on loan and advances is at satisfactory, so it is recommended to keep on continuing as previous. The lower the Operating Ratio, the better it is. Thus, BOK and SBI are recommended to maintain operating ratio on total assets comparatively lower.
- HBL is recommended to utilize the deposits by charging higher rate of interest to the borrowers than the depositors as a viewpoint of effective management of assets.
- It is recommended to SBI and BOK to pay more attention about shareholder's profitability (EPS). NIBL, HBL and EBL should give continuity. It is recommended to SBI to give consistency in P-E ratio. It is recommended to SBI

to provide Cash Dividend in a consistent manner. Moreover; SBI is strongly recommended to make Annual Dividend Plan so that it could provide dividend each year.

- Except SBI; it is recommended to maintain Capital Adequacy ratio as per the directives of central bank. It is strongly recommended to SBI to generate cheaper fund by bearing favorable lower interest rate on deposits.
- It is generously recommended to SBI, BOK and EBL to make contribution towards staff expenses out of total operating expenses for employee satisfaction and motivation. It is recommended to HBL to pay more attention towards staff bonus to be competitive among the four banks. It is recommended to HBL & SBI to pay more attention towards interest rate spread. EBL and BOK are recommended to pay more attention towards exchange of foreign currencies. It will give contribution to total income too.
- NPA is the most sensitive part of banking performance. The effectiveness of loan & recovery is depicted from NPA position. It is key variable for measuring bank's performance. It is strongly recommended to HBL to make conscious efforts for lowering NPA in recent years. EBL is highly appreciated for its substantially lowest NPA and suggested to keep-it-up.

BIBLIOGRAPHY

Acharya, P. (2005). *A Comparative Study on Financial Performance of Nepal SBI Bank & Everest Bank Ltd*. An Unpublished Master Degree Thesis Submitted to Office of the Dean, FOM, T.U.

Bajracharya, B.C. (2000). *Business Statistics & Mathematics*. Kathmandu: M.K. Publishers and Distributors.

Bajracharya, P., Ojha, K., Goet, J. & Sharma, S. (2004). *Managerial Accounting*. Kathmandu: Asmita Books Publisher &Distributors.

Basnet, Y. (2005). *A Comparative Study of Financial Performance between Commercial Banks*. An Unpublished Master Degree Thesis Submitted to Office of the Dean, FOM, T.U.

Beaver, B.H. (1996). Financial Ratios and Predictors of Failure. *An Empirical Research in Accounting Selected Studies Supplement to Journal of Accounting Research.* Block, Stanley B. & Hirt. Vol. 89.

Chand, D. (2009). *A Comparative Study of Financial Performance of Joint Venture Bank in Nepal.* An Unpublished Master Degree Thesis Submitted to Office of the Dean, FOM, T.U.

Cotter, R. & Smith, G. (1976).*Commercial Banking*. New Jersey: Printice Hall Inc., Englewood Cliff.

Dambolena, I.G. & Khoury, S.J. (1980). Ratio Stability & Corporation Failure. *Journal of Finance.*

Dangol, R.M. & Dangol, J. (2061). *Management Accounting*. Kathmandu: Taleju Prakashan.

Edward, A.I. (1968). Financial Ratios- Discriminate Analysis and Prediction of Corporate Bankruptcy. *Journal of Finance.* Vol. 23

Geoffrey, A. (1997). *Foundations of Financial Management. (8th ed.).* Chicago: The Dryden Press.

Ghimire, G. (2005). *Non-Performing Assets of Commercial Banks: Cause and Effect*. An Unpublished Master Degree Thesis Submitted to Office of the Dean, FOM, T.U.

Ghimire, G.P. (2003).*Financial Performance of commercial Banks: A ComparativeCase Study on Nepal Bangladesh Bank Ltd., Himilayan Bank Ltd. And Everest Bank Ltd.* An Unpublished Master Degree Thesis Submitted to Office of the Dean, FOM, T.U.

Gurung, V.C. (1995). *A Financial Study of Joint Venture Banks in Nepal*. An Unpublished Master Degree Thesis Submitted to Office of the Dean, FOM, T.U.

Hampton, J.J. (1998). *Financial Decision Making*. New Jersey: Rostan Publishing Co. Inc.

Hill, N.C. & Satoris, W.L. (1995). *Short term Financial Management.* New Jersey: Prentice Hall Inc.

Hilton, R.W. (2002). *Managerial Accounting*. *(4th ed).* New York: McGraw-Hill Inc.

Jha, R. (1998). *Comparative Analysis of Financial Performance of the Selected JVBs of Nepal*. An Unpublished Master Degree Thesis Submitted to Office of the Dean, FOM, T.U.

Kerlinger, F.N. (1978). *Foundation of Behavioral Research*. New Delhi: Surjeet Publication.

Khan, M.Y. & Jain, P.K. (2006). *Cost Accounting and Financial Management*. *(2nd ed.)*. New Delhi: Tata McGraw-Hill.

Munakarmi, S.P. (2002). *Management Accounting*. *(2nd ed.)*. Kathmandu: Budddha Academic Publisher and Distributors Pvt. Ltd.

Nepal Rastra Bank (2009/10). *Current Macro Economic Situations.* Kathmandu.

Nepal Rastra Bank (2009/10). *Monetary Policy*. Kathmandu.

Nepal Rastra Bank (Mid–July, 2010) *Banking and Financial Statistics*. Kathmandu.

Pandey, I.M. (1995). *Financial Management*. New Delhi: Vikash Publishing House of India.

Pant P.R. & H.K. Wolff (1999). *Social Science Research and Thesis Writing*. Kathmandu .Buddha Academic Enterprises.

Pant, P.R. (2003). *Business Environment in Nepal*. Kathmandu: Budddha Academic Publisher and Distributors Pvt. Ltd.

Pant, R. (2064). Arthik Mimansha; Naya Nepal Viseshanka. Kathmandu: *Nepal Rastra Ban*k, Sec D; 57.

Panta, I.P. (2005). *A Comparative Study of Everest Bank Ltd. & NIC Bank Ltd.* An Unpublished Master Degree Thesis Submitted to Office of the Dean, FOM, T.U.

Poudel, N.P. (1997). Financial Statement Analysis- An Approach to Evaluate Banks Performance. Kathmandu: *NRB Samachar*, 38th Anniversary; 64-69.

Pradhan, S. (1992). *Basics of Financial Management*. Kathmandu: Educational Enterprises Pvt. Ltd.; 45.

Sayers, R.S. (1978). *Modern Banking*. Delhi: Oxford University Press; 16.

Shrestha, B. (2003). *A Comparative Analysis of Financial Performance of the Selected Joint Venture Banks*. An Unpublished Master Degree Thesis Submitted to Office of the Dean, FOM, T.U.

Van Horn, J.C. & Wachowiez, J.M. (1997). *Fundamentals of Financial Management*. New Delhi: Prentice Hall of India.

Wagle & Dahal (2004). *Management Accounting*. Kathmandu: Khanal Books and Stationary.

Weston, J.F. & Brigham, E.F. (1996). *Essential Managerial Finance*. *(11th ed).* Chicago: The Dryden Press.

Yadav, G. (2009). *A Complete Study on Financial Performance Analysis of Commercial Banks of Nepal*. An Unpublished Master Degree Thesis Submitted to Office of the Dean, FOM, T.U.

Websites:

www.bok.com.np

www.cbe.wwu.edu

www.everestbank.com

www.himalayanbank.com

www.nepalsbi.com.np

www.nibl.com.np

www.nrb.org.np

www.sebonp.com

APPENDICES

Appendix - 1

Profile of Sample Banks

1. Nepal Investment Bank Ltd.

Nepal Investment Bank was established in 2042, under the company Act. It was a foreign joint venture bank and the foreign partner is Banque Indosuez of France, Paris. 50% of the Bank's share was, of Indosuez Bank, 15% is of Rastriya Banijya Bank, 15% is of Rastiya Bima Sansthan and remaining 20% is of the public the bank has 16 branches in the operation. Nepal Government gives the bank specific rights to manage for the 15 years. NIBL has been awarded the prestigious "Bank of the Year 2005" by the London–based Financial Times Group's. The Banker – making it the first Nepali Bank to win the award two times in three years. NIBL had also won the "Bank of the Year 2003" award. Bank was selected for this honor amongst the Nepali banks by meeting the stringent benchmark criteria set by The Banker. The Award is based on the growth and performance in terms of capital, assets, and return on equity and management quality. Authorized capital and paid-up capital of Nepal Investment Bank Limited are Rs.1000, 000,000 and Rs.801, 400,000.

2. Himalayan Bank Limited

HBL was established in 1992, under the company act. It is also a foreigner joint venture bank and the foreigner partner is Habib Bank Limited of Pakistan. This is the first Joint venture Bank managed by Nepalese Chief Executives. There are 16 branches of HBL in operation. Authorized capital and paid-up capital are Rs.1000, 000,000 and Rs.810, 810,000.

3. Nepal SBI Bank Limited

Nepal SBI Bank Limited was established in 1993, under the company Act. It is also a foreign joint venture bank and the foreign partner is State Bank of India, holding the 50% of equity share of Nepal SBI Bank Limited, is managing the Bank under joint

venture and technical services agreement signed between it and Nepalese promoters. These are 16 branches of Nepal SBI Bank Limited in operation. Authorized capital and paid-up capital of Nepal SBI Bank Limited is Rs.1000, 000,000 and Rs.647, 800,000 respectively.

4. Everest Bank Limited

Everest Bank Limited was established in 1992, under the company Act. It is also foreign joint venture bank and the partner was United Bank of India and managed from very beginning till November 1996. Later on it handed over the management to the Punjab National Bank Ltd, India that holds 20% equity on the banks share capital. Altogether 21 branches of Everest bank are in operation. Authorized capital and paid-up capital of Everest Bank Limited are Rs.10, 00,000,000 and Rs.51, 80, 00,000 respectively.

5. Bank of Kathmandu Limited

Bank of Kathmandu Limited was established in 2050 B.S. in collaboration with the Siam commercial Bank PLC, Thailand under the company Act. The Siam commercial Bank has diluted and reduced its equity to 25% by selling 25% of Nepalese citizen in 1998 of its initial holding. The bank has 16 branches in operation. Authorized capital and paid-up capital of Bank of Kathmandu Limited are Rs.1000, 000,000 and Rs.603, 141,300 respectively.

Appendix 2

Calculation of average return, Standard Deviation, Standard Deviation of Market Return COV and Beta Coefficient of all sample Banks

Dividend in Percent

Fiscal Year	NIBL	HBL	SBI	EBL	BOK
2005/06	12.5	31.58	0	20	15
2006/07	55.46	35	5	0	48
2007/08	30	40	47.59	30	20
2008/09	40.83	45	0	30	42.11
2009/10	25	30	17.5	30	30

Source: Annual Reports (2005/06 - 2009/10)

MVPS

Fiscal Year	NIBL	HBL	SBI	EBL	BOK
2005/06	1260	1100	612	1379	850
2006/07	1729	1740	1176	2430	1375
2007/08	2450	1980	1511	3132	2350
2008/09	1388	1760	1900	2455	1825
2009/10	705	1420	741	1630	840

Source: Annual Reports (2005/06 - 2009/10)

EPS

Fiscal Year	NIBL	HBL	SBI	EBL	BOK
2005/06	39.5	47.91	13.29	54.22	30.1
2006/07	59.35	59.24	18.27	62.78	43.67
2007/08	62.57	60.66	39.35	78.42	43.5
2008/09	57.87	62.74	28.33	91.82	59.94
2009/10	52.55	63	23.69	100.16	43.08

Source: Annual Reports (2005/06 - 2009/10)

Dividend Per Share in Rupees

Fiscal Year	NIBL	HBL	SBI	EBL	BOK
2005/06	4.94	15.13	0.00	10.84	4.52

2006/07	32.92	20.73	0.91	0.00	20.96
2007/08	18.77	24.26	18.73	23.53	8.70
2008/09	23.63	28.23	0.00	27.55	25.24
2009/10	13.14	18.90	4.15	30.05	12.92

Calculation of Market Return

In Percentage

	NIBL	HBL	SBI	EBL	BOK	Averege
2005/06	0.58	0.21	0.83	0.60	0.99	0.64
2006/07	0.40	0.60	0.92	0.76	0.64	0.67
2007/08	0.43	0.15	0.30	0.30	0.72	0.38
2008/09	-0.42	-0.10	0.26	-0.21	-0.21	-0.14
2009/10	-0.48	-0.18	-0.61	-0.32	-0.53	-0.43
	Averege Return					0.22

Based On only Sampled Banks

Calculation of average return, Standard Deviation, Standard Deviation of Market Return COV and Beta Coefficient

NIBL

Div	P1	P0	Rf	R	E(Rp)	Rp-E(Rp)	Rm	E(Rm)	Rm-E(Rm)	Rp-E(Rp) *Rm-E(Rm)
4.94	1260	800	2.76	0.58	0.11	0.47	0.53	0.23	0.30	0.14
32.92	1729	1260	3.07	0.40	0.11	0.29	0.59	0.23	0.36	0.10
18.77	2450	1729	4.11	0.43	0.11	0.32	0.30	0.23	0.07	0.02
23.63	1388	2450	7.29	-0.42	0.11	-0.53	-0.04	0.23	-0.27	0.14
13.14	705	1388	9.61	-0.48	0.11	-0.59	-0.32	0.23	-0.55	0.33
Average				0.10					**Total**	0.74
Standard Deviation				0.51		**SD**	0.39		**COV**	0.15
									b	0.38

HBL

Div	P1	P0	Rf	R	E(Rp)	Rp-E(Rp)	Rm	E(Rm)	Rm-E(Rm)	Rp-E(Rp) *Rm-E(Rm)
15.13	1100	920	2.76	0.21	0.15	0.06	0.53	0.23	0.30	0.02
20.73	1740	1100	3.07	0.60	0.15	0.45	0.59	0.23	0.36	0.16
24.26	1980	1740	4.11	0.15	0.15	0.00	0.30	0.23	0.07	0.00
28.23	1760	1980	7.29	-0.10	0.15	-0.25	-0.04	0.23	-0.27	0.07
18.90	1420	1760	9.61	-0.18	0.15	-0.33	-0.32	0.23	-0.55	0.18
Average				0.14					**Total**	0.43
Standard Deviation				0.31		**SD**	0.39		**Cov**	0.09
									b	0.22

SBI

Div	P1	P0	Rf	R	E(Rp)	Rp-E(Rp)	Rm	E(Rm)	Rm-E(Rm)	Rp-E(Rp) *Rm-E(Rm)
0.00	612	335	2.76	0.83	0.35	0.48	0.53	0.23	0.30	0.14
0.91	1176	612	3.07	0.92	0.35	0.57	0.59	0.23	0.36	0.21
18.73	1511	1176	4.11	0.30	0.35	-0.05	0.30	0.23	0.07	0.00
0.00	1900	1511	7.29	0.26	0.35	-0.09	-0.04	0.23	-0.27	0.02
4.15	741	1900	9.61	-0.61	0.35	-0.96	-0.32	0.23	-0.55	0.53
Average				0.34					**Total**	0.90
Standard Deviation				0.61		**SD**	0.39		**Cov**	0.18
									b	0.46

EBL

Div	P1	P0	Rf	R	E(Rp)	Rp-E(Rp)	Rm	E(Rm)	Rm-E(Rm)	Rp-E(Rp) *Rm-E(Rm)
10.84	1379	870	2.76	0.60	0.35	0.25	0.53	0.23	0.30	0.07
0.00	2430	1379	3.07	0.76	0.35	0.41	0.59	0.23	0.36	0.15
23.53	3132	2430	4.11	0.30	0.35	-0.05	0.30	0.23	0.07	0.00
27.55	2455	3132	7.29	-0.21	0.35	-0.56	-0.04	0.23	-0.27	0.15
30.05	1630	2455	9.61	-0.32	0.35	-0.67	-0.32	0.23	-0.55	0.37
Average				0.23					**Total**	0.74
Standard Deviation				0.48		**SD**	0.39		**Cov**	0.15
									b	0.38

BOK

Div	P1	P0	Rf	R	E(Rp)	Rp-E(Rp)	Rm	E(Rm)	Rm-E(Rm)	Rp-E(Rp) *Rm-E(Rm)
4.52	850	430	2.76	0.99	0.35	0.64	0.53	0.23	0.30	0.19
20.96	1375	850	3.07	0.64	0.35	0.29	0.59	0.23	0.36	0.11
8.70	2350	1375	4.11	0.72	0.35	0.37	0.30	0.23	0.07	0.03
25.24	1825	2350	7.29	-0.21	0.35	-0.56	-0.04	0.23	-0.27	0.15
12.92	840	1825	9.61	-0.53	0.35	-0.88	-0.32	0.23	-0.55	0.49
Average				0.32					**Total**	0.96
Standard Deviation				0.66		**SD**	0.39		**Cov**	0.19
									b	0.50