Chapter – I
Introduction

1.1 Background of the study

Nepal is ranked one of the poorest countries in the world, which has yearly per capita income of US $ 290. Nepal's population is about 25 million. A significant number of people live below the poverty line. Poor resources, institutional weakness, lack of proper execution of economic policies, etc have been responsible for its slow pace of economic development.

Nepal's first attempt towards planned economic development started in 1956 when it initiated its first development plan. Recently tenth development plan period has been completed and the three year interim development plan is running. Financial infrastructure of an economy consists of financial intermediation, financial institutions and financial market. Financial institutions are playing vital role in the progress of economic growth of the country. Therefore institutionalization of the economic activities is essential for the development of the financial system. But in Nepal, we have a short history of such institutions performing economic activities. The Nepal Bank Ltd. Nepal's first commercial bank was established only in 1994 B.S. under a special charter. The establishment of Nepal Rastra Bank as a central bank in 2013 B.S. was a significant milestone in the development of the banking system. Thereafter, the flow of the establishment of commercial and non-commercial banks has become a regular phenomenon.

Nepal's financial sector, especially the banking sector, has undergone drastic changes in the past two decades. The opening up of the financial market with the establishment of Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL) is a notable step for the development of the financial sector. These two banks with their branches still continue to hold a large portion of shares in the total domestic banking transactions.

The role of commercial banks is vital in the growth and development of the national economy. Hence, they grew rapidly in number. Although, commercial banks are especially concerned with the development of commercial sectors of the country, they provide banking facilities to general public such as deposit collection, lending, overdraft facilities, share issue, agency services and investment and general utility services.

One of the most important achievements as a result of the growth in the number of commercial banks in the post-liberalization period is in the area of domestic saving. Quantitative growth of the banking sector has positively contributed to increasing domestic savings and resource mobilization.

As the result of government's policy of establishment of foreign joint venture bank's, Nepal Arab Bank Ltd. (NABIL) was establishment in 2041 B.S. as the first joint venture bank. Nepal Indosuez Bank Ltd. (NIBL) the second joint venture bank in the country. The standard chartered Bank Ltd. was the third joint venture bank. It was established in 2043 B.S. Nepal SBI Bank Limited was established in 2050 B.S. as the fifth joint venture bank.

The established joint venture banks gave a new horizon and dimension to the financial sector of the country. In addition, competing joint venture commercial banks have played a crucial role in modernizing, though only to an extent, the banking system. The recent introduction of 24 hours services facilities through the installation of Automatic Teller Machines (ATMs) by some banks and the initiation of innovative schemes for granting credit facilities to consumers are the notable achievements. However, the fact that only a few banks have really followed suit and the usual trust of customers seen in almost all banks for withdrawing their accounts during times of festivals puts question mark as the correlation between quantitative growth of the banking sector and the quality of services. They are expected to gain strength in foreign capital technology, competitive edge and expertise and skills in their operations. After the restoration of multiparty democratic system, the elected governments had adopted the liberalization and open market oriented policies. In this context, the role of the commercial banks is considered more significant.

A comparative study of financial performance is a basic process, which provides information on the profitability, liquidity position, earning capacity, efficiency in operation, credit worthiness, source and use of capital, financial achievement and status of the company. The financial performance of the commercial banks depends upon the volume of profitability condition of that commercial bank. The amount, which is collected by the bank as deposit from the customers that should be properly utilized in a productive sectors. It has widely been accepted that the economic activities of a country are greatly influenced by the development sound banking sector.

In a developing country like our the commercial banks play predominant role because they not only provide credit facilities but also assist in effective utilization of the bank credit. So the commercial banks, one of the elements of money market, are important institutions of any economy. They have boosted the economic development by mobilization of the accumulated amount to various sectors. They collect deposit from general public and organized sector by offering attractive interest rate and mobilize them in productive sector. The increment in investment rate, national income and employment are not possible without mobilization of capital.

Today the task of banks is very dynamic, complex and risky. Many research and studies have revealed that banks and economic advancement are two sides of coin or two wheel of chariot. At present, a large number of banks operating in Nepal. Naturally they are rendering a wide range of services. They are trying to keep up with the changes taking place in the world. But quality does not count for quantity. It will focus on the comparative financial performance of these three banks regarding profitability, liquidity, activity, leverage position etc.

Financial performance is the main indicator of the success or failure of the enterprise. There are different persons or group who look for the financial performance of the enterprises such as share holder owners, managers, creditors, investors, employees, customers, tax authorities etc have direct concerned to the financial position of the enterprises. Similarly, trade association, trade union, competitors etc. are also indirectly concerned to the financial position. Although, the type of analysis varies according to the specific interest of the party involved. So it can conclude financial performance as nothing but the process of evaluating the relationship between component parts of financial statement to draw better understanding of a firm position and performance.

As per latest statistical data of Nepal Rastra Bank -23 commercial banks (A), 57 Development banks (B), 78 financial institutions (C), 12 regional rural development banks (D), 17 co-operative with limited banking transactions and 47 non government organizations are operating in Nepal. (Source: www.nrb.np).

Table No. 1.1

The list of licensed commercial banks in Nepal is as follows.

(Rs. In Lakh)

S.N	Name of Bank	Head Office	Operating Date	Paid up Capital
1	Nepal Bank Limited	Dharmapath, Kathmandu	1994/7/30	3804
2	Rastriya Banijya Bank	Sinhadarbar, Kathmandu	2022/10/10	11723
3	Agriculture Development Bank	Ramshahpath, Kathmandu	2024/10/7	75280
4	NABIL Bank Ltd.	Kantipath, Kathmandu	2041/3/29	4917
5	Nepal Investment Bank Ltd.	Darbarmarg, Kathmandu	2042/11/26	8014
6	Standard Chartered Bank Ltd.	Nayabaneswor, Kathmandu	2043/10/16	4133
7	Himalayan Bank Ltd.	Thamel, Kathamndu	2049/10/05	8108
8	Nepal SBI Bank Ltd.	Hattisar, Kathmandu	2050/3/23	6478
9	Nepal Bangladesh Bank Ltd.	Nayabaneswor, Kathmandu	2050/2/23	7199
10	Everest Bank Ltd.	Lajimpat, Kathmandu	2051/07/01	5180
11	Bank of Kathmandu Ltd.	Kamaladi, Kathmandu	2051/11/28	6031
12	Nepal Credit and Commerce Bank Ltd.	Siddharthnagar, Rupandehi	2053/6/28	6991

13	Nepal Industrial and Commercial Bank Ltd.	Biratnagar, Morang	2055/4/5	6600
14	Lumbini bank Ltd.	Narayangadh, Chitwan	2055/4/1	6000
15	Machhapuchhre Bank Ltd.	Prithivichowk, Pokhara	2057/6/17	8217
16	Kumari Bank Ltd.	Putalisadak, Kathmandu	2057/12/21	7500
17	Laxmi Bank Ltd	Adarshnagar, Parsa	2058/12/21	7297
18	Siddhartha Bank Ltd.	Kamaldi, Kathmandu	2059/9/9	6000
19	Global Bank Ltd.	Birgunj, Parsa	2063/9/18	5100
20	Citizens Bank international Ltd.	Kamaladi, Kathmandu	2064/1/7	5600
21	Prime Bank Ltd.	Nayasadak, Kathmandu	2064/6/7	7000
22	Sunrise Bank Ltd.	Goiridhara, Kathmandu	2064/6/25	7000
23	Bank of Asia Nepal Ltd.	Tripureswor, Kathmandu	2064/6/25	7000

Source: www.nrb.com.np

There are many joint venture banks established in Nepal. Taking all those banks for the study will make job tedious too large because all this things may be this report cannot meet the objective of study. So to avoid all those problems, this study is done taking only three banks as the research sample they are as follows

1.2 NABIL Bank Ltd. (NABIL)

NABIL Bank Limited, formerly known as Nepal Arab Bank Limited, was incorporated 11 May 1984 (29 Baisakh 2041) as the first foreign joint venture bank in Nepal with the authorized capital of Rs. 100 million and called up share capital of Rs. 30 million. It commenced it's operation from 12 July, 1984 with the technical service assistance and 50% shares of Dubai Bank Limited (acquired in April 1985 by Emirates Bank International Limited, Dubai) and remaining 50% shared among Nepal Industrial Development, Rastriya Beema Sansthan, Nepal Stock Exchange limited and Nepalese general Public.

The head office of NABIL is in Kantipath, Kathmandu. It operates from 28 locations and employees over 450 local staff. The main objective of this bank is to collect deposit, provide loan and provide modern banking services to the public. Bank is fully equipped with modern technologies like ATMs, credit cards, state of art world renowned banking software from infosys technologies system, internet banking system and tele-banking system. The promoters and the shareholding patterns of NABIL Bank Ltd. are as follows;

Share ownership (end of Asadh 2064)

• NB (International) limited	50%
• Nepal Industrial Development Corporation	10%
• Rastriya Beema Sansthan	9.67%
• Nepal Stock Exchange	0.33%
• General Public	30%

The governing board of the NABIL has seven members as follows-

• Nominated by NABIL	4
• Nominated by Financial Institutions	1
• Nominated by public shareholders	2

Share capital of NABIL Bank Ltd. (end of Asadh 2064)

i) Authorized Capital	
5,000,000 ordinary shares @Rs 100 each	Rs. 500,000,000
ii) Issued Capital	
4,916,544 ordinary shares @ Rs. 100 each	Rs. 491,654,400
iii) Paid up Capital	
4,916,544 ordinary shares @ Rs. 100 each	Rs. 491,654,400

Products and service granting by NABIL Bank Ltd.

- Deposit (current, call, time, normal savings, provident fund Retirement fund)
- Remittance services
- Western Union Money transfer
- ABBS (Any Branch Banking System)
- E Banking
- Cards and ATMs
- Working capital loan, fixed capital loan
- Export loan
- Hire purchase

- Project Finance
- Auto Finance
- Housing finance
- Mortgage loan
- Safe deposit locker

1.3 Standard Chartered Bank Ltd. (SCBL)

Standard Chartered Bank Nepal Limited a subsidiary of Standard Chartered Group is Nepal's largest international bank and has completed 20 years of its operation in January 2007. The bank was established in 1987 (2043 B.S.) as a third joint venture bank in Nepal under the company act 1964 with authorized capital, issued capital and paid up capital of Rs. 100 million, 50 million and 30 million respectively. The head office is in Nayabaneswor, Kathmandu. It operates from 15 locations in the country and employs over 350 local staff. The bank offers a full range of banking products and services in whole sale and consumer banking, catering to a wide range of customers encompassing individuals, mid market local corporate, multi local corporate, multinationals, large public sector companies, government corporations, airlines, hotels as well as the DO segment comprising of embassies, aid agencies, NGOS and INGOS.

Since July 2001, its name changed from Nepal Grindlays Bank limited to Standard Chartered Banks Ltd. Standard Chartered Bank has been making efforts to provide the facilities to its customers, taking into account the customer's need and requirements. The promoters and the shareholding patterns of Nepal Standard Chartered Bank Ltd. are as follows:

Share ownership (end of Asadh 2064)

- Foreign Institutions 75%
- General Public 25%

The governing board of the SCBL has six members as follow:

- Nominated by Standard Chartered Group 4

- Nominated by concerned legal rules legal rules 1
- Elected by ordinary shareholder 1

Share capital of SCBL (end of Asadh 2064)

i) Authorized Capital
10,000000 ordinary shares @Rs. 100 each Rs. 1,000,000,000

ii) Issued Capital
5,000,000 ordinary shares @Rs. 100 each Rs. 500,000,000

iii) paid up capital
4,132,548 ordinary share @Rs. 100 each Rs. 413,254,800

Products and services granting by SCBL

- Deposits (current, saving, call and fixed)
- Access Plus Account
- Grameen Prathmik Karza
- Fund transfer service-local and international
- credit card services
- 24 hours ATM services
- USD prepaid card
- Safe deposit lockers
- Foreign Exchange services
- 365 days banking (Limited Branches)
- Priority banking
- SMS banking
- Auto loan, personal loan, home loan
- corporate employee accounts
- Trade Finance

1.4 Nepal SBI Bank Ltd. (NSBI)

Nepal SBI Bank Limited was established in 1993 (B.S. 2050) under the company Act 1964 as a fifth joint venture bank in Nepal. This is a joint venture of the State Bank of India and Nepali promoters. The bank is managed by State bank of

India under the joint venture and technical Services agreement signed between it and Nepali promoters. The Nepali promoters are employee's provident fund and Agriculture Development Bank, Nepal. The State Bank of India is holding 50.2% equity.

The head office of the Bank is in Hattisar, Kathmandu. There are 19 branch offices (including extension counters) of Nepal SBI Bank and employs over 190 local staff. All the branches are networked and providing ***"Anywhere Banking"*** facilities. Nepal SBI Bank is the first Bank in Nepal to set up its data center in Mumbai keeping in view, the future opportunities of linkage with SBI branches. Bank has recently linked its ATMs with those of SBI to help laces of Nepalese visiting India for various purposes. The promoters and shareholding patterns of Nepal SBI Bank Ltd. are as follows:

Share ownership (end of Asadh 2064)

- State Bank of India 50.2%
- Agricultural Development Bank 5%
- Employee Provident Fund 15%
- General Public 29.98%

Nepal SBI Bank Ltd. governing board has six members as follows:

- Nominated by SBI Bank 3
- Nominated by Employee provident fund 1
- Elected by General Public 2

Share Capital of Nepal SBI Bank Ltd. (end of Asadh 2064)

i) Authorized Capital
   10,000,000 ordinary shares @Rs. 100 each Rs. 1,000,000,000
ii) Issued Capital
   6,500,000 ordinary shares @Rs. 100 each Rs. 650,000,000
iii) Paid up capital
   6,477,984 ordinary shares @Rs. 100 each Rs. 647,798,400

Products and services granting by Nepal SBI Bank Ltd.

- Deposit (Saving, Current, fixed, call)
- ATM Services (Automated Teller Machine)
- ABBS (Any Branch Banking System)
- Safe Deposit Lockers
- Trust receipt loans
- Mortgage loans
- Property loans
- Loans under doctor plus, teacher plus schemes
- Education loan
- Vehicle loan
- International trade facilities
- Import and export finance

1.5 Focus of the Study

"The focus of the financial analysis is on key figures in the financial statements and the significant relationship that exist between them" (Khan and Jain, 2000: 4.1)

In this thesis the focus of study is about comparative financial performance analysis of three JVBs NABIL Bank Ltd., Standard Chartered Bank Ltd. and Nepal SBI Bank Ltd. Past, present as well as future analysis are carried out. Comparative analysis are carried out on the basis of internal report, annual report and collected other information. For this, different tools of analysis are used and try to preserve remedial measure to improve the performance of three banks.

1.6 Statement of the problem

Although the joint venture banks (JVBs) have managed to perform better than the local commercial banks within the short span of time, they have been facing high competition against one another. The policy of economic liberalization has further intensified the competition, which has ultimately affected this profitability of these banks. There is high competition between JVBs ultimately affecting the interest rates. The interest rates of banks have been decreasing and the mobilized resources are mostly idle. Commercial banks of Nepal also have failed to fulfill the growing needs of customers. They are operating in traditional ways and fail to meet the customer's expectations of fast services. JVBs in Nepal are expected to mobilize the passive funds towards trade and commerce, to provide economic assistance to entrepreneurs and to create saving habits in public. JVBs operations in Nepal are however fulfilling the growing need of funds required to for development activities. There is high competition among JVBs and other commercial banks. Due to decreasing interest rates the depositor are discouraged. In view of these problems, this study is directed to towards the following research problem:-

1. What are the liquidity, profitability and market positions of JVBs?
2. What are the growth ratios of JVBs in terms of net income earning?
3. What is the relationship between lending and loan recovery of banks?
4. What is the relationship between deposits and investments of banks?
5. To what extent have these banks been able to utilize their resources effectively?
6. What is the overall financial position of the banks measured in the context of various financial parameters?

1.7 Objective of the study

The primary objective of this study is to make comparatively analysis of the financial performance of three joint venture commercial banks i.e., NABIL Bank Ltd., Standard Chartered Bank Ltd and Nepal SBI Bank Ltd. The other specific objectives are as follows:

1) To find out and compare liquidity, capital structure, efficiency of assets management and profitability position of the sample banks.
2) To evaluate the earning power and dividend paying ability of the sample banks.
3) To analyze the relationship between total deposit and loan & advances.
4) To find out discrepancies, if any.
5) To provide a package of suggestions and possible guidelines to improve the performance of the sample banks based on the finding of the analysis.

1.8 Significance of the Study

The proper mobilization of domestic resources becomes indispensable for any developing country aspiring for a sustainable economic development. There is no doubt that JVBs have vital role in the mobilization and utilization of scattered resources of a nation. The NABIL, SCBL and NSBI are pioneering JVBs of the country. The prosperity of these JVBs will naturally have a positive impact on the economic development of the country and vice-versa. Particularly, their effectiveness will benefit.

1) Lenders and borrowers of the banks.
2) Other concerned parties who were interested of these banks.
3) Customer of these banks.

This study and its outcomes will also benefit the bank managements and the policy makers.

1.9 Limitations of the Study

This research has been conducted to fulfill the requirement for the Degree of Master of Business Studies. It is, therefore an action oriented research. It does not focus much on fundamentals issues. Besides this limitation, the other limitations are as follows:-

1) For completion of the study the researchers have boundary of limit time.
2) It is only confined to NABIL Bank Ltd., Standard Chartered Bank Ltd. and Nepal SBI Bank Ltd. covering the period of 6 years. (2001/02 to 2006/07)
3) This analysis is mainly based on the available published secondary data.
4) It is concerned only with the financial performance of three banks.
5) The data published by different agencies differ. They do not tally and the total in many places is not equal. These inconsistencies in data have been a serious limitation of this study.

1.10 Organization of the Study

This study has been divided into five chapters, each devoted to some aspects of the study of the comparative study of the financial performance of three banks. The titles of each of the Chapter are as follows:-

Chapter One – Introduction
Chapter Two – Review of Literature
Chapter Three – Research Methodology
Chapter Four – Data presentation and Analysis
Chapter Five – Summary, Conclusions and Recommendations

Chapter One- The first chapter includes introduction, a brief profile of NABIL, SCBL & NSBI, statement of the problem, objective of the study, focus of the study, significance of the study and limitations of the study.

Chapter Two – The subsequent second chapter includes ***"Framework and review of literatures".*** This chapter has deals with review of various journals, books, published or unpublished reports articles and previous thesis.

Chapter Three – This chapter deals with methodology adopted to achieve the objectives of the study, research questions. It consists of the research design, population and sample, sources of data, data collection method.

Chapter Four – This chapter deals with systematic presentation and analysis of data. Various financial and statistical tools and techniques have been used to analysis and interpret the data. This chapter is the key chapter for the present study, which also presents the results relating to financial performance.

Chapter Five – The fifth chapter is concerned with the summary of the study along with various suggestions and recommendations for improving future performance of the banks and conclusions drawn from the study.

Finally an extensive bibliography and appendixes are presented at the end of the study.

Chapter - II

Review of Literature

Review of literature means taking knowledge from different sources. In this chapter the researcher has reviewed varies published and unpublished materials, i.e. previous researcher's thesis and books, articles, newspaper, annual reports. The previous study has been reviewed because they provide the foundation to the present study. The review of literature provides the foundation for developing a comprehensive theoretical frame work from which hypothesis can be developed for testing.

"The purpose of reviewing the literature is to develop some expertise in one's area to see what new contributions can be made and to receive some ideas for developing a research design." (Wolff and pant, 1999:30). This chapter is divided into three-sub section. *"**Conceptual Framework**"* is presented in first section and *"**Review of Related Articles**"* and *"**Review of Related Thesis**"* has been presented in the second and third section respectively.

2.1 Conceptual Framework

2.1.1 Concept of Financial Statement

"The financial statements contain summarized information of the firm's financial affairs, organized systematically which are means to present the firm's financial situation to users. These statements are used by investors and financial analysis to examine the firm's performance in order to make investment decisions; they should be prepared very carefully and contain as much information as possible". (I.M. Pandey, 1991:30)

John H. Hampton has stated, *"The financial statements provide a summary of the accounts of a business from the balance sheet, as reflecting the assets, liabilities and capital as of a certain data and income statement showing the results of operation during a certain period."*

"The organized summary of detailed information about financial position and performances of a concern is known as the financial statement. The purpose for preparing financial statement is for the periodical review of the activities of the organization and results achieved by the organization. It includes profit and loss account or income statement and balance sheet" (Dangol, 2061:590)

Thus, financial statements are the summary reports of a company's financial transactions or affairs. They report the end results of accounting activities during a given period of time. Financial statement are end of the period account prepared to show the profit or loss situation of a business for a period of time and to assess the financial position and cash flow situation as on a particulars date. Financial statements report the results of past activities. Therefore, they are also called as the historical records of the company. The income statement, the balance sheet, the statement of retained earnings and the statement of cash flows are four basic financial statements which are as follows:

a) Income Statement

The income statement is also known as profit & loss account. It presents the result of business operations during a specified period of time such as, a quarter or a year. In other words, it summarizes the firm's revenues and expenses over an accounting period.

"The income statement, sometimes called as the trading and profit and loss account or an earning statement, reports the profitability of a business organization for a stated period of time. In accounting, we measure profitability for a period, such as a month or year by comparing the revenues generated with the expenses incurred to produce these revenues" (14 writer, 2064:260)

"The income statement reports the results of operations over a period of time, and it shows earnings per share as its 'bottom line' " (Brigham and Houstan, 2001:72)

"An income statement shows the net result of the business operations during an accounting period. It may include manufacturing and trading account, profit and loss account and profit and loss appropriation account. An income statement presents the summary of

revenues, expenses and net income or net loss of a firm. It serves as a measure of the firm's profitability." (Dangol, 2061:590)

b) Statement of Retained Earnings

The statement of retained earnings is also called as profit and loss appropriation account. One purpose of this statement is to connect the income statement and the balance sheet. The statement of retained earnings explains the changes in retained earnings between two balance sheet dates. These changes usually consist of the addition of net income and the deduction of dividends.

"The statement of retained earnings shows the change in retained earnings between the balance sheet dates. Retained earnings represent a claim against assets, not assets per se" (Brigham and Houstan, 2001:72)

"A statement reporting the change in the firm's retained earnings as the result of the income generated and retained during the year. The balance sheet figure for retained earnings is the sum of the earnings retained for each year the firm has been in business. Retained earnings are used to expand the business but not used for the payment of dividend or anything else." (Shrma and Adhikari, 2005:13)

c) Balance Sheet

The balance sheet, sometimes called the statement of financial position, lists the company's assets, liabilities and stock holder's equity as of a specific moment of time. A balance sheet is like a snapshot that captures the financial position of a company at a particular point in time.

"The balance sheet is a significant financial statement of a firm. In fact, it is called a fundamental accounting report. Other terms to describe this financial statement are statement of financial position or position statement. As the name suggests, the balance sheet provides information about the financial position of a firm at a particular point of time, say, as at March 31. It can be visualized as a snapshot of the financial status of a company." (Khan and Jain, 2000:4.72)

"Balance sheet is not an account but it is a statement of assets and liabilities of a business enterprise at a given date. It is a statement summarizing the financial position of a firm. The balance sheet is prepared at the end of accounting period and after completing the

preparation of trading and profit and loss account. It is, moreover, the statement of balances of ledger account which are not included in income statement. Therefore, it is called the balance sheet." (Dangol, 2061:590)

d) Cash Flow Statement

Management is interested in the cash inflows to the company and cash outflows from the company, because they determine the company's liquidity – its ability to pay its bills when due. The statement of cash flows shows the cash inflows and outflows from operating, investing and financing activities.

"The statement of cash flows reports the impact of operating, investing and financing activities on cash flows over an accounting period" (Brigham and Houstan,2001:50)

"A statement of changes in financial position on cash basis is commonly known as the cash flow statement. The statement of cash flow is designed to show how the firm's operations have affected its liquidity as measured by its cash flows and to show the relationships among cash flows from operating investing and financing activities. Hence, it indicates the sources and uses of cash." (Sharma and Adhikari, 2005:13)

"Cash flow statement describes the sources and uses of cash of an organization. It provides information about the inflow and outflow of cash of a firm in an accounting period. It can thus be defined as a statement which explains the change in cash position from one balance sheet date to the next balance sheet date." (Dangol, 2061:654)

2.1.2 Concept of Financial Analysis

Profit is one of the indicators of sound financial performance. It is unusually the result of sound business management, cost control, credit risk management and general efficiency of operation. Profit is essential for an enterprise for its survival and growth and to maintain capital adequacy through profit retention. Profit is also important for every business organization but profit cannot be the sole objective.

Liquidity refers to the ability to pay when it is needed. Enough liquidity is needed to honor cheques and, at the same time, to enable the banks to make profitable loans when an opportunity arises.

"Financial analysis devoted to a general term referring to the process of extracting and studying information in financial statements for use in management decision making. For example financial analysis typically involves the use of ratios, comparisons with prior periods and with the budget and other such procedures." (Ahuja, 2^{nd} edition: 120)

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

"Financial statements provide a summarized view of the financial position and operations of a firm. Therefore, much can be learnt about a firm from a careful examination of its financial statements is, thus, an, important aid to financial analysis." (Khan and Jain, 2000:4.1)

"The focus of financial analysis is on key figures in the financial statements and the significant relationship that exists between them. The analysis of financial statement is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance. The first task of financial analysis is under consideration from the total information contained in the financial statement. The second step is to arrange the information in a way to highlight significant relationship. The final step is interpretation and drawing of inferences and conclusion. In brief, financial analysis is the process of selection, relation and evaluation." (Khan and Jain, 2000:4.1)

"Investors are more concerned with firms' long-term financial strengths or solvency. The financial performance exhibits the resource mobilization capability of bank. In this context, some of research works here examined the various dimensions of financial performance." (Govinda B. Thapa, 1994)

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

The analysis of financial statement is an attempt to determine the liquidity solvency, efficiency, profitability position of an organization and also to highlight the source and use of funds. On the basic of data supplied by financial statement and gratifies the different needs of the concern parties like, owner, tenders and management about their interest by providing them adequate information to let them know their interest are at stake or not. Series of financial statement analysis and interpretation over different year help on to forecast the future regarding the banks ability to meet short-term and long-term liabilities, the profitability position and so on.

"Financial involves analyzing financial statement prepared in accordance with generally accepted principle to ascertain information related to strength and weakness of financial data in relation to others." (Van Horne James C, 11th edition: 691)

There are so many parties concerned with the bank (they are short-term and long-term creditors, shareholders, potential investors and management, government, general public and many others). However their analysis depends upon the specific interest. Short-term creditors are interested primarily in the liquidity of the bank. Their claims are short-term ability of a bank to pay the claims is its liquidity. The claims of bondholder, on other hand long-term creditors, they are interested in cash flow ability and profitability over time. So they evaluate this ability of bank by analyzing the capital structure.

Shareholders are concerned principally with the present and expected future earning and the stability of these earnings. So they focus their analysis on the profitability of the bank. They would be concerned with its financial condition as it affects the ability of firm to pay individual and to avoid bankruptcy.

Management is concerned with overall position of the banks i.e., liquidity, profitability, solvency growth, good will and so on. It studies and analyzes all type of financial indicators, which may assist in internal central as well as external bargaining.

Government regulatory agencies are concerned with the role of return a company earns it assets as well as with proportion a non-equity fund employed in the business. In other word government regulatory agencies are concerted with the efficiency of asset management. The general public are interested toward the bank for their general knowledge or for any other matters.

At last, we can say that financial statement analysis is helpful to the decision makes for finding out favorable and unfavorable situation of a business firm. Financial statement analysis is therefore very useful to a number of parties who are related directly and indirectly to the firm. The analysis is an important to them for different aspects of their interest.

Ratio Analysis

A ratio is defined as *"The indicated quotient of two mathematical expression"* and as *"The relationship between two or more variables."* Ratio analysis is the first step of financial analysis. But it is considered as powerful tools of financial analysis. It is designed to show relationships between financial statement accounts within and between firms.

"Ratio analyses are designed to help one evaluate a financial statement. For example, firm A might have debt of $5248760 and interest charges of $419900, while firm B might have debt of $52647980 and interest charges of $3948600. Which company is stronger? The burden of these debts and the companies' ability to repay them, can best the evaluated 1) by comparing each firm's debt to its assets and 2) by comparing the interest it must pay to the income it has available for payment of interest. Such comparisons are made by ratio analysis." (Brigham and Houstan, 2001:89)

"Ratio analysis is defined as the systematic use of ratios to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and the current financial conditions can be determined." (Khan and Jain, 2000:4.1)

"Ratio analysis is a powerful tool of financial analysis that through it economic and financial position of a business unit can be fully x-rayed." (Kothari, 1984:487)

According to Wixom Kell and Bedford, "A ratio is an expression of the quantitative relationship between two numbers."

According to Kohler, *"A ratio is the relationship of one amount to another expressed as the ratio of or as a simple fraction, integer, decimal fraction or percentage."*

According to R.N. Anthony, *"A ratio is simply one number expressed in terms of another. It is found by dividing one number by the other."*

From the above definition, it is clear that ratio is a relation of one amount, and is a simple fraction or integer or percentage. Ratio analysis is devoted to show the numerical relationship between the data presented in the financial statements. It helps to measure profitability, solvency and performance of any business firm. It facilitates the decision makers to take the appropriate decision basing on the different ratios. Ratios can be classified into 4 broad groups which are as follows:

i) Liquidity Ratio

Liquidity ratios measure the short-term solvency or liquidity position of a firm. Liquidity refers to the ability of a firm to meet its short-term obligation. It reflects the short-term financial strength of the business. These ratios indicate whether the firm would be in a position to meet its short-term obligations in time. The ratios which indicate the liquidity of a firm are current ratio, quick ratio, super quick ratio etc.

ii) Leverage Ratio

Leverage ratio shows the long-term solvency or liquidity position of a firm. It indicates whether the firm is financially sound or solvent as far as its long-term obligations are concerned. These ratios measure the firm's ability to pay the interest regularly and to repay the principal on the due date. These ratios are also known as solvency ratios or capital structure ratios. The long-term solvency of a bank can be measured by debt to equity ratio, debt to total capital ratio, fixed coverage ratio etc.

iii) Activity Ratio

For smooth operations, a firm needs to invest in both short-term and long-term assets. Activity ratios describe the relationship between the firm's level of operations and assets needed to sustain the activity. Activity ratio can also be used to forecast a firm's capital requirements (both operating and long-term). Thus these ratios measure the degree of effectiveness in use of resources or funds by a firm. The common refers of activity or turnover are inventory turnover ratio, debtor turnover ratio, total asset turnover ratio, fixed asset turnover ratio, average collection period etc.

iv) Profitability Ratio

The efficiency of business is measured by the profitability. Profitability is an important measure of a company's operating success. The long-term survival of a business enterprise depends on satisfactory income earned by it. Profitability ratios measure the degree of operating success of a company in an accounting period. Profitability ratios try to establish relationship among profit, turnover, capital employed, etc. The ratios which indicate basic profitability of a firm are return on equity, return on asset, return on capital employed, net profit margin etc.

2.2 Review of Related Articles

In this section some available related articles has been reviewed in order to facilitate the subject matter of current study.

B.N. Rimal, in his article entitled **"Policy Issues and Development in Nepalese Banking System"** concludes that the central bank should instead drive for an approach towards indirect monetary control rather than loan on quantitative individual bank coiling. Indirect monetary policy through open market operation i.e., recent treasury bill auctions and opening up of inter-bank market and targeting broad financial variables like net foreign assets or for that matter Net Domestic Assets should even out small irritants in the banking system. (Rimal, 2046 B.S.)

Similarly Sunil Chopra, in his article **"Role of foreign banks in Nepal"** concludes that JVBs are already playing an increasing, dynamic and vital role in the economic development of the country. This will undoubtedly increase with time. (Chopra, 2046 B.S.)

M.K Shrestha indicated in his article **"Commercial Banks: Comparative performance and Evaluation"** concludes that JVBs are new operationally more efficient having superior performance compared to local banks. Superior performance of JVBs is due to their sophisticated technology, modern methods and skills. Their better performance is also due to the government's branching policy in rural areas. Despite, having a number of deficiencies in local banks these have to face growing constraints of socio-economic political system on the one hand and that of issue and challenges of JVBs commanding significant banking business on other spectrum. (Shrestha, 2047 B.S.)

In the same way, Bhagat Bista, in his book **"Nepal ma Aadhunik Banking Byabastha"** has made an attempt to highlight some of the important indicators which have contributed to the efficiency and performance of JVBs in the field of commercial banks. At the end of the paper he has concluded that the established of JVBs a decade ago marks being of modern banking are in Nepal. The JVBs have brought many new banking techniques such as computerization, hypothecation, consortium finance and modern based activities into the economy. These are in deed significant milestones in the financial development process to the economy. (Bista, 2048 B.S.)

Similarly, another article entitled **"Lending operation of Commercial Banks of Nepal and it's impacts on GDP"** of Sunity Shrestha, by her study found that there had been positive impact on GDP by the lending of commercial banks in various sector of economy except through service sector investment. (Shrestha, 1996)

Likewise, Murari R. Sharma in his article **"JVBs in Nepal; Co-existing or Crowding out"** pointed out that it would be definitely unwise for Nepal not to let the JVBs to operate in the country and not to take advantage of them as additional means of resource mobilization as well as harbinger of new era in banking. But it will certainly be unfortunate for the country to develop the JVBs at the cost of domestic banks. So far, one should admit frankly no differential treatment has been extended to the domestic and JVBs at least from the government's side, which is commendable. If the government keeps on the stance of treating the domestic and JVBs equally deposit the letter's bargaining strength and if the JVBs also show their alacrity to come forward to share the trials and tribulations of this poor country, both types of banks will coalesce and co-exist, complementing each other and contributing to the nation's accelerated development. On the country, if the JVBs use their strength against treading into the cumbersome path of development along with the domestic banks and the government, they will eventually crowd out the domestic banks from the more profitable urban areas and lucrative urban sectors unless reined by the determination of the government. (Sharma, 1998)

Hari Prasad Regmi has indicated in his article **"Problem Banks and Corporate Governance"** concludes that all the said commercial banks were found problematic due to the combinations of various factors. But problems with credit have became common in majority of the cases. Credit management could not be seen sufficiently robust to prevent poor lending practices, excessive loan concentration, excessive risk taking and overriding existing policy and procedures. As result quality or assets started to deteriorate, profitability ratio reduced, liquidity crunched, capital position deteriorated and finally turned to problematic. (Regmi, 2064 B.S.)

2.3 Review of Previous Thesis

Various thesis works have been done in different aspects of commercial banks such as lending policy, interest rates, investment policy, resource mobilization, capital structure etc. The conclusion drawn on the different aspects of commercial banks will be relevant to develop the theoretical framework of the present study. Thus, previous theses are review in this section.

A study conducted by Bajracharya (2036 B.S.) **"An evaluative study on the Mobilization of Commercial Bank resources",** reveals that Nepal Bank Ltd. and Rastriya Banijya Bank are unable to mobilize their resource and deposits in more productive sectors. These banks are investing their major portion of deposits in secured and less profitable sectors such as government securities. She has recommended utilizing their resources in more productive sectors.

A study undertaken by Adhikari (2043 B.S.) entitled **"Comparative analysis of investment structure of RBB and Nepal Bank Limited"** found the liquidity position of NBL is better than that RBB. Similarly, in deposit structure of both the banks, he found NBL is better in term of liquidity, diversification and profitability.

Another study conducted by Poudel (1985), **"A case study on Capital and Assets Structure of Nepal Bank Ltd"** found that the proportion of loans and advances offered varied widely from year to year. Return on total assets indicated a decreasing trend over the study period. Capital structure is highly geared. He suggests increasing net worth to invest in productive sectors and to reduce operating expenses to enhance the profitability.

Joshi (1990) on the topic **"A study on Commercial Bank of Nepal with reference to financial analysis of Rastriya Banijya Bank"** is the study conducted to dissect the bank and recommend the essential suggestion to that bank. The conclusions drawn from the study are as follows-

1) The bank found well in maintaining adequate level of liquidity position.
2) The deposit and lending were increasing per year.
3) Return on asset was not quite enough to be satisfied.
4) The bank was not capable to invest its resources in more productive sector. Thus researcher taking serious action to check that situation.

A study titled, **"A study of the joint venture banks profitability"** was conducted by Pramod Dhungana (1994). Its main objectives to identify the pattern of profitability and to find out whether the profitability of JVBs are optimal or not. He pointed out following findings in his study: NIBL, NGBL and NABIL were earbob highest form interest, foreign exchange income and other income respectively. NIBL had higher interest earned to total assets ratio and net profit to total deposit ratio. Similarly NGBL had higher average net profit to total assets ratio and return on shareholder equity ratio. NGBL also had highest EPS and DPS. Average dividend payout ratio of NIBL was highest and the same ratio of NGBL was lowest. In average, NABIL, NIBL and NGBL had highest personnel expensed interest on deposit expenses and other operating expenses respectively. NABIL had nil amounts of other operating expense and NIBL and

NGBL had insignificant amount of the same over total cost under the study period.

Dhakal's study (1995) entitled **"A study on financial performance of Nepal SBI Bank Ltd. and Nepal Indosuez Ltd."** laid the main objective to find the position and to examine relative financial performance of those joint venture banks. The finding of the study has been presented briefly as below:

1) The current ratio showed that both banks were able to meet their current liabilities. However the liquidity position of NIBL was comparatively better than NSBI.
2) Capital employment ratio of NSBI found to be higher than of NIBL.
3) Both EPS and DPS of NIBL were greater than NSBI. Thus NIBL had been able to satisfy their shareholder defectively.
4) NIBL had adopted more aggressive lending and borrowing policy to generate profit than NSBI.

Shakya (1995) in his thesis report **"Financial Analysis of joint venture bank in Nepal"** with special reference to NABIL and NGBL. He attempted to analyze financial health of NABIL and NGBL. He has used the different types of tools financial as well as statistical tools were ratio, correlation, PE error. His findings are as follows-

1) He found that NGBL's liquidity and profitability position was comparatively better than NABIL.
2) The relation between total deposit and loans of banks are highly positive.
3) The capital structure position of NGBL was risky than of NABIL.
4) NABIL's capital adequacy position was more satisfactory than that of NGBL in average, but NABIL's position was deterioration each year.

Acharya (1997) in his study **"A Comparative study on financial performance of JVBs in Nepal"** he had done his taking two banks as research sample NABIL and NIBL. Main findings are as follows-

1) Capital Adequacy ratio of NABIL has recorded a decreasing trend over the study period.

2) It was able to maintain as per directives issued by the central bank.
3) NIBL had recorded an increasing trend over the study periods and it was able to maintain as per directive issued by NRB.

A study undertaken by Siwakoti (1998) titled, **"A study on an appraisal of Financial Positions of Nepal Grindlyas Bank Ltd. Kathmandu"** conducted that, the liquidity position of the bank is below the normal standard and the leverage ratio of the bank is mainly affected by the large value of deposits, which shows the financial risk of using debt. The capital structure of the bank is extremely leveraged and the fund for capitalization of the bank by outsiders is favourable to the bank because interest payable to long-term debt is very less than earning from shareholders. Coverage ratio is low and fluctuating in nature over the analysis period. This indicated the high profitability of bank being unable to pay debt interest and they may ultimately lead the bank to the worth situation. The bank is not utilizing its resources in more efficient manners because the major portion of the assets is blocked in cash and bank balance and fixed assets, which does not generate income.

In the same way Lamsal (1999) has conducted the research work on the topic **"A comparative Financial Statement Analysis of Nepal Grindlays Bank Ltd. and Himalayan Bank Ltd."** He has concluded that: Liquidity position of HBL is better than that of NGBL to meet their short-term obligation and utilization of asset is satisfactory and is about to equal. The overall profitability of NGBL is better than that of HBL. HBL has the higher capital structure ratio. NGBL seems to be paying relatively more dividends than HBL and percentage of EPS is also higher in NGBL, but the rate of increment EPS is very higher in HBL. Income earning from interest for both banks have been increasing whereas income from commission and discount have been decreasing and the income from foreign exchange has been fluctuating. HBL's deposit utilization rate is higher than that of NGBL.

Likewise, a study conducted by Shakya (2000), entitled **"Evaluation of financial performance of Himalayan Bank Ltd."** It tried to examine the overall financial performance of HBL for five years. The main tools used for analysis purpose was ratio analysis. The report concluded that the liquidity position of the bank was good. The bank had sufficient liquidity to meet unanticipated calls on all deposits. The deposits should be utilized more on productive sectors like government securities and shares of other institution because idle assets would do not good. The analysis of the report showed that the bank had good rate of return thought it was not able to keep up generating profit at the rate of increment of fund. The writer concluded that the bank was managing to have quite stable mixture of debt and equity financing. He recommended that the bank should try to increase the utilization assets by providing loans and advances and should mobilize the total deposits to generate income and thus earning more profit.

Regmi's Study (2001) entitles **"A comparative study of the financial performance of Himalayan Bank and Nepal Bangladesh Bank"** has carried with intention to acknowledge financial status of those banks and compare their position, so that their rank could be identified. The pinpoints abstracted from the study has been motioned as below-

1) Both banks were able to utilize its capital efficiently in productive sectors
2) Non performing asset of NBBL found higher than HBL
3) Profitability ratios of NBBL were not satisfactory in comparison to HBL.

Awasti (2002) in his thesis **"A comparative study on financial performance between Himalayan Bank and Bank of Kathmandu"** has analyzed and examined the financial performance identified the financial position and recommended effective suggestion. He has used descriptive cumulative analytical research design using the financial as well as statistical tools.

He concluded that HBL was more successful to generate more return on its shareholder fund and utilized its resources efficiently as compared to BOKL. However, his research also depicts that both the banks do not have satisfactory liquidity position. Ironically, interest constitutes higher portion in income and payment of Bank than HBL. He recommended to maintain their liquidity idle money should be invested and to reduce the financial risk, leverage should be reducing.

Likewise, Acharya (2006) has carried out a research study on **"Performance evaluation of commercial Banks in Nepal."** His main objective of the study was to analyze and interpret the financial strength and weakness related to performance of commercial banks in Nepal. Other objectives of his study are as follows-

a) To examine the relation among deposits investment and returns.
b) To analyze the financial performance in term liquidity, leverage, Activity and profitability.
c) To evaluate the success patterns used by the banks for their better performance

Some major findings pointed out based on his analysis work are as follows:

1) The interest coverage ratio of all 5 banks is in average.
2) The loan and advance to deposit ratio is just satisfactory of all banks.
3) Return on capital employed ratio is higher of SCBL and NBBL than other three banks.
4) The exchange earning to operating income of all bank is at satisfactory level.

2.4 Research Gap

In my view, this research is more comprehensive, illustrative and descriptive than done before. As this research includes secondary data and some primary data for further analysis, which is more practical, formal and scientific. The bank selections in this research is limited within two banks only, it has involved at least three. In spite of there are many obstacles of getting information and primary data from the banks due to security awareness and therefore much information are based from their annual reports, broachers, newsletters and data available in website. A deep consideration is being made to select the banks for financial performance. Out of twenty-three commercial banks in Nepal, the study covers only three of them, due to unavailability of required data and time constraint.

Most of the researchers have applied the financial tools on surface or in aggregate, so these researches could not reach to the depth of the study. They did not predict any assumption, which are meaningful during the analysis. But this study has been tried to fully x-ray the financial performance of three joint venture commercial banks by applying various financial as well as statistical tools and techniques in effective manner along with well trained and experienced lecturers' idea. So, I think this research becomes successful research to fulfill the gap between this research and previous researches.

Chapter – III

Research Methodology

The first chapter included introduction of study with specific reference of NABIL Bank Ltd., Standard Chartered Bank Ltd. and Nepal SBI Bank Ltd. The second chapter reviewed the available literature and developed a conceptual foundation for the study. The present chapter deals with the research methodology. This chapter highlights the research design, nature and sources of data, population and sample, and method of data analysis used in this study for the analysis of financial performance of NABIL, SCBL and NSBI.

Research is a common refers to a search for knowledge. Research methodology is the process of arriving at the solution of the problem through planned and systematic dealing with collection, analysis and interpretation of facts and figures. It is the guidelines to research works. *"Research methodology refers to the various sequential steps to be adopted by the researcher in studying a problem with certain object in view"* (Kothari, 1986)

Actually, this research aims at evaluating the financial performance i.e., strengths, weaknesses and financial position of the three joint venture banks. Financial statements of the concerned banks have been used as the main sources of information. Necessary financial techniques are applied to make a comparative assessment of the three banks. However ratio analysis is used as the heart of this research.

3.1 Research Design

"Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to the questions and to control variance." (Kerlinger, 1986:274). Likewise according to Cook, *"A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy is procedure."*

In order to complete the research work, a well thought out research design is necessary which makes the study easy and fulfills the objectives of the study. As the purpose of this research is to make a comparative analysis of the financial performance of the three banks, it has been designed in a correlation format. Several financial variables were assessed to make an analysis of their relative financial status and standing. Analytical as well as descriptive research design has been adopted to clarify the situation through presentation and analysis of various data. Descriptive research design has been utilized mainly for conceptualization of the problem. Analytical research design has been followed mainly to analyze the relationship between firm investment and financial status.

3.2 Nature and Sources of Data

Information i.e., data is the lifeblood of any research. Each research project has its own data needs and data sources. The study is mainly based on the secondary data relating to the financial performance as they are readily available at the concerned commercial banks. So the major sources of secondary data for this study are as follows-

- Annual reports of various bank
- Various books, research studies, dissertations and articles related to the subject.
- Previous studies and reports
- Websites of related bank
- Reports of NRB

Questionnaires and interview will be also conducted if adequate information is not available from secondary data.

3.3 Population and Sample

Twenty-three commercial banks operating in Nepal have been assumed as the population of this study and three JVBs namely NABIL Bank Ltd., Standard Chartered bank Ltd and Nepal SBI Bank Ltd. are taken as a sample of the study on the basis of judgment sampling. Hence, they are selected for sample of the study.

3.4 Methods of Data Analysis

Financial methods have been applied for the analysis of the financial performance. The financial ratios are widely used for analysis and interpretation of the selected sample. Several statistical tools such as averages, percentages, standard deviation, and correlation have been used for analysis. The following financial tools are selected for analysis and comparison.

3.4.1 Financial Tools

It is used to analysis financial strength and weakness of bank, for these purpose financial tools like ratio analysis has been used.

Ratio Analysis

Ratio is the mathematical relationship between accounting figures. According to Kothari, "Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions." Therefore ratio analysis is comparing a firm's financial performance and status to that other firm's or to itself of different time. Also qualitative judgment of a firm can be done with the help of ratio analysis.

There are many ratios to compare of firm's financial performance and status but have only these ratios have been covered which are related to financial performance of the bank, this study contains following ratios.

3.4.1.1 Liquidity Ratio

An asset that can be converted into cash quickly without having to reduce the asset's price very much is liquid asset. *"The liquidity ratios measure the ability of a firm to meet its short-term obligations and reflect the short-term financial strength /solvency of a firm."* (Khan and Jain, 2000:4.3)

Liquidity ratios are used to assess the ability of a bank to meet its short-term obligations. These ratios make comparisons between short-term resource and short-term obligations. The following ratios are computed to find out the short-term solvency.

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

b) Cash and Bank Balance to Total Deposit Ratio = $\frac{\text{Cash \& Bank Balances}}{\text{Total Deposits}}$

c) Cash and Bank Balance to Current Assets Ratio = $\frac{\text{Cash \& Bank Balances}}{\text{Total Current Assets}}$

d) Loan and Advances to Current assets Ratio = $\frac{\text{Loan \& Advances}}{\text{Current Assets}}$

3.4.1.2 Leverage or Capital Structure Ratio

The second category of financial ratio is leverage or capital structure ratios. *"To judge the long-term financial position of the firm capital structure ratios are calculated."* (I.M. Pandey, 1991:118)

These ratios evaluate a firm's short-term and long-term financial position. Short-term financial position refers to liquidity position of the firm. Long-term financial position refers to the capital structure or financial leverage. The following capital structure ratios are measured in this study-

a)Total Debt to Equity Ratio = $\frac{\text{Total Debt}}{\text{Total Equity}}$

b)Total Debt to Asset Ratio = $\frac{\text{Total Debt}}{\text{Total Asset}}$

c) Net Fixed Assets to net Worth Ratio = $\frac{\text{Net Fixed Assets}}{\text{Net Worth}}$

d) Interest Coverage Ratio = $\frac{\text{EBIT}}{\text{Interest Paid}}$

3.4.1.3 Activity or Turnover Ratio

It is a set of ratios that measure how effectively a firm managing its assets. *"Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets."* (I.M. Pandey, 1991:125)

Activity ratios are calculated to measure how the firm's funds are being managed. The following activity ratios are measured in this study.

a) Loans and Advances to Total Deposit Ratio $= \dfrac{\text{Loan \& Advances}}{\text{Total Deposits}}$

b) Performing Assets to Total Assets Ratio $= \dfrac{\text{Performing Assets}}{\text{Total Assets}}$

3.4.1.4 Profitability Ratio

"Profitability ratio is a group of ratios that show the combined effects of liquidity, asset management and debt on operating results." (Brigham and Houston, 2001:99)

Profit is the ultimate output of a firm. The firm will have no future if it fails to make sufficient profit. Thus, profitability ratios are calculated to measure the operating efficiency of the firm. It is hard to say what percent of profit represents a profitable firm. Profitability ratios show the overall profitability of the business concern. For the study purpose, the following profitability ratios have been calculated.

a) Return on Total Asset Ratio $= \dfrac{\text{Net Profit after Tax}}{\text{Total Asset}}$

b) Return on Net Worth Ratio $= \dfrac{\text{Net Profit After Tax}}{\text{Net Worth}}$

c) Return on Capital Employed Ratio $= \dfrac{\text{NPAT + Interest}}{\text{Total Capital Employed}}$

d) Return on Total Deposit Ratio $= \dfrac{\text{Net Profit After Tax}}{\text{Total Deposit}}$

e) Interest Earned to Total Asset Ratio $= \dfrac{\text{Interest Earned}}{\text{Total Asset}}$

3.4.1.5 Other Ratio

There are many other ratios which judge the financial performance of a firm. These ratios have been selected for the comparative study of the three banks

a) Earning Per Share
b) Dividend Per Share
c) Dividend Payout Ratio
d) Interest Earning Assets to Total Assets Ratio
e) Interest Paying Liabilities to Total Liabilities Ratio
f) Interest Paid to Interest Income Ratio
g) Spread
h) Operating Income Analysis
i) Operating Expenses Analysis

3.4.2 Statistical Tools

The statistical tools selected for the comparative study of NABIL, SCBL and NSBI bank are as follows-

a) Arithmetic mean

"The sum of all the observations divided by the number of observations called arithmetic mean."(Pant and Chaudhary, 2055:91). In such cases all the items are equally important. For example, the arithmetic mean of x_1, x_2 ……… x_n are given observation. The arithmetic mean is usually denoted by $\overline{X}$ as given by

$$\overline{X} = \frac{x_1 + x_2 .... + x_n}{n}$$

Where, n = no. of observation

b) Standard Deviation

"Standard Deviation is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean." (B.C. Bajracharya, 2054:177)

If x be the variate values and $\overline{X}$, their arithmetic mean, then the standard deviation (σ) is given by

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2}$$

c) The coefficient of Variation

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

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

Where, S.D. = Standard Deviation

$\overline{X}$ = Arithmetic mean

d) Correlation Analysis

It measures the relationship (co-variation) between the variables. There are several methods under correlation analysis. This study has used Karl Pearson's coefficient of correlation. It is simply denoted by r. the main purpose of correlation analysis is to know the degree and direction of the relationship between the variable. If the value of r is +1 there is perfect positive correlation, if the value of r is -1 other is perfect negative correlation, and if the value of r is 0 there is co-variation (i.e., no relationship) between the variables. In actual practice, perfect correlation is hardly found. In the present study, the correlation between total deposit and loan & advances has been examined by applying the following formula.

Coefficient of a correlation between total deposit and loan & advances, r_{xy} of simply

$$r_{xy} = \frac{N.\sum xy - \sum x.\sum y}{\sqrt{N.\sum x^2 - (\sum x)^2}\sqrt{N\sum y^2 - (\sum y)^2}}$$

Or, $$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2}.\sqrt{\sum y^2}}$$

When r is between 0.7 to 0.999, there is high degree of correlation between the variable. If the value of r is less than 0.5 there is low degree of correlation and when the value of r is more than 0.5 less than 0.7 is called moderate degree of correlation between the variables.

e) Probable Error (P.E.)

After computing the value of the correlation coefficient, the next step is to find out the probable error of correlation coefficient, generally denoted by P.E (r). The following is the measure of testing the reliability of an observed value of correlation coefficient.

Probable error, P.E. (r) = $0.6745 \times \frac{1-r^2}{\sqrt{n}}$

It is used in interpretation whether calculated value of r is significant or not.

i) If $r <$ P.E. it is insignificant. So, perhaps there is no evidence of correlation.

ii) If $r >$ 6P.E, it is significant. In other cases, nothing can be concluded.

Chapter-IV

Presentation and Analysis of Data

4.1 Introduction

This chapter is the main content of the study. The main objective of this study is to examine the existing position of financial performance of NABIL, SCBL and NSBI on the basis of the analysis and diagnosis of the collected data and to provide the suggestion and recommendation for the improvement of financial performance of these banks.

This chapter is devoted to a comparative analysis of the financial performance of the three commercial banks using appropriative measurement techniques. For such comparison and analysis different tools and techniques have been used. These measurement tools are related ratios like liquidity ratios, capital structure ratios, activity ratios, profitability ratios and other ratios. Further, several graphs, charts, table and statistical tools like mean, coefficient of variation and correlation analysis have been constructed to make comparisons.

According to G.B Giles, *"Data analysis is the relationships or differences supporting or conflicting with original or new hypothesis should be subjected to statistical tests of significance to determine with what validity data can be served to indicate any conclusion."*

4.2 Financial Analysis

It is the process of identifying the financial strengths and weakness of a firm by properly establishing the relationship between the items of balance sheet and profit and loss account. Balance sheet, profit and loss account and funds flow statements will give some information but don't give the full picture. So it is necessary to analyze the financial statement in order to obtain all the information required for the study.

4.2.1 Ratio Analysis

An arithmetical relationship between two figures is known as ratio. It is calculated by dividing one item with another. Ratio simply means one number expressed in term of another. Ratio analysis is a technique of analyzing and interpreting financial statement to evaluate the financial performance of organization. It provides a basis to examine different accounting parameters, which reflects the norms of business operation. Ratios are calculated and compared with relevant firm's average ratio or specific standards such as past ratios of the same firm or those of competitors in order to see whether or not the operating results are at a satisfactory level.

The yardstick with which the ratios can be compared may be in following three forms-

- Comparison of ratios with in same organization for the various years.
- Comparison with other organization in the same industry.
- Comparison with some standards.

"Ratio analysis, thus, as a quantitative tool, enables analysis to draw quantitative answers to questions such as; Are the net profits adequate? Are the assets being used efficiently? Is the firm solvent? Can the firm meet its obligations and so on?" (Khan & Jain, 2000:4.1)

To evaluate the financial performance of banks, in this study the ratio has been classified into liquidity, capital structure, activity, profitability and other ratios, which are as follow.

4.2.1.1 Liquidity Ratio

Liquidity ratios are used to judge a firm's ability to meet short term obligation. It is the comparison between the short-term obligations and short-term resources available to meet these obligations. This ratio reflects the short-term financial strengths and weakness of the bank.

In order to ensure short-term solvency, a bank must maintain adequate liquidity. Liquidity ratio should be neither inadequate nor high. If the liquidity ratio of the bank is not enough, it will results in bad credit ratings, less creditors' confidence,

eventually may lead to the bankruptcy. If the bank has high degree of liquidity funds, it will unnecessary tied up in current assets. Thus, the bank should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding the risk of insolvency.
The following ratios have been calculated to measure the liquidity position.

A) Current Ratio

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

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

Current assets are those assets, which can be converted into cash within short period of time, normally, not exceeding one-year. Cash and bank balance, money at call and short notice, investment in government securities, sundry debtors, bills receivable, loan advances and bills purchase, inventory, prepared expenses, accrued income and miscellaneous are example of current assets.

Similarly current liabilities are those obligation which are payable with a short period, normally not more than one year. Current liabilities include bank overdrafts, deposit and other short-term loan, bills payable, tax provision, staff bonus, proposed dividend, out standing expenses, pre-received income etc.

Generally, the current assets of the company should be twice than current obligation to be technically solvent. For many types of business, 2:1 is considered to be an adequate or ideal standard of current ratio. If the current ratio of the bank less than 2:1, the solvency position of the bank is not good. The cash not be available to pay current liabilities. If the ratio is more than 2:1 that means company may have an excessive investment in current assets that do not produce return.

Table No. 4.1

Computation of Current Ratio of Selected Commercial Banks

(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Current Assets	Current Liabilities	Ratio (in times)	Current Assets	Current Liabilities	Ratio (in times)	Current Assets	Current Liabilities	Ratio (in times)
2001/02	13312.39	16384.73	0.81	14850.88	17150.05	0.87	6787.44	6459.42	1.05
2002/03	13868.29	15135.43	0.92	17173.94	19569.38	0.88	7404.57	6992.43	1.06
2003/04	14244.04	15153.01	0.94	20093.72	22086.21	0.91	8348.27	7807.57	1.07
2004/05	14971.80	15420.82	0.97	19322.69	20250.50	0.95	9869.78	9266.62	1.06
2005/06	18133.81	20353.56	0.89	21463.37	23952.71	0.90	12925.57	11843.2	1.09
2006/07	22829.54	25095.30	0.91	22025.81	26420.09	0.83	13486.25	12525.0	1.08
	Mean		0.91	Mean		0.89	Mean		1.07
	S.D.		0.05	S.D.		0.037	S.D.		0.014
	C.V.		5.49%	C.V.		4.15%	C.V.		1.31%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.1

Bar Diagram of Current Ratio

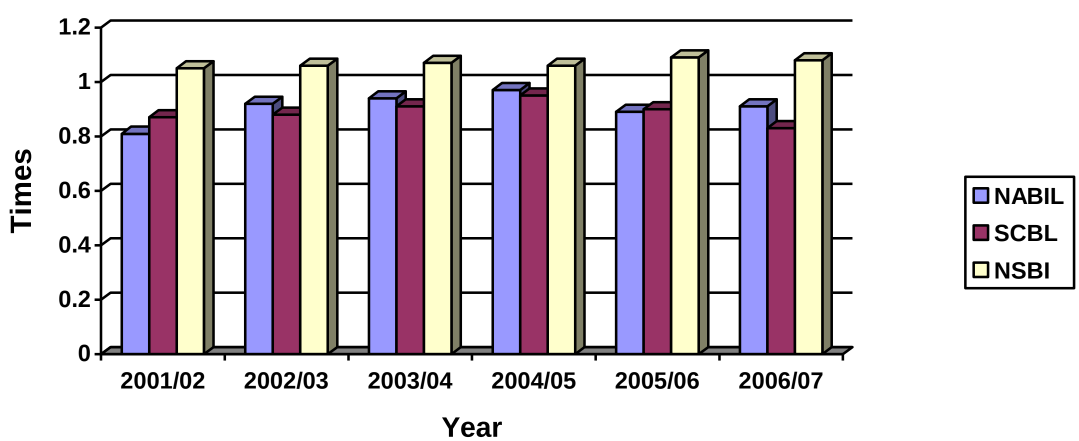


Table no 4.1 and figure no. 4.1 show that the current ratios of the sample banks are below the standard i.e., 2:1. The ratio of NABIL has ranged between 0.81 times to 0.97 times, whereas these range between 0.83 times to 0.95 times in SCBL. Similarly the ratio of NSBI has ranged between 1.05 times to 1.09 times. The NSBI provides more consistency in its current ratio because the CV is lower than other banks. The CV of NABIL is highest in current ratio with 5.49% and it is followed by SCBL with 4.15% and NSBI with 1.31% respectively. This means that the current ratio trend of NABIL does not reflect consistency.

The current ratio of the sample banks is less than the standard. This means that the banks liquidity position is not good. The NSBI's ratio is little constant in comparison with others but not in an ideal standard. The sample banks must try to secure a current ratio 2:1. However, we cannot conclude that the liquidity position is poor, because the ratio is only the ratio of quantity and not a test of quality. The other reason is that there is not classification done between the different types of current assets.

One of the major reasons for the lower current ratio may be due to declining values or utilizing the funds for some profit generating projects. The banks to maintain their liquidity position, they should perform revaluation of the current assets or cut the investments in such projects.

B) Cash and Bank Balance to Total Deposit Ratio

This ratio shows ability of bank's fund to cover current margin, call, saving and other deposits. It is calculated in order to see the position of cash and bank balance to make the payment of deposits when demanded. This ratio is calculated by dividing cash and banks balance by total deposits as follows:

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

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

Table No. 4.2

Computation of cash & Bank Balance to Total Deposit Ratio of selected Commercial Banks.

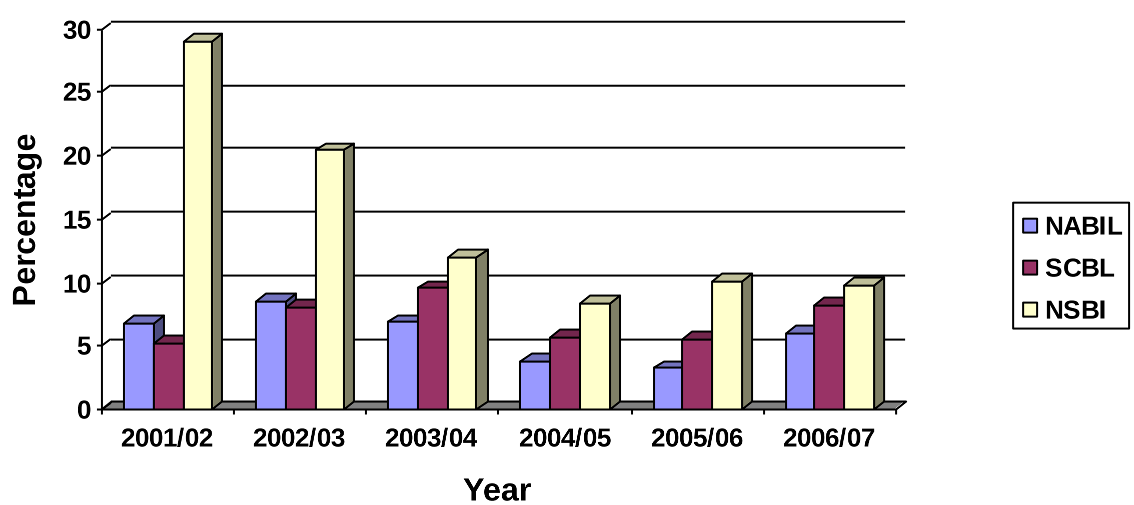
(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Cash & Bank Balance	Total Deposit	Ratio (in %)	Cash & Bank Balance	Total Deposit	Ratio (in %)	Cash & Bank Balance	Total Deposit	Ratio (in %)
2001/02	1051.82	15506.43	6.78	825.26	15835.75	5.21	1619.96	5572.47	29.07
2002/03	1144.77	13447.66	8.51	1512.31	18755.63	8.06	1333.54	6522.82	20.44
2003/04	970.49	14119.03	6.87	2023.16	21161.44	9.56	864.43	7198.33	12.01
2004/05	559.38	14586.61	3.83	1111.12	19335.09	5.75	723.75	8654.77	8.36
2005/06	630.24	19347.40	3.26	1276.24	23061.03	5.53	1118.16	11002.04	10.16
2006/07	1399.83	23342.29	6.0	2021.02	24647.02	8.20	1122.69	11445.29	9.81
	Mean		5.88	Mean		7.05	Mean		14.98
	S.D.		1.82	S.D.		1.63	S.D.		7.43
	C.V.		30.95%	C.V.		23.12%	C.V.		49.59%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.2

Bar Diagram of Cash & Bank Balance to Total Deposit Raito



The above table no. 4.2 and figure no. 4.2 shows that the cash and bank balance to total deposit ratio. The ratio of NABIL has ranged between 3.26% to 8.51%. Similarly, the ratio range of SCBL is between 5.21% to 9.56% where as these range between 8.36% to 29.07% in NSBI. The cash and bank balance to total deposit pattern of NABIL is increasing from 2001/02 to 2002/03 and then after decreasing with the exception of last year. The ratio pattern of SCBL is increasing trend from 2001/02 to 2003/04 and then after decrease and increase trend. In the same way, the trend of NSBI is decreasing with the exception of last 2 years.

The average ratio of NSBI has highest mean for cash reserve ratio with 14.98% and it is followed by SCBL with 7.05% and NABIL with 5.88% respectively. But the CV of NSBI is highest cash reserve ratio with 49.59% and it is followed by NABIL with 30.95% and SCBL with 23.12% respectively. It means the trend of cash and bank balance to total deposit of NSBI is not consistency risky where as SCBL reflect more consistent than other banks.

Thus, the bank should maintain an appropriative ratio. However, there is no standard ratio in this aspect. It depends upon the banks experience and other various factors.

The above ratio shows that NABIL and SCBL have the similar trend of cash reserve ratio. Though they have less amount of CRR than others but able to maintain the balance so they are able to manage cash liquidity with their trend analysis and from them SCBL has high consistency. However the ratio of NSBI is higher but not consistent in cash reserve ratio shows a weak ability to cover its short term deposits in inferior than other. Too high liquidity is not good to banks, it can’t gain expected profit if it keeps money idle. As very low ratio can also create adverse effect for the banks and therefore all the banks either need to increase the cash and bank balance or to maintain enough margin of safety.

C) Cash and Bank Balance to Current Assets Ratio.

Cash and bank balance to current assets ratio reflects the portion of cash and bank balance in the total current assets. Cash and bank balances are highly liquid assets than other current assets. This portion visualizes higher liquidity position than current ratio.

This ratio may be calculated by using the following formula:

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash \& Bank Balances}}{\text{Total Current Assets}}$$

In the present study, cash and bank balance represents total of the local currency, foreign currencies, cheques in hand and various bank balances in local as well as foreign banks.

Table No. 4.3

Computation of Cash & Bank Balance to current Assets Ratio

(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Cash & Bank Balance	**Current Assets**	**Ratio (in %)**	**Cash & Bank Balance**	**Current Assets**	**Ratio (in %)**	**Cash & Bank Balance**	**Current Assets**	**Ratio (in %)**
2001/02	1051.82	13312.39	7.90	825.26	14850.88	5.56	1619.96	6787.44	23.87
2002/03	1144.77	13868.29	8.25	1512.31	17173.94	8.81	1333.54	7404.57	18.01
2003/04	970.49	14244.04	6.81	2023.16	20093.72	10.07	864.43	8348.27	10.35
2004/05	559.38	14971.80	3.74	1111.12	19322.69	5.75	723.75	9869.78	7.33
2005/06	630.24	18133.81	3.48	1276.24	21463.37	5.95	1118.16	12925.87	8.65
2006/07	1399.83	22829.54	6.13	2021.02	22025.81	9.18	1122.69	13486.25	8.32
	Mean		6.05	Mean		7.55	Mean		12.76
	S.D.		1.86	S.D.		1.84	S.D.		6.09
	C.V.		30.74%	C.V.		24.37%	C.V.		47.73%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.3

Bar Diagram of Cash & Bank Balance to Current Assets Raito

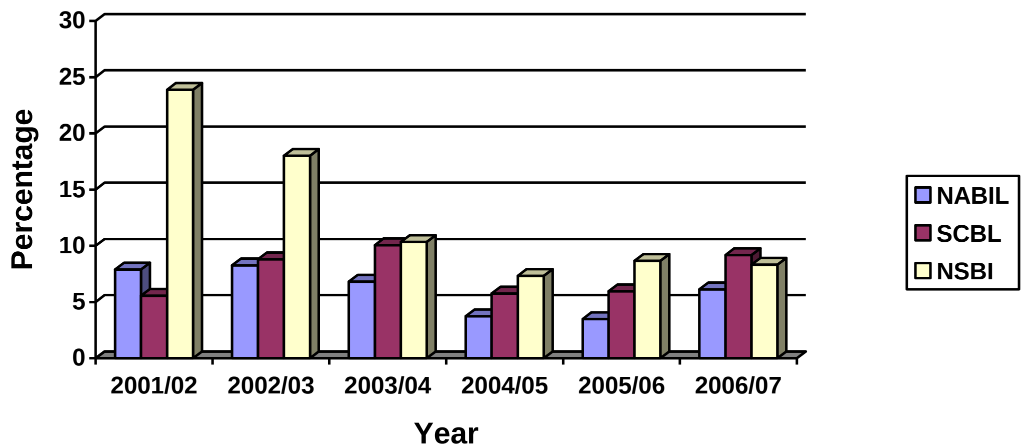


Table no. 4.3 and the Figure no. 4.3 shows the cash and bank balance to current asset ratio of three sample banks has been much fluctuated. The ratio range of NABIL is between 3.48% (2005/06) to 8.25% (2002/03). The cash and bank balance to current asset pattern of NABIL has increased first year and then after decreasing trend except the last year. In the same way, the ratio in SCBL range between 5.56% (2001/02) to 10.07% (2003/04). The trend of SCBL is increasing 2001/02 to 2003/04 and then after decrease and after improves. Similarly, the ratio range of NSBI is between 7.33% (2004/05) to 23.87% (2001/02) which is decreasing trend exception of last two year.

The average cash and bank balance of NSBI is highest with 12.76% and it is followed by SCBL with 7.55% and NABIL with 6.05% respectively. This means that the liquidity position of NSBI is highest than other two banks. During the reviewed period SCBL has lowest coefficient of variation with 24.37% and it is followed by NABIL with 30.74% and NSBI with 47.73% respectively. Therefore NSBI has utilized its fund more efficiently but not consistently. Whereas SCBL has utilized its funds more consistently than other sample banks.

Generally, proper balance of cash and bank balance is better for banks. In this table one of the major reasons for lower cash and bank balance to current asset ratio in NABIL and SCBL is the lower amount of cash in hand and cash at bank. Therefore, NABIL and SCBL have to increase cash and bank balances. Whereas, NSBI has to maintain consistency in cash and bank balance to current asset.

D) Loan and Advances to Current Asset Ratio

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

In this study loan and advances represent local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as inconvertible foreign currency. This ratio may be computed in the following ways.

$$\text{Loan and Advance to Current Asset Ratio} = \frac{\text{Loan \& Advances}}{\text{Current Assets}}$$

Table No. 4.4
Computation of Loan & Advances to Current Assets Ratio of Selected Commercial Banks **(Rs. In Million)**

Year	NABIL			SCBL			NSBI		
	Loan & Advances	**Current Assets**	**Ratio (in %)**	**Loan & Advances**	**Current Assets**	**Ratio (in %)**	**Loan & Advances**	**Current Assets**	**Ratio (in %)**
2001/02	7437.89	13312.39	55.87	5364.01	14850.88	36.12	4299.25	6787.44	63.34
2002/03	7755.95	13868.29	55.93	5695.82	17173.94	33.17	4468.72	7404.57	60.35
2003/04	8189.99	14244.04	57.50	6410.24	20093.72	31.90	5143.66	8348.27	61.61
2004/05	10586.17	14971.80	70.71	8143.21	19322.69	42.14	6213.88	9869.78	62.96
2005/06	12922.54	18133.81	71.26	8935.42	21463.37	41.63	7626.74	12925.57	59.01
2006/07	15545.78	22829.54	68.10	10502.64	22025.81	47.68	9460.45	13486.25	70.15
	Mean		63.23	Mean		38.77	Mean		62.90
	S.D.		6.89	S.D.		5.55	S.D.		3.56
	C.V.		10.90%	C.V.		14.32%	C.V.		5.66%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.4

Bar Diagram of Loan and Advances to current Asset Ratio

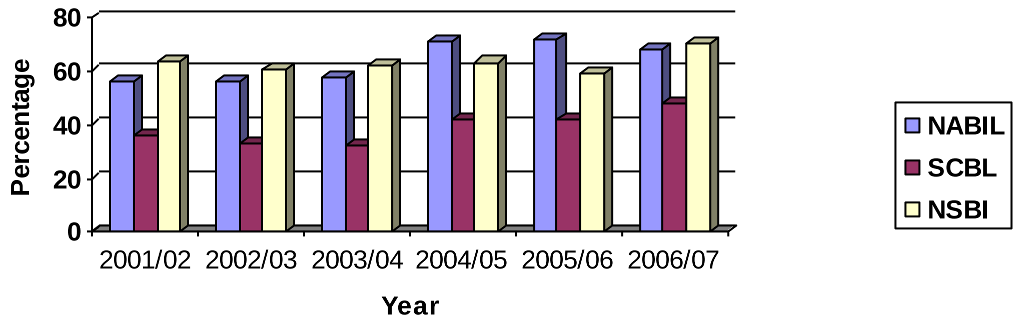


Table no. 4.4 and the figure no. 4.4 shows clearly that the loan and advances to current asset ratio of NABIL have ranged between 55.87% to 71.26% with increasing trend except the last two year. The ratio of SCBL is lowest than that of other two banks in all the years which ranges between 31.90% to 47.68%. In the same way, the ratio of NSBI lies between 59.01% to 70.15% with fluctuating trend over the study period.

During the reviewed period NABIL's mean ratio has seemed in the highest position for loan and advances to current asset ratio with 63.23% and it is followed by NSBI with 62.90% and SCBL with 38.77% respectively. Similarly SCBL has the highest CV ratio with 14.32% and it is followed by NABIL with 10.90% and NSBI with 5.66% respectively.

A comparative evaluation reflects that the NABIL and NSBI are utilizing its current assets properly because the NABIL and NSBI has greater liquidity for loan and advances to customer and higher consistency. But it is clearly seems that SCBL could not able to utilizes its current assets and it is suggested that it should utilize it's fund in loan and advances in order to increase its further profit maximization. But in another hand it is also remind that too high ratio also decrease the liquidity capacity as decreasing the amount of current assets of the banks.

4.2.1.2 Capital Structure Ratio

Leverage may be defined as the use of that source of funds in the business for which the firm has to pay a fixed charge. In other words, leverage ratios are the ratios between equity capital and debt capital. The ratio is related with the capital structure. Hence, these are also called capital structure ratio. These ratios indicate whether the banks are financially sound or solvent as far as their long-term obligations are concerned. These measure the banks' ability to pay the interest regularly and to repay the principal on the due dates.

A) Total Debt to Equity Ratio

This ratio examines the relative claims of creditors and owners against the bank's asset alternatively; the debt to equity ratio indicates the contribution of debt and equity capital fund to the total investment.

A low debt to equity ratio implies the use of more shareholders' funds than long-term debt, which means a large safety for creditors. Generally, very high debt to equity ratio is unfavorable to business because the debt gives right to the creditor's legal claims on the company; these claims are for interest payments at regular intervals, plus repayment of the principle by the agreed time.

On the other hand, a low debt to equity ratio is also unfavorable from the shareholders' point of view. They want high debt to equity ratio because they can receive better returns with smaller capital. Debt capital is beneficial in that situation when the interest rate is less than return. When the return is higher than cost of capital, it will increase the shareholders' wealth. This process of financing is known as trading on equity. The following formula is used for calculating the total debt equity ratio.

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

Total debt: It includes both long-term debts and current liabilities

Shareholder's equity: It includes equity share capital, preference share capital' reserve and funds.

Table No. 4.5

Computation of total debt to Equity Ratio of selected commercial banks

(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Total Debt	Equity	Ratio (in Times)	Total Debt	Equity	Ratio (in Times)	Total Debt	Equity	Ratio (in Times)
2001/02	16482.83	1146.42	14.38	17207.62	1235.48	13.93	6460.8	560.34	11.53
2002/03	15248.44	1314.18	11.60	19631.59	1368.91	14.34	6996.48	569.86	12.28
2003/04	15263.81	1481.68	10.30	22146.33	1495.74	14.81	7813.77	626.64	12.47
2004/05	15528.7	1657.63	9.37	20311.16	1582.42	12.84	9274.00	689.02	13.46
2005/06	20454.98	1874.99	10.91	24013.21	1754.14	13.69	12053.47	982.38	12.27
2006/07	25196.35	2057.05	12.25	26480.34	2116.35	12.51	12737.92	1163.29	10.95
	Mean		11.47	Mean		13.69	Mean		12.16
	S.D.		1.59	S.D.		0.80	S.D.		0.78
	C.V.		13.86%	C.V.		5.84%	C.V.		6.41%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.5

Bar Diagram of Debt to Equity Ratio

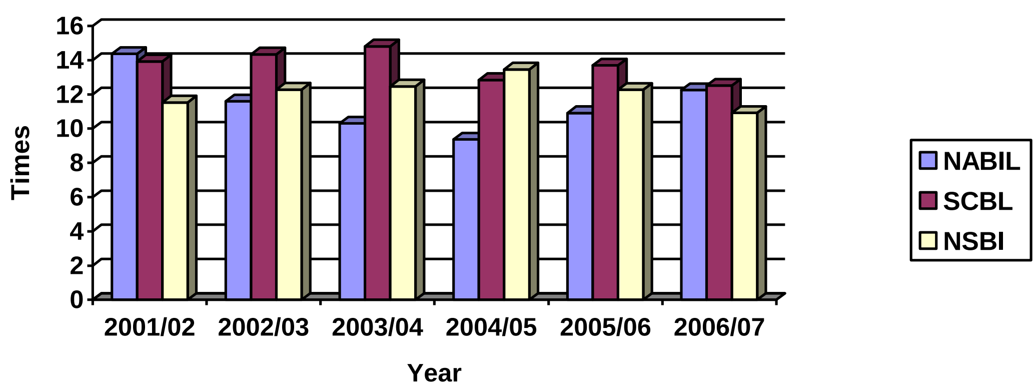


Table no 4.5 and the figure no 4.5 show that the fluctuations of debt to equity ratio of NABIL has raged between 9.37 times to 14.37 times. In the same period, the range of debt to equity ratio in SCBL lies between 12.51 times to 14.81 times whereas; these range between 10.95 times to 13.46 times in NSBI.

The debts to equity ratio in all the sample banks are highly leveraged. In other words, the claims of the outsiders exceed for more than those of owners over bank's assets. However, there is highest CV of debt to equity ratio in NABIL with 13.86% and its follower are NSBI with 6.41% and SCBL with 5.84% respectively. Similarly SCBL has slightly highest mean ratio with 13.69 times and it is followed by NSBI with 12.16 times and NABIL with 11.47 times.

Overall it can conclude that SCBL has more financial risk in comparison with other two banks. The NABIL and NSBI are also not in a good position. The reason of high debt to equity ratio in the sample banks due to increase in deposits. Thus, all the three banks are required to maintain an optimum debt to equity ratios by increasing their equity capital.

B) Total Debt to Asset Ratio

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets measure the financial securities to the outsider. Generally, creditors prefer a low debt ratio and owner prefer high debt ratio. When debt ratio is higher, the financial risk is also high and also outsiders' claims are high on total assets. Lower the debt to total asset ratio, the financial risk is low and also decreasing outside claims. Generally, 1:2 ratios are satisfactory. The following formula can be used for calculating this ratio

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

Table No. 4.6

Computation of Total Debt to Asset Ratio of Selected Commercial Banks

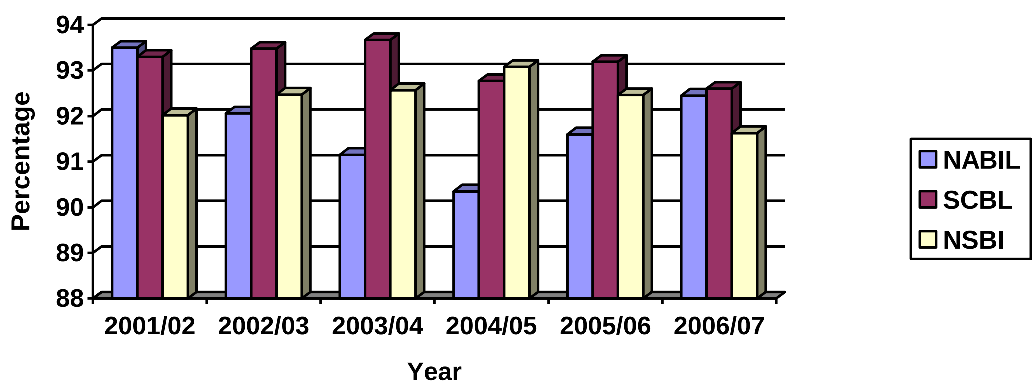
(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Total Debt	Total Asset	Ratio (in %)	Total Debt	Total Asset	Ratio (in %)	Total Debt	Total Asset	Ratio (in %)
2001/02	16482.83	17629.25	93.50	17207.62	18443.11	93.30	6460.8	7021.14	92.02
2002/03	15248.44	16562.62	92.06	19631.59	21000.50	93.48	6996.48	7566.33	92.47
2003/04	15263.81	16745.49	91.15	22146.33	23642.06	93.67	7813.77	8440.41	92.57
2004/05	15528.7	17186.33	90.35	20311.16	21893.58	92.77	9274.00	9963.02	93.08
2005/06	20454.98	22329.97	91.60	24013.21	25767.35	93.19	12053.47	13035.84	92.46
2006/07	25196.35	27253.39	92.45	26480.34	28596.69	92.60	12737.92	13901.2	91.63
	Mean		91.85	Mean		93.17	Mean		92.37
	S.D.		0.99	S.D.		0.38	S.D.		0.45
	C.V.		1.08%	C.V.		0.41%	C.V.		0.49%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.6

Bar Diagram of Total Debt to Asset Ratio



The above comparative table no 4.6 and the figure no. 4.6 indicate that the debt to assets ratio of the NABIL has ranged between 90.35% to 93.50% with decreasing trend except the last two year. However, the ratio of SCBL has ranged between 92.60% to 93.67% with constant trend whereas the ratio pattern of NSBI has ranged between 91.63% to 93.08% with increasing trend except the last two year.

During the reviewed period SCBL has highest mean ratio for debt to total asset ratio with 93.17% and it is followed by NSBI with 92.37% and NABIL with 91.85% respectively. Likewise, NABIL has the highest CV with 1.08% and its follower are NSBI with 0.49% and SCBL with 0.41%. The CV indicates the SCBL's debt to asset ratio is consistent than other two banks.

It concludes that SCBL's capital is highly leveraged than other sample bank. SCBL is a risky project. The main cause to increase debt to total asset ratio is higher flow of deposit. NABIL is preferable project with low mean ratio and decreasing trend. To maintain optimum debt to asset ratio, it is recommended to decrease the proportion of debt or to increase the asset whichever is suitable.

C) Net Fixed Asset to Net worth Ratio

This ratio establishes the relationship between net fixed assets to net worth. In other words, we can say this ratio measures the proportion of net fixed asset out of owner's equity. When the ratio is high, it means higher involvement of owner's equity in financing fixed assets and vice versa. The following is used to calculate this ratio.

$$\text{Net Fixed Assets to Net worth Ratio} = \frac{\text{Net fixed Assets}}{\text{Net Worth}}$$

Net Fixed Assets: Total value of fixed assets after depreciation

Net Worth: It denotes the total paid-up capital, reserve and surplus and undistributed profits.

Table No. 4.7

Computation of Net Fixed Assets to Net worth Ratio of Selected Commercial Banks

(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Net Fixed Assets	**Net Worth**	**Ratio (in %)**	**Net Fixed Assets**	**Net Worth**	**Ratio (in %)**	**Net Fixed Assets**	**Net Worth**	**Ratio (in %)**
2001/02	237.64	1146.42	20.73	101.07	1235.48	8.18	65.59	560.34	11.71
2002/03	251.92	1314.18	19.17	191.71	1368.91	14.00	71.03	569.86	12.46
2003/04	338.13	1481.68	22.82	136.23	1495.74	9.10	62.35	626.64	9.95
2004/05	361.24	1657.63	21.79	71.41	1582.42	4.51	66.45	689.02	9.64
2005/06	319.09	1874.99	17.02	101.30	1754.14	5.77	66.71	982.38	6.79
2006/07	286.90	2057.05	13.95	125.59	2116.35	5.93	97.22	1163.29	8.36
	Mean		19.25	Mean		7.91	Mean		9.82
	S.D.		3.01	S.D.		3.13	S.D.		1.91
	C.V.		15.64%	C.V.		39.57%	C.V.		19.45%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.7

Bar Diagram Net Fixed Assets to Net worth Ratio

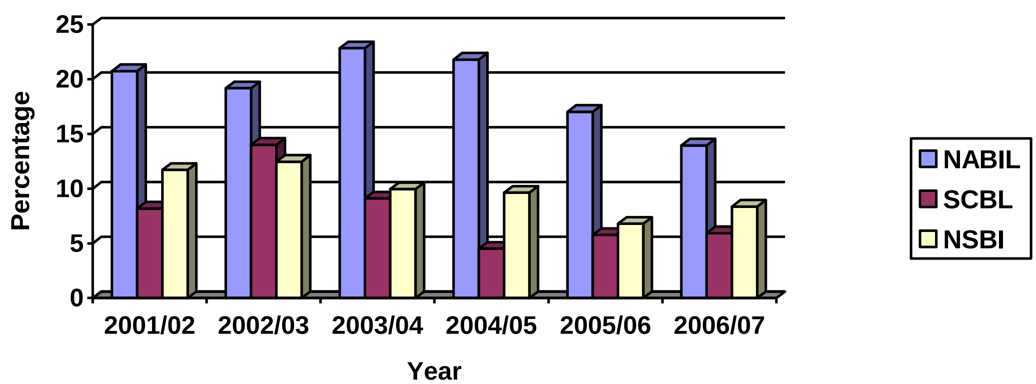


Table no 4.7 and the figure no. 4.7 shows that the net fixed assets to net worth ratio of the sample banks is following a fluctuating trend. The ratio of NABIL is greater than that of NSBI and SCBL respectively in all the years of the study period, which ranges between 13.95% to 22.82%. The ratio of SCBL is lowest than other bank in six year period except 2002/03 which ranges between 4.51% to 14%. Similarly, this ratio of NSBI lies between 6.79% to 12.46%.

During the reviewed period average net fixed assets to net worth ratio of NABIL is highest with 19.25% and it is followed by NSBI with 9.82% and SCBL with 7.91%. But the CV of SCBL has shown the highest with 39.57% and its follower are NSBI with 19.45% and NABIL with 15.64% respectively. It indicates the NABIL fixed asset to net worth ratio is consistent than other two banks.

Thus, in all the sample banks minimum investment in net fixed assets was through owners of equity. But comparatively speaking the NABIL on net fixed asset is greater than NSBI and SCBL respectively.

D) Interest Coverage Ratio

This ratio indicates the ability of a firm to pay interest charges on its borrowed capital. It is also called "Debt Service Ratio" or "Time Interest Earned Ratio". In other words, this ratio shows how many times the interest charges are covered by EBIT out of which they will be paid.

A high ratio is a sign of low burden of borrowing of the business and lower utilization of borrowing capacity. From the point of view of creditors, debenture holders and loan creditors, the higher the coverage, the greater the ability of the firm to make the payment of interest. Hence, the higher coverage ratio is preferable for the bank. Higher the coverage, the higher the profitability will be. It can be calculated by using following formula;

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Paid}}$$

Where,

In this study, EBIT denotes earning before interest and taxes and total interest denotes all kind of interest payable on both the deposits and borrowings.

Table No. 4.8

Computation of Interest Coverage Ratio of Selected Commercial Banks

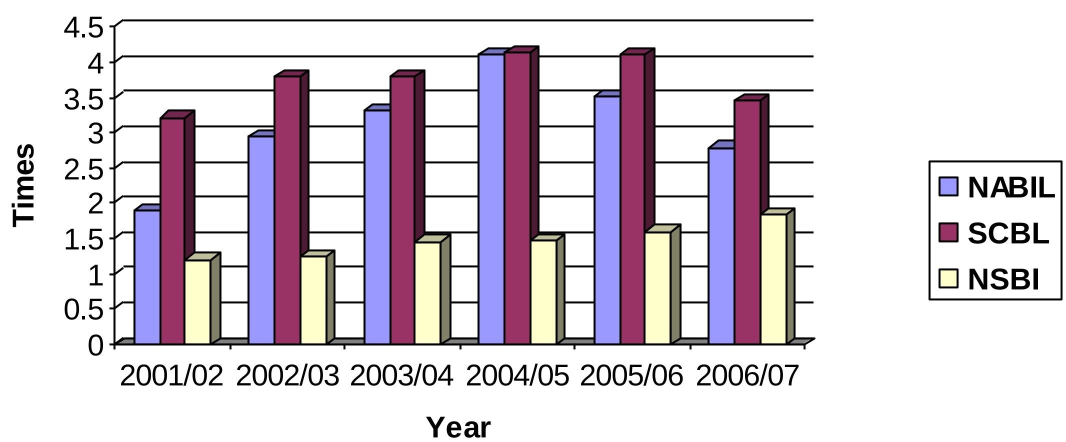
(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	EBIT	Interest Paid	Ratio (in times)	EBIT	Interest Paid	Ratio (in times)	EBIT	Interest Paid	Ratio (in times)
2001/02	871.67	462.08	1.89	963.3	299.86	3.21	345.45	288.58	1.20
2002/03	932.73	317.35	2.94	970.3	255.15	3.80	360.87	291.82	1.24
2003/04	940.02	282.95	3.32	1049.4	275.81	3.80	373.84	256.04	1.46
2004/05	1001.32	243.54	4.11	1052.27	254.13	4.14	383.63	258.43	1.48
2005/06	1255.16	357.16	3.51	1242.57	303.19	4.10	534.53	334.77	1.60
2006/07	1550.76	555.71	2.79	1429.18	413.06	3.46	756.85	412.26	1.84
	Mean		3.09	Mean		3.75	Mean		1.47
	S.D.		0.69	S.D.		0.33	S.D.		0.22
	C.V.		22.33%	C.V.		8.8%	C.V.		14.97%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.8

Bar Diagram of Interest Coverage Ratio



In the above table no 4.8 and the figure no 4.8, the interest coverage ratio of NABIL has ranged between 1.89 times and 4.11 times. The ratio of SCBL is greater than that of other two banks in all the study period, which ranges between 3.21 times and 4.14 times with more consistent. Similarly, the ratio of NSBI lies between 1.20 times and 1.84 times which is very low than rest banks.

A higher ratio is desirable but too high ratio indicates that the firm is very conservative in using debt and that is not using credit to the best advantage of share holders. A lower ratio indicates excessive use of debt, or inefficient operations.

The average ratio of NSBI is very low in comparison to other two banks, which can threaten bad situation of the banks. Therefore, it required to invest the banks resources in more productive sectors resulting in higher returns. In the other hand, NABIL and SCBL have good amount of non-interest income, which can be used for the payment of interest to depositors.

4.2.1.3 Activity Ratio

The activity ratio represents the intensity with which the firm manages and utilizes its assets and resource. These ratios are also called turnover ratio or efficiency or asset utilization ratios. The efficiency means the speed and rapidity with which the assets are converted into sales. If the turnover or conversion rate is higher then the firm is more efficient. If the firm or bank cannot utilize its assets, then profitability decreases. Therefore, a proper balance between sales and assets generally reflects that asset is managed well.

The following activity ratios have been computed for the purpose of comparatively study.

A) Loans and Advances to Total Deposit Ratio

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

Hence, loan and advances to total deposit ratio shows how successfully the banks utilizing their total deposit for profit generating purposes. Higher ratio shows the bank's ability to provide the loan and advances to the people. A high ratio of loan and advances is considered to be the sign of efficient commercial bank and better mobilization of collected deposits and vice-versa. The following formula is used to compute this ratio:

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposits}}$$

Where,

- Loan and advances refer to the total loan advances, bills purchase and overdraft
- Total deposits indicate total of all kind of deposits.

Table No. 4.9

Computation of Loan and Advances to Total Deposit Ratio of Selected Commercial Banks

(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Loan & Advances	**Total Deposit**	**Ratio (in %)**	**Loan & Advances**	**Total Deposit**	**Ratio (in %)**	**Loan & Advances**	**Total Deposit**	**Ratio (in %)**
2001/02	7437.89	15506.43	47.97	5364.01	15835.75	33.87	4299.25	5572.47	77.15
2002/03	7755.95	13447.66	57.68	5695.82	18755.63	30.37	4468.72	6522.82	68.51
2003/04	8189.99	14119.03	58.01	6410.24	21161.44	30.29	5143.66	7198.33	71.46
2004/05	10586.17	14586.61	72.57	8143.21	19335.09	42.12	6213.88	8654.77	71.80
2005/06	12922.54	19347.40	66.79	8935.42	23061.03	38.75	7626.74	11002.04	69.32
2006/07	15545.78	23342.29	66.60	10502.64	24647.02	42.61	9460.45	11445.29	82.66
	Mean		61.60	Mean		36.33	Mean		73.48
	S.D.		8.02	S.D.		5.11	S.D.		4.94
	C.V.		13.02%	C.V.		14.07%	C.V.		6.73%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.9

Bar Diagram of Loan & Advances to Total Deposit Ratio

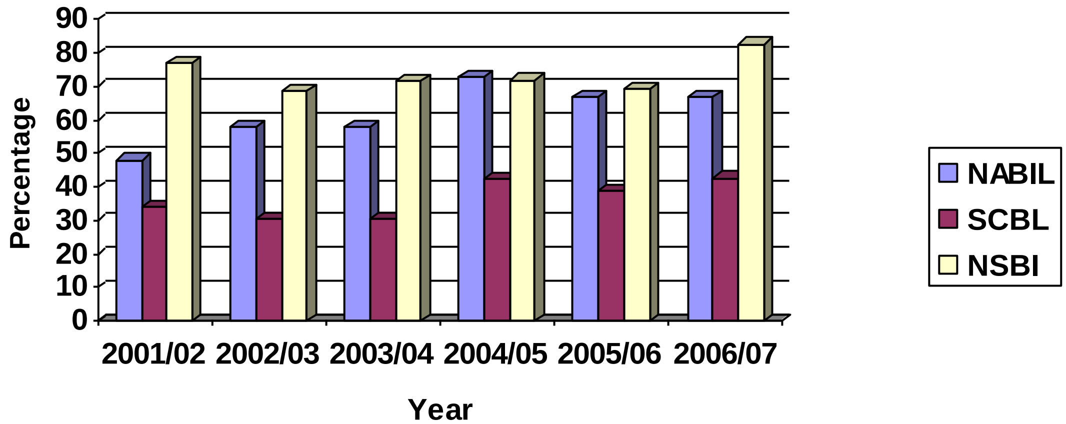


Table no 4.9 and the figure no 4.9 has out lined loan and advances to deposit ratio of the sample banks. The diagram shows that NSBI's loans and advances to total deposit ratio are highest than NABIL and NSBI except in 2004/05. Whereas the ratio of SCBL are lowest in over the study period. The ratio range of NABIL is between 47.97% to 72.57%. Similarly, the ratio of SCBL has shown between 30.29% to 42.61% whereas this range is between 68.51% to 82.66% in NSBI.

During the study period NSBI's mean ratio has seemed in the highest position for loan and advances to total deposit ratio with 73.48% and it is followed by NABIL with 61.60% and SCBL with 36.33% respectively. Likewise, the CV of SCBL highest with 14.07% and its follower are NABIL 13.02% and NSBI 6.73% respectively.

Here, NSBI operating in low profit earning showed the highest credit ratio indicated less effective mobilization of credit resources. In this context, SCBL operating is highest earning where it has not mobilized it's total deposit in the study period. NSBI is taking in aggressive way with fluctuation. It is good to increase the loan and advances to total deposit ratio but should also try to maintain its performance assets. Among them NABIL is lending in a moderate way. While SCBL seemed in a discouraging credit means they could not able to utilize its deposit.

B) Performing Asset to Total Asset Ratio

It establishes the relationship between the performing assets to total assets. It shows how much the banks are successful in utilizing their assets for profit generating purposes. Generally, a higher ratio indicates the efficiency of the bank in utilizing the amount of its assets in performing assets i.e., income generated assets. Low ratio indicates the amount of more assets is blocked in the form of cash and bank balance, fixed assets and other assets. This ratio can be calculated by using following formula

$$\text{Performing Assets to Total Asset Ratio} = \frac{\text{Performing Assets}}{\text{Total Assets}}$$

Where, performing assets represent total assets that are invested in loan and advances, bills purchased and discount, money at short call, investment in government securities.

Table No. 4.10

Computation of Performing Assets to Total Asset Ratio of Selected Commercial Banks

(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Perform-ing Assets	Total Assets	Ratio (in %)	Perform-ing Assets	Total Assets	Ratio (in %)	Perform-ing Assets	Total Assets	Ratio (in %)
2001/02	11589.26	17629.25	65.74	13210.69	18443.11	71.63	4802.42	7021.14	68.40
2002/03	12015.02	16562.62	72.54	14076.56	21000.50	67.03	5658.11	7566.33	74.78
2003/04	12781.35	16745.49	76.33	16577.06	23642.06	70.12	7031.69	8440.41	83.31
2004/05	13868.54	17186.33	80.70	17605.97	21893.58	80.42	8925.13	9963.02	89.58
2005/06	16958.9	22329.97	75.95	19548.57	25767.35	75.86	11433.51	13035.84	87.71
2006/07	20917.66	27253.39	76.75	19371.73	28596.69	67.74	12156.02	13901.2	87.45
	Mean		74.67	Mean		72.13	Mean		81.87
	S.D.		4.64	S.D.		4.69	S.D.		7.73
	C.V.		6.21%	C.V.		6.5%	C.V.		9.44%

***Source:** Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.10

Bar Diagram of Performing Assets to Total Asset Ratio

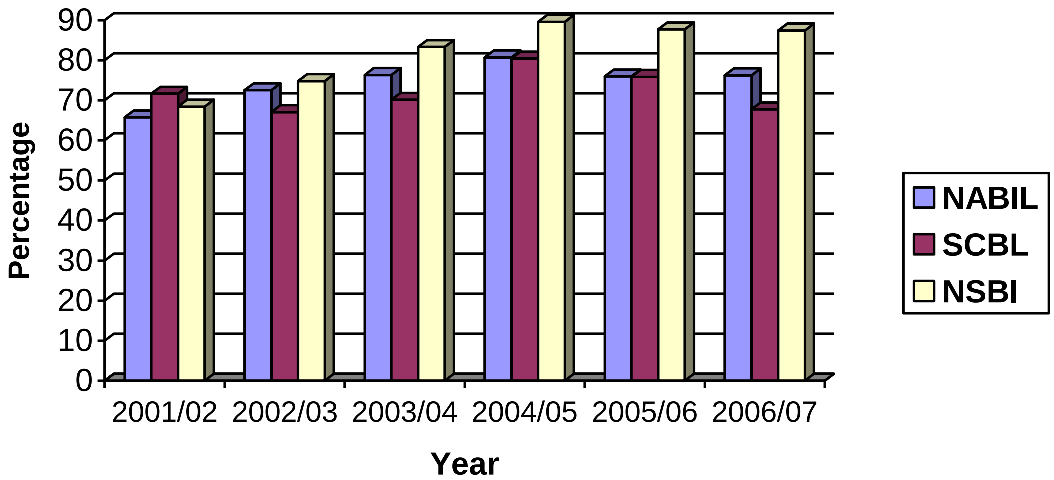


Table no 4.10 and the figure no 4.10 explains that performing asset to total asset of NABIL has ranged between 65.74% to 80.70% whereas in SCBL the ratio has ranged between 67.03% to 80.42%. In the same period, this ratio in NSBI is between 68.40% to 89.58%. Here, the NSBI has the highest mean ratio for performing asset to total asset ratio with 87.45% and it is followed by NABIL with 74.67% and SCBL with 72.13% respectively.

During the reviewed period NSBI has the highest CV ratio for performing assets to total asset ratio with 9.44% and its follower are SCBL with 6.5% and NABIL with 6.21% respectively. It means ratio of NABIL & SCBL are consistent than NSBI.

A comparative evaluation reflects that the average ratio of NSBI seems to be quite satisfactory where as NABIL has good position. Since, the SCBL has slightly lower ratio but not in dangerous, it is recommended to increase the performing assets by investing in loan & advances, risk free securities like government securities or treasury bill, etc.

4.2.1.4 Profitability Ratio

Profitability ratios indicate the degree of success in achieving desired profit. This ratio measures how effectively the company manages its funds to earn profit. The different between total revenues and total expenses over a period is known as profit. It is regarding as the most essential element for commercial bank growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company be able to acquire funds from investors for expansion and to contribute towards the goals of the nation. This implies that profit is the measuring rod of companies for the financial performance. Higher the profitability ratio, better the financial performance of commercial bank and vice-versa. The profitability ratios are designed to provide the answer to questions such as:

1. Is the profit earned by the firm adequate?
2. What rate of return does it represent?
3. What is the rate of profit for various division and segments of the firm?
4. What is the earning per share?
5. What amount was paid in dividend?
6. What is the rate of return to equity holders?

Profitability of a business concern may be measured in two ways: profitability in relation to sales and profitability in relation to investment. The profitability ratios are popularly known as return on investment. In this section, some profitability ratios have been calculated which are as follows:

A) Return on Total Assets Ratio

This ratio establishes the relationship between net profit and total assets. The objective of computing this ratio is to find out how efficiently the total assets have been used by the management.

Higher the ratio indicates the higher efficiency in the utilization of total assets and vice-versa. Lower ratio implies that low utilization of bank assets and over use of higher interest bearing amount of debt and vice-versa. In this study, return on total asset is examined to measure the profitability of all the financial resources in bank assets and calculated by applying the following:

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

Where,

NPAT represents the total profit earned after deducting tax and total assets represent all type of assets owned by the firm.

Table No. 4.11

Computation of Return on Total Assets Ratio of Selected Commercial Bank

(Rs. In Million)

Year	**NABIL**			**SCBL**			**NSBI**		
	NPAT	**Total Assets**	**Ratio (in %)**	**NPAT**	**Total Assets**	**Ratio (in %)**	**NPAT**	**Total Assets**	**Ratio (in %)**
2001/02	271.64	17629.25	1.54	479.21	18443.11	2.60	40.84	7021.14	0.58
2002/03	416.24	16562.62	2.51	506.93	21000.50	2.41	48.75	7566.33	0.64
2003/04	455.31	16745.49	2.72	537.8	23642.06	2.27	60.85	8440.41	0.72
2004/05	518.64	17186.33	3.02	539.20	21893.58	2.46	57.38	9963.02	0.57
2005/06	635.26	22329.97	2.84	658.76	25767.35	2.56	117.00	13035.84	0.90
2006/07	673.96	27253.39	2.47	691.67	28596.69	2.42	254.91	13901.2	1.83
	Mean		2.52	Mean		2.45	Mean		0.87
	S.D.		0.47	S.D.		0.11	S.D.		0.44
	C.V.		18.65%	C.V.		4.49%	C.V.		50.57%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.11

Bar Diagram of Return on Total Assets Ratio of Selected Commercial Bank

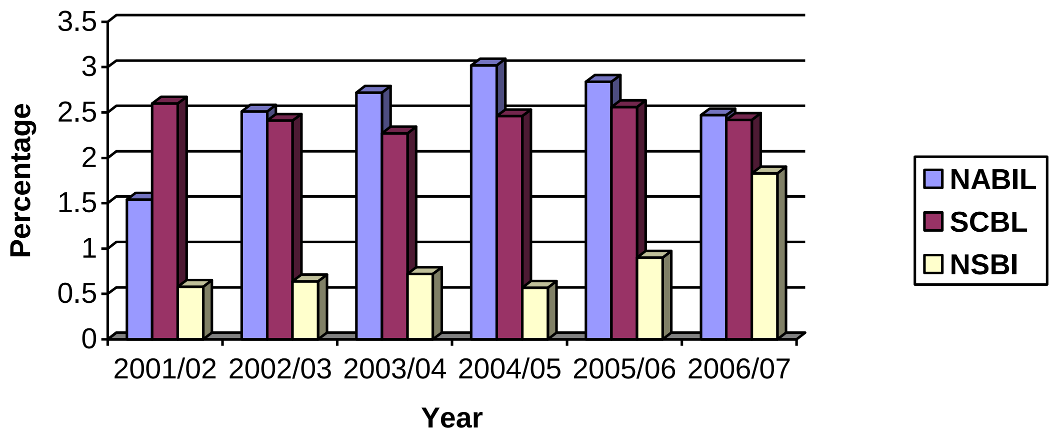


Table no 4.11 and the figure no 4.11 shows that the return on total asset ratio of NABIL has ranged between 1.54% to 3.02% with increasing trend except the last two year. The ratio of SCBL fluctuated between 2.27% to 2.60% over the study period. Similarly, the ratio pattern of NSBI has ranged between 0.58% to 1.83% with increasing trend.

During the reviewed period NABIL has highest mean ratio for return on total asset with 2.52% and it is followed by SCBL with 2.45% whereas NSBI with 0.87%. The coefficient variation of NSBI is the highest than NABIL and SCBL (i.e., 50.57%> 18.65% > 4.49%). It means return on total asset ratio of SCBL is consistent.

From the above calculation NABIL holds highest mean ratio than other banks, SCBL also holds high ratio other then NABIL. The trends of profit of these two banks are in increasing way whereas the trend of NSBI is not a specific way. The mean ratio of NSBI is very low and there is no consistency which shows the bank has no good performance. Hence, the management team of NSBI must have to think better or hire expert to manage the situation, otherwise it will take no time to wind up the bank itself. Whereas the NABIL and SCBL have been able to generate surplus by utilizing the total asset.

B) Return on Net worth Ratio

This ratio shows the capacity of the banks to utilize its owner's fund. It helps to judge whether the company has earned satisfactory return for its share holders or not. Higher ratio represents the sound management and efficient mobilization of owner's equity. It is calculated by the following formula

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

Where, NPAT refers to net profit after tax from profit and loss account and net worth refers to paid up capital, reserve and surplus and undistributed profits.

Table No. 4.12

Computation of Return on Net Worth Ratio of Selected Commercial Banks

(Rs. In Million)

Year	**NABIL**			**SCBL**			**NSBI**		
	NPAT	**Net Worth**	**Ratio (in %)**	**NPAT**	**Net Worth**	**Ratio (in %)**	**NPAT**	**Net Worth**	**Ratio (in %)**
2001/02	271.64	1146.42	23.69	479.21	1235.48	38.79	40.84	560.34	7.29
2002/03	416.24	1314.18	31.67	506.93	1368.91	37.03	48.75	569.86	8.55
2003/04	455.31	1481.68	30.73	537.8	1495.74	35.96	60.85	626.64	9.71
2004/05	518.64	1657.63	31.29	539.20	1582.42	34.07	57.38	689.02	8.33
2005/06	635.26	1874.99	33.88	658.76	1754.14	37.55	117.00	982.38	11.91
2006/07	673.96	2057.05	32.76	691.67	2116.35	32.68	254.91	1163.29	21.91
	Mean		30.67	Mean		36.01	Mean		11.28
	S.D.		3.29	S.D.		2.08	S.D.		4.97
	C.V.		10.73%	C.V.		5.78%	C.V.		44.06%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.12

Bar Diagram of Return on Net Worth Ratio

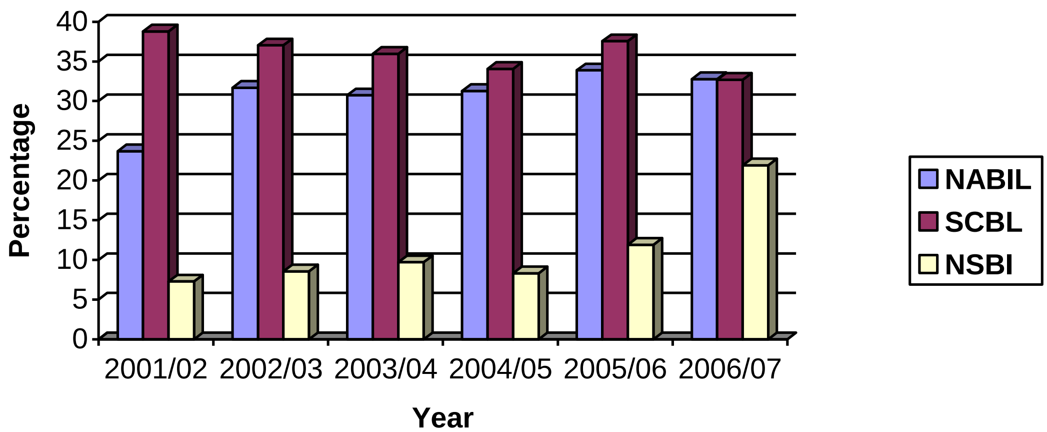


Table no 4.12 and the figure no 4.12 clearly show that the NSBI's return on net worth is less than other sample bank each year of the study period. The return on net worth of NSBIL and SCBL from the above calculation is commendable. However the average ratio of SCBL is highest with 36.01% amongst the other banks, this is because the profit increment of SCBL is higher and consistently than other banks.

The coefficient of variation of NSBI is highest with 44.06% and it is followed by NABIL with 10.73% and SCBL with 5.78% respectively. It means return on net worth to total asset ratio of SCBL is consistent than other banks whereas the ratio of NSBI is not consistent.

Therefore, it can conclude that NABIL and SCBL are being able to utilize their funds efficiently in order to profit maximization. Whereas NSBI has to maintain its ratio and to do hard work to compete with other banks.

C) Return on Capital Employed Ratio

A relation between net profit and capital employed is known as return on capital employed ratio. It shows whether the amount of capital employed has been properly used or not. The objective of computing this ratio is find out how efficiently the long term funds supplied by the creditors and shareholders have been used. This ratio shows the efficiency of the firm on the utilization of total capital. A higher ratio is an indication of the better utilization of capital employed and vice versa. Hence, higher ratio is preferable. It can be calculate by using following formula.

$$\text{Return on Capital Employed Ratio} = \frac{\text{NPAT + Interest}}{\text{Total Capital Employed}}$$

Where,
Capital employed: It refers to long-term fund supplied by the long-term creditors and shareholders.

Return: It means net profit after tax plus interest expenses

Table No. 4.13

Computation of Return on Capital Employed Ratio of Selected Commercial Banks

(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	NPAT + Interest	Capital Employed	Ratio (in%)	NPAT + Interest	Capital Employed	Ratio (in%)	NPAT + Interest	Capital Employed	Ratio (in%)
2001/02	733.72	1244.52	58.96	779.07	1293.06	60.25	329.42	561.72	58.64
2002/03	733.59	1427.18	51.40	762.08	1431.52	53.25	340.57	573.91	59.34
2003/04	738.26	1592.47	46.36	813.61	1555.86	52.29	316.89	632.84	50.07
2004/05	762.18	1765.51	43.17	793.33	1643.08	48.28	315.75	696.4	45.34
2005/06	992.42	1977.41	50.19	961.96	1814.64	53.01	451.77	1192.64	37.88
2006/07	1229.66	2158.1	56.98	1104.72	2176.6	50.75	667.17	1376.21	48.48
	Mean		51.18	Mean		52.97	Mean		49.96
	S.D.		5.52	S.D.		3.66	S.D.		7.45
	C.V.		10.79%	C.V.		6.91%	C.V.		14.91%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.13

Bar Diagram of Return on Capital Employed Ratio

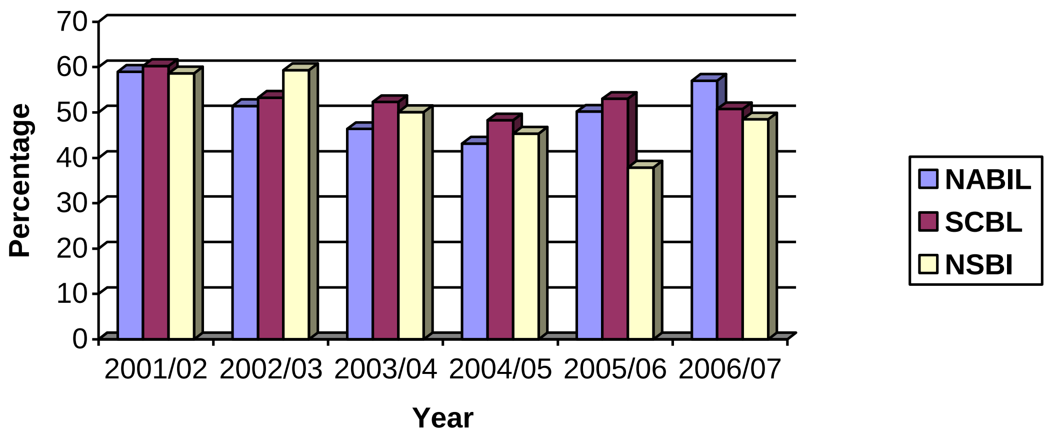


Table no 4.13 and figure no 4.13 explains the average return on capital-employed ratio of SCBL is highest with 52.97% than other banks. NABIL also holds high ratio with 51.18% other than SCBL, whereas the mean ratio of NSBI is 49.96%. Here, NSBI has the highest CV ratio for return on capital employed ratio with 14.91% and it is followed by NABIL 10.79% and SCBL 6.91% respectively.

On an average, SCBL is in quite satisfactory level with high mean ratio and consistency whereas NABIL is also in good position. Though the ratio seems to be okay of NSBI, the management comity must have to take the situation seriously and must show the initiative recover the condition and make the bank well managed by decreasing interest expenses and increasing the net profit.

D) Return on Total Deposit Ratio

This ratio measures the degree on NPAT earned by using total deposits. Net profit to total deposit ratio measures the return on deposits. Generally higher ratio signifies better utilization of deposits and vice-versa. It is calculated by using following formula:

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

Where,

NPAT denotes net profit after tax, and total deposits means those total amount deposited in various accounts i.e., current, saving, fixed and other deposits.

Table No. 4.14

Computation of Return on Total Deposit Ratio of Selected Commercial Banks

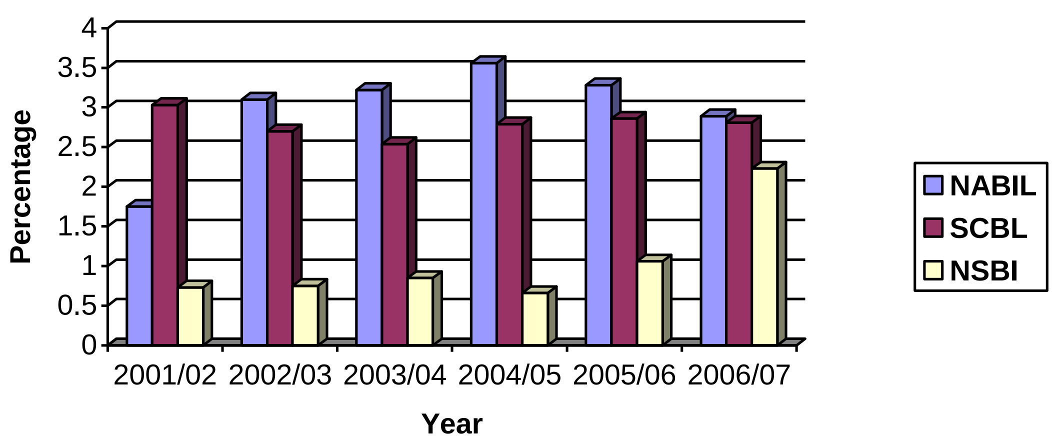
(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	NPAT	Total Deposit	Ratio (in%)	NPAT	Total Deposit	Ratio (in%)	NPAT	Total Deposit	Ratio (in%)
2001/02	271.64	15506.43	1.75	479.21	15835.75	3.03	40.84	5572.47	0.73
2002/03	416.24	13447.66	3.10	506.93	18755.63	2.70	48.75	6522.82	0.75
2003/04	455.31	14119.03	3.22	537.80	21161.44	2.54	60.85	7198.33	0.85
2004/05	518.64	14586.61	3.56	539.20	19335.09	2.79	57.38	8654.77	0.66
2005/06	635.26	19347.40	3.28	658.76	23061.03	2.86	117.00	11002.04	1.06
2006/07	673.96	23342.29	2.89	691.67	24647.02	2.81	254.91	11445.29	2.23
	Mean		2.97	Mean		2.79	Mean		1.05
	S.D.		0.58	S.D.		0.15	S.D.		0.54
	C.V.		19.53%	C.V.		5.38%	C.V.		51.43%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.14

Bar Diagram of Return on Total Deposit Ratio



From the above table and figure NABIL holds highest return on total deposit ratio which is 2.97% of the total deposit. SCBL also holds high mean ratio with

2.79% whereas NSBI has lower average ratio i.e., 1.05%. However, the coefficient of variation for return on total deposit ratio of NSBI is highest i.e., 51.43%. Likewise, the CV of NABIL and SCBL are 19.53% and 5.38% respectively. It means return on total deposit of SCBL is consistent.

By comparing return on total deposit ratio, NABIL has performed better with high mean ratio, whereas SCBL also performed well with consistently. But NSBI has critical situation and it is suggested to do hard labour to maintain this ratio.

E) Interest Earned to Total Assets Ratio

It measures the percentage of interest earned in total assets of the banks. In other words, this ratio shows how much interest has been generated by mobilizing the assets in the banks. Generally, banks earn interest through the provision of loans and advances, overdrafts and investments in securities. Higher of this ratio indicates higher efficiency in mobilization of resources and ability of interest earning and vice-versa.

The following formula has been used to calculate this ratio.

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

Where,

Interest earned represents the total interest shown in income side of profit and loss account.

Table No. 4.15

Computation of Interest Earned to Total Asset Ratio of Selected Commercial Banks

(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Interest Earned	Total Asset	Ratio (in %)	Interest Earned	Total Asset	Ratio (in %)	Interest Earned	Total Asset	Ratio (in %)
2001/02	1120.18	17629.25	6.35	1013.64	18443.11	5.50	399.63	7021.14	5.69
2002/03	1017.87	16562.62	6.15	1001.36	21000.5	4.77	469.74	7566.33	6.21
2003/04	1001.62	16745.49	5.98	1042.17	23642.06	4.41	524.05	8440.41	6.21
2004/05	1068.75	17186.33	6.22	1058.68	21893.58	4.84	578.37	9963.02	5.81
2005/06	1309.99	22329.97	5.87	1189.60	25767.35	4.62	708.72	13035.84	5.44
2006/07	1587.76	27253.39	5.83	1411.98	28596.69	4.94	831.17	13901.2	5.98
	Mean		6.07	Mean		4.85	Mean		5.89
	S.D.		0.19	S.D.		0.34	S.D.		0.28
	C.V.		3.13%	C.V,		7.01%	C.V.		4.75%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.15

Bar Diagram of Interest Earned to Total Asset Ratio

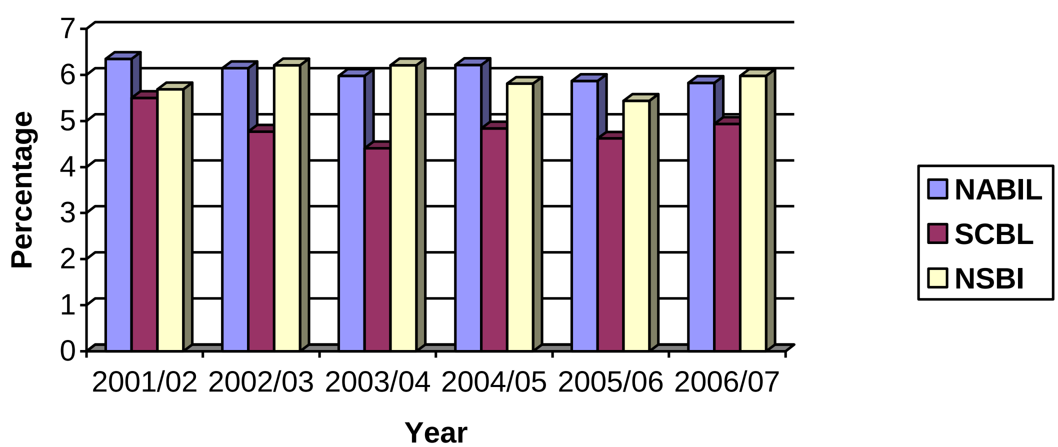


Table no 4.15 and the figure no 4.15 shows the interest earned to total asset ratio of the sample banks. The average ratio of NABIL is highest with 6.07% and rest of other two banks seems to be good. The ratio of NABIL is high due to following the aggressive policy, which is somehow, may be harmful to bank also in future, if the investment couldn't be recovered in time. The SCBL and NSBI have a bit low ratio because these banks hold cash and bank balance and fixed assets with them. This indicates that SCBL and NSBI are not investing assets in interest generating areas. Hence, these banks also should seek to invest the funds rather than keeping it idle. Whereas NABIL has better utilized its total assets for interest earning purpose with consistently.

4.2.1.5 Other Ratio

For analysis of financial performance of the three banks, some other ratios have been selected. The following are the outcome of this analysis.

A) Earning per share (EPS)

Earning per share is an important indicator of the firm's success. It represents the amount earned on behalf of each out standing share of common stock.

The figure of earning per share indicates us what profit the common shareholders for each share held will earn. A company can decide whether to increase or reduce the number of share on issue. EPS is also used to measure the profitableness of the shareholder's investment i.e., by the amount they can get on every share held. It represents what the owners are theoretically entitled to receive from the bank. The higher EPS indicates the better achievement of profitability of the banks by mobilizing their funds and vice versa.

Earning per share may be calculated by using the following formula:

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

Table No. 4.16

List of Earning per Share of selected commercial banks has been tabulated as below

(Value in Rs.)

Year \ Banks	NABIL	SCBL	NSBI
2001/02	55.25	141.13	9.61
2002/03	84.66	149.30	11.47
2003/04	92.61	143.55	14.26
2004/05	105.49	143.14	13.29
2005/06	129.21	175.84	18.27
2006/07	137.08	167.37	39.35
Mean	100.72	153.39	17.71
S.D.	27.53	13.34	10.04
C.V.	27.33%	8.70%	56.69%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.16

Bar Diagram of Earning Per Share

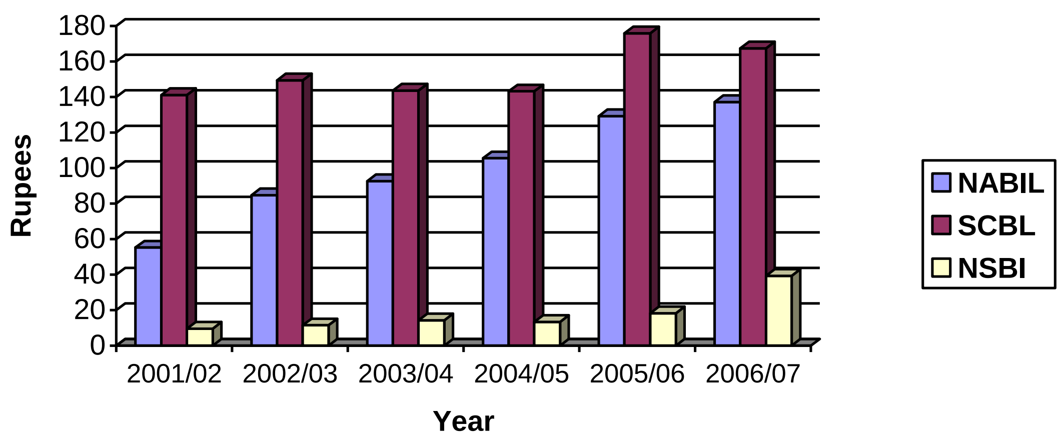


Table no 4.16 and the figure no 4.16 shows the EPS of NABIL that ranges between Rs. 55.25 to Rs. 137.08 with increasing trend over the study period. Similarly the EPS of SCBL ranges between Rs. 141.13 and Rs. 175.84 with consistently. But the ratio of NSBI is very low and also not consistency than that of other two banks in all the years of the study period which ranges between Rs. 9.61 and Rs. 39.35.

The earning per share of SCBL is outstanding. The average EPS is Rs. 153.39 which seems to be very high in the banking sector in Nepal. SCBL has the highest EPS among other banks in the analysis six year period. NABIL is in second position in respect to EPS which have Rs. 100.72 average EPS while calculating and analysis the data for the six year. Although the NSBI has not good position pertaining to EPS, whereas SCBL has more than eight times average EPS compared to NSBI. It indicates that shareholders of SCBL are well satisfied and happy with management as to have good results every year providing them the dividend more than they aspect.

B) Dividend Per share (DPS)

DPS is the dividends paid to the share holders on a per share basis. In other words, DPS is the net distributed to profit belonging to the shareholders dividend by the number of ordinary share outstanding. Dividend per share can be calculated by using following formula.

$$\text{DPS} = \frac{\text{Earning Paid to Shareholder}}{\text{No. of Share Outstanding}}$$

The DPS would be a better indicator than EPS as the former show what exactly is received by the owner. In general higher the DPS, better it is and vice-versa.

Table No. 4.17

List of Dividend Per Share of selected commercial banks has been tabulated as below

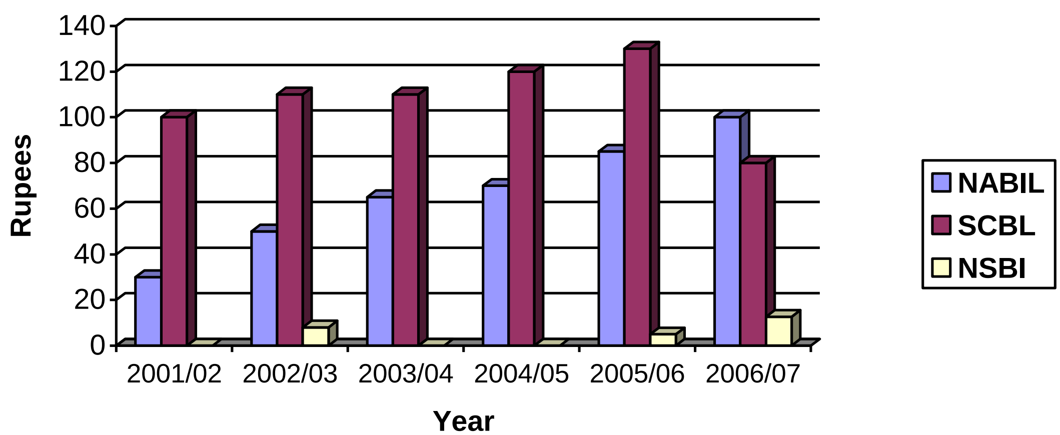
(Value in Rs)

Year \ Banks	NABIL	SCBL	NSBI
2001/02	30	100	0
2002/03	50	110	8
2003/04	65	110	0
2004/05	70	120	0
2005/06	85	130	5
2006/07	100	80	12.59
Mean	66.67	108.33	4.27
S.D.	22.67	15.72	4.80
C.V.	34%	14.51%	112.41%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.17

Bar Diagram of Dividend per share



From the table no. 4.17 and the figure no. 4.17 clearly reveals that two sample banks NABIL and SCBL had declared dividend in increasing trend over the study period. Here SCBL had declared a highest dividend per share among the other bank with ranged between Rs. 80 to Rs. 130 in all fiscal years. It is followed by NABIL by a ranged of Rs. 30 to Rs. 100. NSBI has declared DPS only in three years in the study period on which Rs. 12.59 highest in the last year and Rs. 8 in 2002/03 it indicates a fluctuating trend of distribution of DPS.

In conclusion, SCBL is paying regular and handsome dividends to its shareholders at an average of Rs. 108.33. It had distributed Rs. 130 in year 2005/06. NABIL has also commendable position on market due to continoues increment of DPS to It's shareholder at an average of Rs. 66.67, whereas NSBI has critical situation. Thus, NSBI has to do hard work to compete with other banks.

C) Dividend Payout Ratio

Dividend payout ratio measures the relationship between the earning belonging to the ordinary shareholders and the dividend paid to them. In other words, how much the dividend is paid out as dividend and how much is retained by the firm.

Usually, higher dividend payout ratio is preferred by the shareholders although companies adopt dividend policies to suit their business. The growing companies have a great need for cash and they payout little. It can be calculated by applying following formula.

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

Table No. 4.18

Computation of Dividend Payout Ratio of Selected Commercial banks

(Value in Rs.)

Year	NABIL			SCBL			NSBI		
	DPS	EPS	Ratio (in %)	DPS	EPS	Ratio (in %)	DPS	EPS	Ratio (in %)
2001/02	30	55.25	54.30	100	141.13	70.86	0	9.61	0
2002/03	50	84.66	59.06	110	149.30	73.68	8	11.47	69.75
2003/04	65	92.61	70.19	110	143.55	76.63	0	14.26	0
2004/05	70	105.49	66.36	120	143.14	83.83	0	13.29	0
2005/06	85	129.21	65.78	130	175.84	73.93	5	18.27	27.37
2006/07	100	137.08	72.95	80	167.37	47.80	12.59	39.35	31.99
	Mean		64.77	Mean		71.12	Mean		21.52
	S.D.		6.36	S.D.		11.18	S.D.		25.36
	C.V.		9.82%	C.V.		15.72%	C.V.		117.84%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.18

Bar Diagram of Dividend Payout Ratio

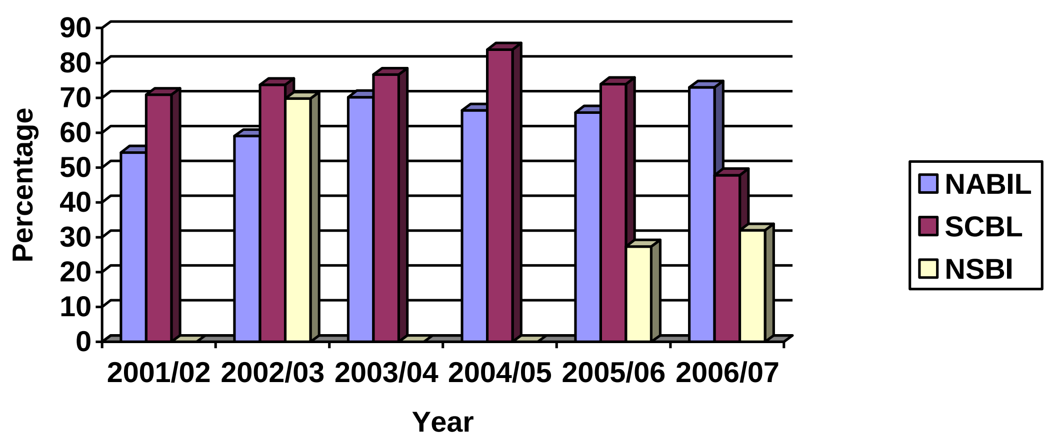


Table no 4.18 and the figure no 4.18 reflect that dividend payout ratio of the studying period of the three sample banks. The ratio of NABIL has ranged between 54.30% to 72.95%. Likewise, SCBL has ranged between 47.80% to 83.83%. Lastly, NSBI's DPR is in a ranged between 0 to 69.75% with very fluctuating trend.

Analyzing the mean ratio of the dividend payout ratio it is seemed that SCBL has a highest ratio with 71.12% and it is followed by NABIL with 64.77% and NSBI with 21.52% respectively. Similarly, during the study period, NSBI has highest CV ratio with 117.84% and it is followed by SCBL with 15.72% and NABIL with 9.82% respectively.

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

D) Interest Earning Assets to total Assets Ratio

This ratio reflects the proportionate relationship between interest earning assets and total assets. Higher of this ratio implies the higher position of interest generating assets and vice versa.

This ratio can be calculated by using following formula

$$\text{Interest Earning Asset to Total Asset Ratio} = \frac{\text{Interest Earning Assets}}{\text{Total Assets}}$$

Where,

Interest earning assets refer to loan and advances, overdrafts and investments. Similarly total asset refers the total asset presented at the right side of the balance sheet.

Table No. 4.19

Computation of Interest Earning Assets to Total Assets Ratio of Selected Commercial banks

(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Interest Earning Asset	**Total Asset**	**Ratio (in %)**	**Interest Earning Asset**	**Total Asset**	**Ratio (in %)**	**Interest Earning asset**	**Total Asset**	**Ratio (in %)**
2001/02	15615.18	17629.25	88.58	14628.69	18443.11	79.32	4880.42	7021.14	69.51
2002/03	13764.9	16562.62	83.11	16042.3	21000.50	76.39	5658.11	7566.33	74.78
2003/04	14003.84	16745.49	83.63	17759.37	23642.06	75.12	7031.69	8440.41	83.31
2004/05	14828.47	17186.33	86.28	17832.41	21893.58	81.45	8802.02	9963.02	88.35
2005/06	19075.59	22329.97	85.42	21761.63	25767.35	84.45	11218.52	13035.84	86.06
2006/07	24444.24	27253.39	89.69	24013.93	28596.69	83.97	12087.96	13901.2	86.96
	Mean		86.12	Mean		80.12	Mean		81.49
	S.D.		2.40	S.D.		3.53	S.D.		6.95
	C.V.		2.79%	C.V.		4.41%	C.V.		8.53%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.19

Bar Diagram of Interest Earning Asset to Total Asset Ratio

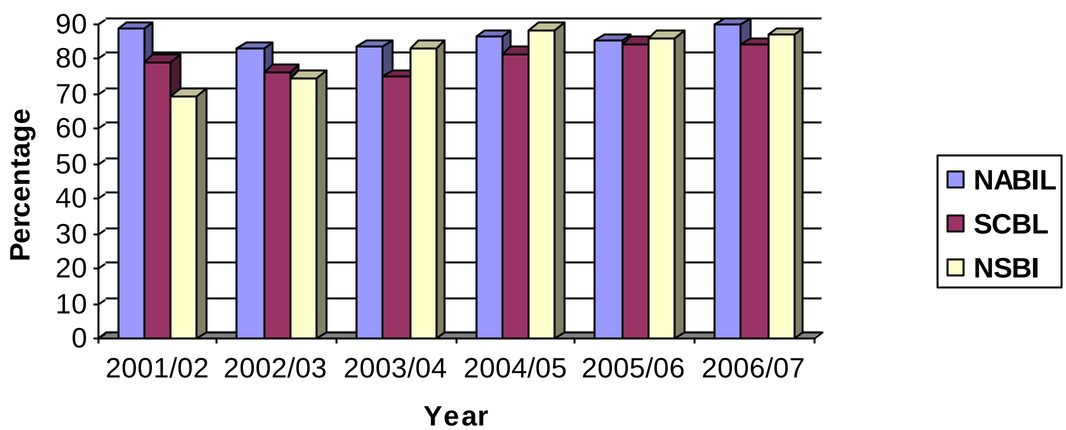


Table no 4.19 and the figure no 4.19 made known that interest-earning asset to total asset ratio of the sample banks have been fluctuating trend. The ratio of

NABIL has ranged between 83.11% to 89.69%. While this ratio range of SCBL is from 75.12% to 84.45% and NSBI's is from 69.51% to 88.35% respectively.

Analyzing the mean ratio of the interest earning asset to total asset ratio it is seemed that NABIL has a highest ratio with 86.12% and it is followed by NSBI 81.49% and SCBL 80.12%, respectively. Similarly, during the reviewed period NSBI has highest CV with 8.53% and its follower are SCBL with 4.41% and NABIL with 2.79% respectively.

From the above analysis, NABIL is more capable to invest its total assets in interest generating asset. While SCBL and NSBI are also in good position.

E) Interest Paying Liabilities to Total Liabilities Ratio

This ratio shows the proportion of interest paying liabilities out of a bank liability. This ratio can be compared with the interest earning assets to total assets ratio. Lower of this ratio may be regarded good and vice-versa.

Following formula is applied to measure this ratio.

$$\text{Interest Paying Liabilities to Total Liabilities Ratio} = \frac{\text{Interest Paying Liabilities}}{\text{Total Liabilities}}$$

Where,

Interest paying liability refers to the all types of deposits except the current deposit plus borrowing from other banks.

Table No. 4.20

Computation of Interest Paying Liabilities to Total Liabilities Ratio of Selected Commercial Banks

(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Interest Paying Liabilities	Total Liabilities	Ratio (in %)	Interest Paying Liabilities	Total Liabilities	Ratio (in %)	Interest Paying Liabilities	Total Liabilities	Ratio (in %)
2001/02	13219.91	16482.83	80.20	12712.08	17207.63	73.87	5044.56	6460.8	78.08
2002/03	11375.12	15248.44	74.60	13066.17	19631.59	66.56	5288.58	6996.48	75.59
2003/04	11659.72	15263.81	76.39	15422.78	22146.33	69.64	5612.6	7813.77	71.83
2004/05	11804.49	15528.7	76.02	15034.68	20311.16	74.02	7350.86	9274	79.26
2005/06	16610.01	20454.98	81.20	18379.09	24013.21	76.54	10406.17	12053.47	86.33
2006/07	20829.61	25196.35	82.67	20252.49	26480.35	76.48	10530.23	12737.92	82.67
	Mean		78.51	Mean		72.85	Mean		78.96
	S.D.		2.98	S.D.		3.63	S.D.		4.68
	C.V.		3.80%	C.V.		4.98%	C.V.		5.93%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.20

Bar Diagram of Interest paying Liabilities to Total Liabilities Ratio

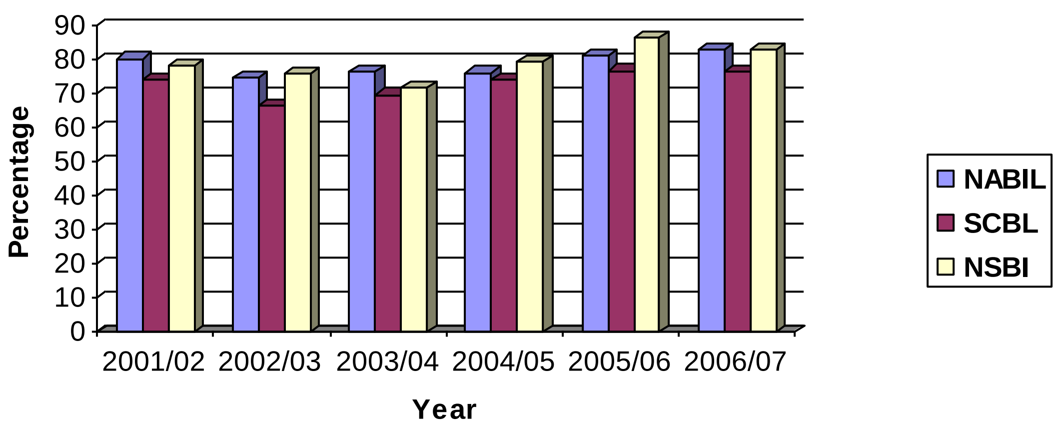


Table no 4.20 and the figure no 4.20 show that interest paying to total liabilities ratio of the sample banks is following a fluctuating trend over the study period. The average ratio and coefficient of variation of NABIL are 78.51% and 3.80%

respectively. Likewise, the average ratio and coefficient of variation in SCBL are 72.85% and 4.98% whereas these indicators in NSBI are 78.96% and 5.93% respectively.

The diagram shows there is not much difference among these sample banks. The ratios in NABIL, SCBL and NSBI are closes to each other. These banks are required to increase the portion on interest generating assets and to decrease the portion of interest paying liabilities.

F) Interest Paid to Interest Income Ratio

This ratio establishes the relationship between interest paid on different liabilities and interest income from different sources. Higher ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income and vice-versa. This ratio can be calculated by using the following formula.

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

Where,

Interest paid refers to the interest paid on deposits and borrowings. Similarly, interest incomes include the interest from loan, advances, overdraft, investment, on government securities and debentures, money of call and inter bank loans.

Table No. 4.21

Computation of Interest paid to interest income ratio of selected commercial banks.

(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Interest Paid	Interest Income	Ratio (in %)	Interest Paid	Interest Income	Ratio (in %)	Interest Paid	Interest Income	Ratio (in %)
2001/02	462.08	1120.18	41.25	299.86	1013.64	29.58	288.58	399.63	72.21
2002/03	317.35	1017.87	31.18	255.15	1001.36	25.48	291.82	469.74	62.12
2003/04	282.95	1001.62	28.25	275.81	1042.18	26.46	256.04	524.05	48.86
2004/05	243.54	1068.75	22.79	254.13	1058.68	24.0	258.43	578.37	44.68
2005/06	357.16	1309.99	27.26	303.20	1189.6	25.49	334.77	708.72	47.24
2006/07	555.71	1587.76	35.0	413.06	1411.98	29.25	412.26	831.12	49.60
	Mean		30.96	Mean		26.71	Mean		54.12
	S.D.		5.92	S.D.		2.05	S.D.		9.80
	C.V.		19.12%	C.V.		7.68%	C.V.		18.11%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.21

Bar Diagram of Interest Paid to Interest Income Ratio

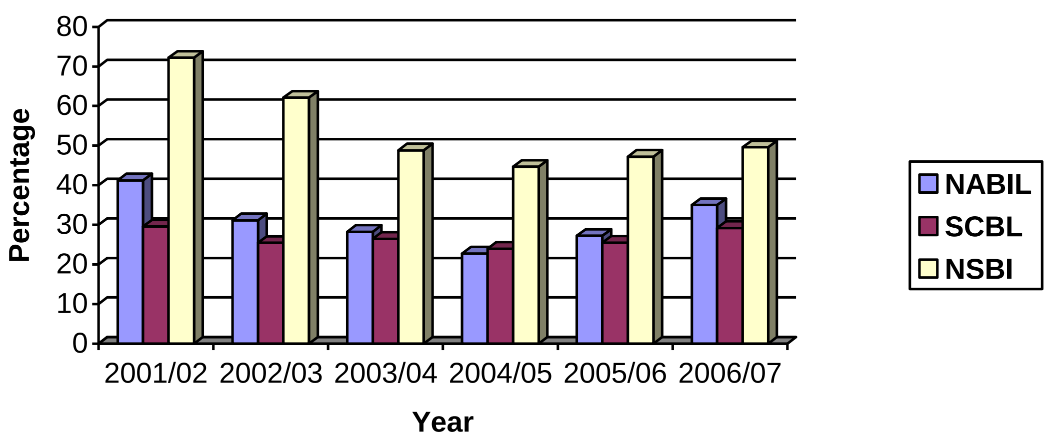


Table no 4.21 and the figure no 4.21 reflects that interest paid to interest income ratio of NABIL has ranged between 22.79% to 41.25% with fluctuating trend. Similarly, the ratio of SCBL has ranged between 24% to 29.58% whereas these range between 44.68% to 72.21% in NSBI. These banks also have a fluctuating trend.

Comparatively, the ratio of SCBL is lower than that of other bank. Similarly, NABIL stands on second position whereas NSBI has very high interest paid to interest income ratio. Higher this ratio is unfavorable.

In conclusion, it can be said that NSBI pays more interest from their interest income than that of other two banks. So, NABIL and SCBL reveal higher ability in saving interest income.

G) Spread

The spread can be computed in various ways. According to George Hemple and Jess B Ywaditiz, spread management emphasizes the difference between the return on assets and cost of liabilities over time. According to Fred Yeager; the spread is defined as the ratio of (Interest Revenue-Interest Expenses) to total assets. Spread is also known as the difference of interest income and interest expenses.

The high positive spread is generally desirable and accepted by any type of financial institution. In the present study, spread is considered as net interest income to total asset. This ratio can be calculated by using following formula:

$$\text{Spread} = \frac{\text{Net Interest Income}}{\text{Total Asset}}$$

Table No. 4.22

Computation of Spread of Selected Commercial Banks

(Rs. In Million)

Year	NABIL			SCBL			NSBI		
	Net Interest Income	Total Asset	Ratio (in %)	Net Interest Income	Total Asset	Ratio (in %)	Net Interest Income	Total Asset	Ratio (in %)
2001/02	658.1	17629.25	3.73	713.78	18443.11	3.87	111.05	7021.14	1.58
2002/03	700.52	16562.62	4.23	746.21	21000.50	3.55	177.92	7566.33	2.35
2003/04	718.67	16745.49	4.29	766.37	23642.06	3.24	268.01	8440.41	3.18
2004/05	825.21	17186.33	4.8	804.55	21893.58	3.67	319.94	9963.02	3.21
2005/06	952.54	22329.97	4.27	886.4	25767.35	3.44	373.95	13035.84	2.87
2006/07	1032.05	27253.39	3.79	998.92	28596.69	3.49	418.86	13901.2	3.01
	Mean		4.19	Mean		3.54	Mean		2.7
	S.D.		0.36	S.D.		0.19	S.D.		0.58
	C.V.		8.59%	C.V.		5.37%	C.V.		21.48%

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

Figure No. 4.22

Bar Diagram of Spread

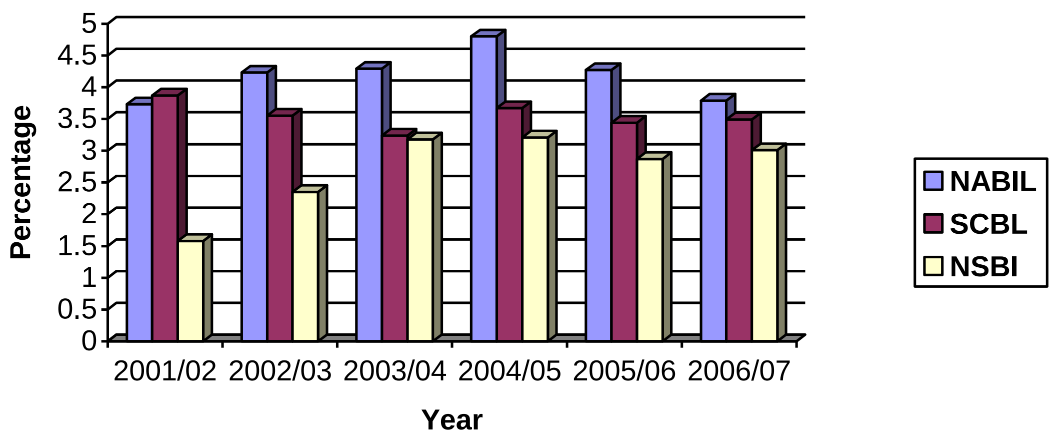


Table no 4.22 and the figure no 4.22 shows that the spread of NABIL and NSBI has shown increasing trend except the last two year. The spread in SCBL shows a fluctuating trend. Over the study period, NSBI spread is lower than NABIL and SCBL. The average spread of NABIL is highest than that of other banks. SCBL also holds high ratio other than NABIL.

The average spread of NABIL, SCBL and NSBI are 4.19%, 3.54% and 2.7% respectively. Similarly, the coefficient of variation of NABIL, SCBL and NSBI are 8.59%, 5.37% and 21.48% respectively. This means that the spread trend of SCBL is more consistent and the spread of NSBI does not reflect consistency.

In conclusion it can be said that, NABIL has more spreads and higher ability to invest. SCBL is also in good position. Though the spread seems to be positive of NSBI but not sufficient, so the management comity must have to take the situation seriously and to invest its assets in more productive sectors to increase the spread.

H) Operating Income Analysis

Income is an important indicator of financial performance of banks. Income refers the financial return from one business, labour or invested capital. Without profit the banks can not run smoothly. Therefore, the income is an important factor in any business. Maximizing the income implies the better financial performance of the banks.

The major sources of operating income of the commercial banks are interest received from loan and advances and government securities, commission and discount received, foreign exchange fluctuation income and other miscellaneous income. The operating income of NABIL, SCBL and NSBI has been tabulated as below-

Table no 4.23

Operating Income of Selected Commercial Banks

(Rs. In Million)

Year	Interest Earned			Commission & Discount Earned			Foreign Exchange Fluctuation			Other Income			Total		
Bank	NABIL	SCBL	NSBI	NABIL	SCBL	NSBI	NABIL	SCBL	NSBI	NABIL	SCBL	NSBI	NABIL	SCBL	NSBI
01/02	1120.18	1013.64	399.63	114.34	163.46	36.58	154.22	228.10	42.54	250.37	41.62	29.63	1639.11	1446.82	508.38
02/03	1017.87	1001.36	469.74	144.41	215.2	29.96	144.08	232.52	18.51	34.15	54.52	47.69	1340.51	1503.6	565.9
03/04	1001.62	1042.18	524.05	138.57	198.95	38.26	157.32	273.05	30.58	38.75	69.83	17.49	1336.26	1584.01	610.38
04/05	1068.75	1058.68	578.37	128.88	184.83	42.57	184.88	266.86	32.36	55.93	62.94	11.28	1438.44	1573.31	664.58
05/06	1309.99	1189.60	708.72	138.29	222.93	40.75	185.48	283.47	43.06	82.90	28.78	7.14	1716.66	1724.78	799.67
06/07	1587.76	1411.98	831.12	150.61	221.21	52.59	209.93	309.09	49.46	87.57	25.44	12.60	2035.87	1967.72	945.77
Total	7106.17	6717.44	3511.63	815.10	1206.58	240.71	1035.91	1593.09	216.51	549.67	283.13	125.83	9506.85	9800.24	4094.68
Mean	1184.36	1119.57	585.27	135.85	201.10	40.12	172.65	265.52	36.09	91.61	47.19	20.97	1584.48	1633.37	682.45

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

i) Interest Earned

In this study, interest earned includes the interest income from loan, advances and overdraft, treasury bills, foreign security, government securities, NRB bond, bond of other organization etc. but the major source of interest earning is loan and advances. Higher this ratio indicates higher efficiency and vice versa.

This ratio may be calculated by using the following formula;

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

This ratio of the selected commercial banks over the study period has been tabulated below-

Table No. 4.24

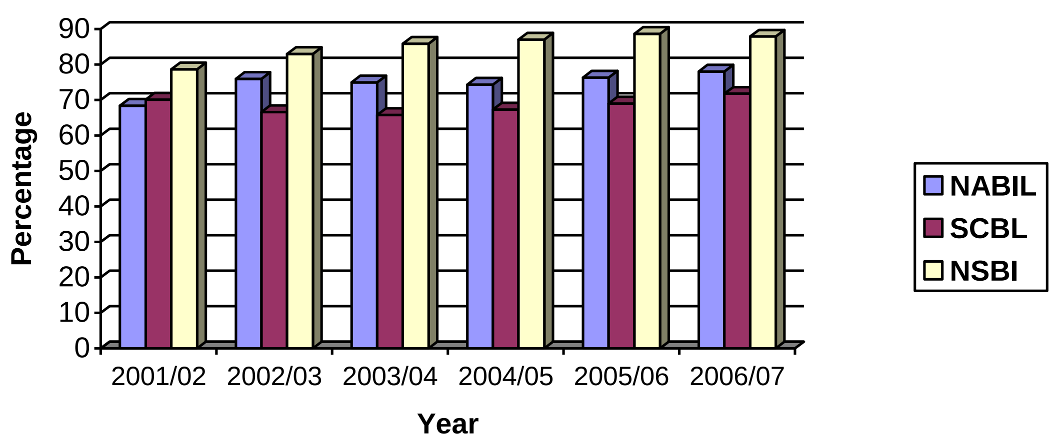
Interest Income to Total Operating Income (Percentage)

Year / Banks	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
NABIL	68.35	75.93	74.96	74.30	76.31	77.99	74.64
SCBL	70.06	66.60	65.79	67.29	68.97	71.76	68.41
NSBI	78.61	83.0	85.86	87.03	88.63	87.88	85.17

Source: *Table No. 4.23*

Figure No. 4.23

Bar Diagram of Interest Income to Total Operating Income



The above table and figure reveals that interest income has covered the highest portion of operating income for all of the sample banks. This ratio, on an average of NSBI has the highest with 85.17% which is followed by NABIL 74.64% and SCBL 68.41% respectively. Thus, NSBI has highest interest income portion and in second NABIL and SCBL simultaneously. It proves that NSBI has invested its fund to the highly interest earning sector, hence it is recommended that the NABIL and SCBL also have to think about it do invest in such interest earning sector in future.

ii) Commission and Discount Earned

The other source of operating income of the commercial banks is commission and discount. This operating income reflects the extent of services provided to the customers. Commission and discount received includes income from bills purchase and discount, commission from letter of credit, guarantee, collection fee, remittance fee, credit cards, exchange fee and other fee etc.

The following formula is applied to measure this ratio:

$$\text{Commission and Discount Earned to Total Operating Income Ratio} = \frac{\text{Commission \& Discount Earned}}{\text{Total Operating Income}}$$

Table No. 4.25

Commission and Discount Earned to Total Operating Income (Percentage)

Year / Banks	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
NABIL	6.97	10.77	10.36	8.96	8.06	7.40	8.75
SCBL	11.30	14.31	12.56	11.75	12.93	11.24	12.35
NSBI	7.19	5.29	6.27	6.41	5.09	5.56	5.97

Source: *Table No. 4.23*

Figure No. 4.24

Bar Diagram of Commission and Discount Earned to Total Operating Income

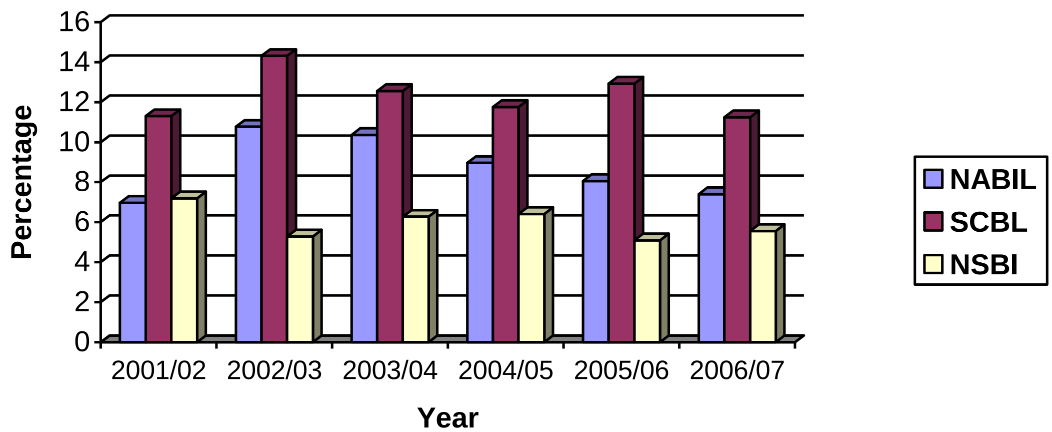


Table no 4.25 and the figure no 4.24 presents the average commission and discount earned to total operating income of NABIL, SCBL and NSBI which are 8.75%, 12.35% and 5.97% respectively. It reveals that SCBL has highest commission income and in second NABIL has leaded the market pertaining to commission. It proves that NABIL and SCBL are extending more services to its customers. The other bank NSBI result is satisfactory but need to work hard for further development of the bank.

iii) Foreign Exchange Earning

This ratio reflects the proportion of foreign exchange earnings to total operating income. It is the main source of operating income after the income of commission and discount earned. The following formula applied to measure this ratio.

$$\text{Foreign Exchange Income to Total Operating Income Ratio} = \frac{\text{Foreign Exchange Income}}{\text{Total Operating Income}}$$

Foreign exchange income to total operating income ratio of selected commercial banks has been presented in the following table.

Table No. 4.26

Foreign Exchange Income to Total Operating Income (Percentage)

Year / Banks	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
NABIL	9.41	10.75	11.77	12.85	10.8	10.31	10.98
SCBL	15.76	15.46	17.24	16.96	16.43	15.71	16.26
NSBI	8.37	3.28	5.01	4.87	5.38	5.23	5.36

Source: *Table No. 4.23*

Figure No. 4.25

Bar Diagram of Foreign Exchange Income to Total Operating Income

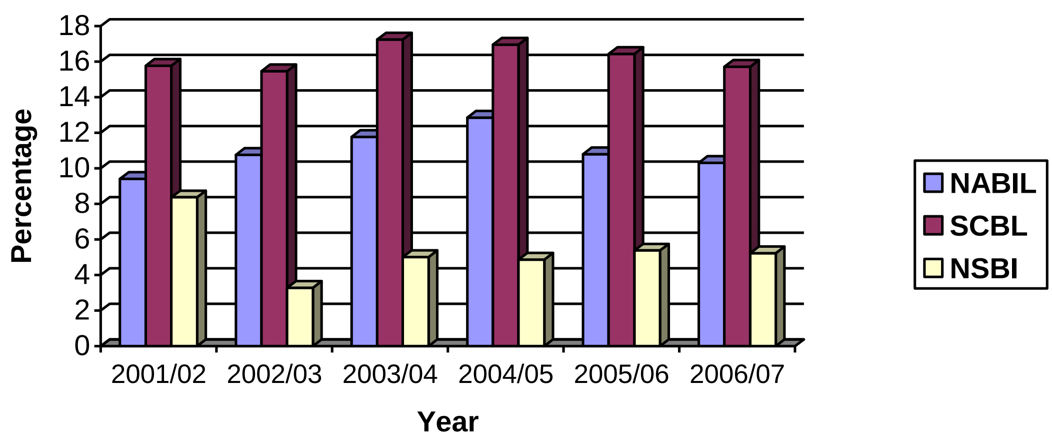


Table no 4.26 and the figure no 4.25 shows the exchange income to total operating income of the sample bank has been fluctuating trend. Here, the average percentage of NABIL, SCBL and NSBI are 10.98%, 16.26% and 5.36% respectively. It reveals that the SCBL has highest exchange income compared to other two banks. Secondly, NABIL has shown good performance during these six years. The NSBI bank has very low foreign exchange income, hence it is suggested to do hard labor to maintain the entire sector, as it has been lacking behind in every field of banking activities.

iv) Other Income

The other income reflects income from rental safe deposit locker, telex, issue & renewals of credit cards and ATM cards, service charges and others. The other income has been nominal contribution in the total operating income. The following formula can be applied to measure this ratio.

$$\text{Other Income to Total Operating Income Ratio} = \frac{\text{Other Income}}{\text{Total Operating Income}}$$

This ratio of the selected commercial banks over the study period has been tabulated as below:

Table No. 4.27

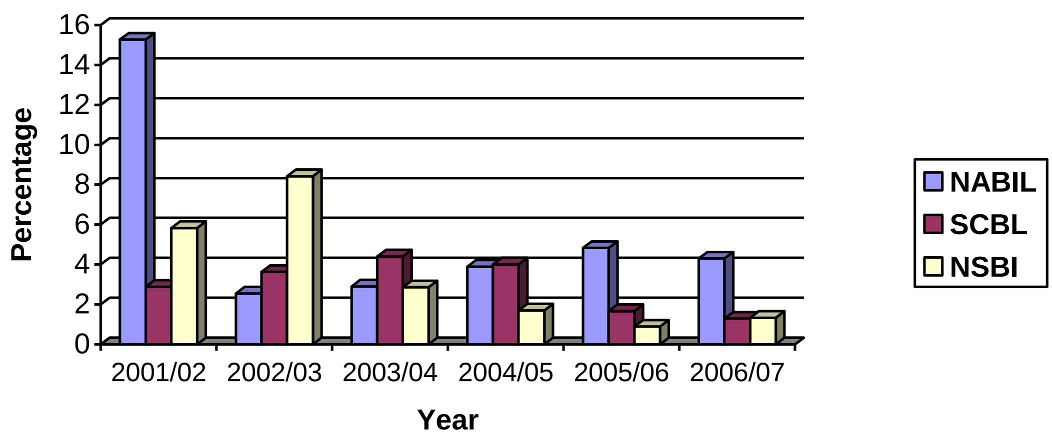
Other Income to Total Operating Income (Percentage)

Year / Banks	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
NABIL	15.27	2.55	2.90	3.89	4.83	4.3	5.62
SCBL	2.88	3.63	4.41	4.0	1.67	1.29	2.98
NSBI	5.83	8.43	2.86	1.7	0.89	1.33	3.51

Source: *Table No. 4.23*

Figure No. 4.26

Bar Diagram of Other Income to Total Operating Income



The next source of operating income of the commercial banks is other income. The above table and the figure shows that the average other income to total operating income of NABIL is highest with 5.62% which is followed by NSBI 3.51% and SCBL 2.98% respectively. Mostly banks earning from other income seemed fluctuating. Here, the analysis shows that other income has a very nominal contribution in the operating income of the sample banks.

I) Operating Expenses Analysis

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

The main headings of the operating expenses of these banks are interest and commission expenses, staff expenses, prevision for staff operating expenses, office-operating expenses and other general expenses that are directly related with the operation of the banks. These operating expenses are presented in the following table.

Table no 4.28

Operating Expenses of Selected Commercial Banks

(Rs. In Million)

Year	Interest & Commission Paid			Salary Allowances & Provident Fund			Provision for Bonus			Other General Expenses			Total		
Bank	NABIL	SCBL	NSBI	NABIL	SCBL	NSBI	NABIL	SCBL	NSBI	NABIL	SCBL	NSBI	NABIL	SCBL	NSBI
01/02	462.08	299.86	288.58	147.44	126.51	26.65	44.12	72.15	6.32	134.32	190.94	60.75	787.96	689.46	382.3
02/03	317.35	255.15	291.82	210.58	128.33	33.73	66.36	76.08	7.67	166.20	311.01	77.36	760.49	770.57	410.58
03/04	282.95	275.81	256.04	180.84	134.69	35.02	71.94	85.95	9.31	153.37	279.69	81.35	689.1	776.14	381.72
04/05	243.54	254.13	258.43	199.52	148.58	37.58	84.20	88.68	13.91	190.30	256.65	90.63	717.56	748.04	400.55
05/06	357.16	303.20	334.77	219.78	168.23	50.54	89.80	93.94	19.98	182.70	221.09	99.21	849.44	786.46	504.5
06/07	555.71	413.06	412.26	240.16	199.78	53.23	99.50	101.61	34.46	188.18	228.45	120.11	1083.55	942.9	620.06
Total	2218.79	1801.21	1841.90	1198.32	906.12	236.75	455.92	518.41	91.65	1051.07	1487.83	529.41	4888.10	4713.57	2699.71
Mean	369.80	300.20	306.98	199.72	151.02	39.46	75.99	86.40	15.28	169.18	247.97	88.23	814.68	785.60	449.95

Source: *Annual Reports from 2001/02 to 2006/07 of all three banks*

i) Interest and Commission Paid

Interest and commission paid expenses are the major expenses of banks. In this study, interest and commission paid denotes the interests paid on deposits, on borrowings i.e., overdraft, loan from NRB, inter bank borrowing, other loan and refinances.

This ratio can be calculated by using the following formula:

$$\text{Interest and Commission Paid to Total Operating Expenses Ratio} = \frac{\text{Interest and Commission Paid}}{\text{Total Operating Expenses}}$$

This ratio of the selected commercial banks has been tabulated as below:

Table No. 4.29

Interest and Commission paid to Total Operating Expenses (Percentage)

Year / Banks	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
NABIL	58.64	41.73	41.06	33.94	42.05	51.29	44.79
SCBL	43.49	33.11	35.54	33.97	38.55	43.81	38.08
NSBI	75.48	71.07	67.08	64.52	66.36	66.49	68.50

Source: *Table No. 4.28*

Figure No. 4.27

Bar Diagram of Interest and Commission Paid to Total Operating Expenses

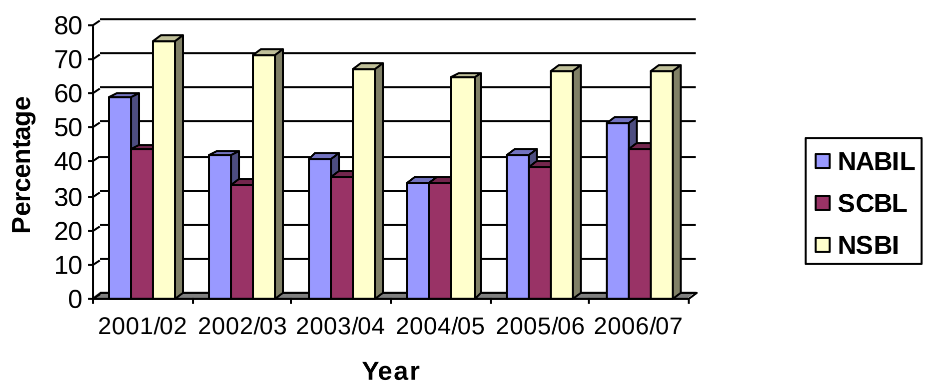


Table no 4.29 and the figure no 4.27 helps to conclude that, on an average NSBI is expending a greater portion of its income for on interest and commission than other bank that is 68.50%. But one thing is that it is trying to maintain the higher expenses as the rate is in decreasing trend on an average. This bank's deposit collection trend is in increasing trend but though it has higher deposit utilization rate than other but in fluctuation position which should maintain. Likewise, the percentage is followed by NABIL 44.79% and SCBL 38.08% respectively on which NABIL is gradually decreasing except the last two year whereas SCBL is in fluctuation trend over the study period.

ii) Staff Expenses

The next important heading under operating expenses is staff expenses. Staff expenses refer to total of salaries and allowance expenses. Higher this ratio means the bank is paying higher amount for staffs. This ratio can be calculated by using the following formula:

$$\text{Staff Expenses to Total Operating Expenses Ratio} = \frac{\text{Staff Expenses}}{\text{Total Operating Expenses}}$$

This ratio of the selected commercial banks has been tabulated as below:

Table No. 4.30

Staff Expenses to Total Operating Expenses (Percentage)

Banks \ Year	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
NABIL	18.71	27.69	26.24	27.81	25.87	22.16	24.75
SCBL	18.35	16.65	17.35	19.86	21.39	21.18	19.13
NSBI	6.97	8.22	9.17	9.38	10.02	8.58	8.72

Source: *Table No. 4.28*

Figure No. 4.28

Bar Diagram of Staff Expenses to Total Operating Expenses

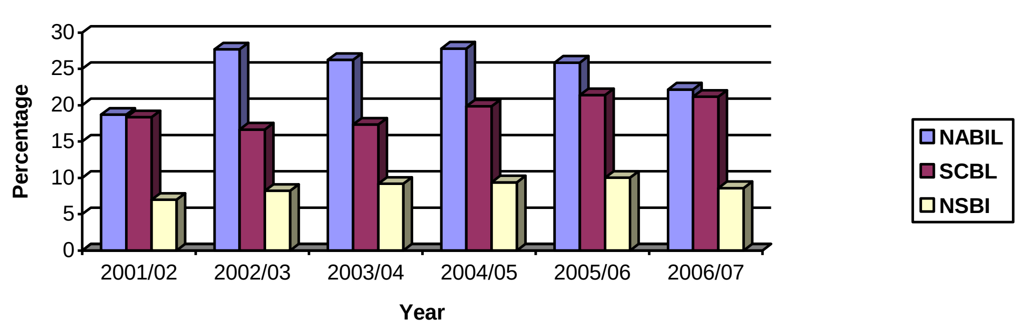


Table no 4.30 and the figure no 4.28 reflects that the expenditure percentage of NABIL is higher than that of others over the study period. The ratio on an average of NABIL is highest that is 24.75% and its follower are SCBL 19.13% and NSBI 8.72% respectively. By the comparatively analyzing, it makes it clear that NABIL is spending a higher portion on its income to its staff than that of others. But the ratio during the study period is following an increasing trend in case of the sample banks as it is by the growing number of personnel to extend much more services through the same offices and by opening branches. The higher ratio also means the banks are paying higher amount for staffs which may motivate them economically.

iii) Provision for Bonus

The next important heading of total operating expenses of the banks is provision for bonus. Bonus refers the extra incentive provided to the employees for their efficient services by the banks. Bonus is distributed from the profit earned by the banks for making them prompt and efficient for the next operation. This helps the workers to up lift their moral at the work. The ratio can be calculated by using following formula.

$$\text{Provision for Bonus to Total Operating Expenses Ratio} = \frac{\text{Provision for Bonus}}{\text{Total Operating Expenses}}$$

Table No. 4.31

Provision for Bonus to Total Operating Expenses (Percentage)

Year / Banks	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
NABIL	5.60	8.73	10.44	11.73	10.57	9.18	9.38
SCBL	10.46	9.87	11.07	11.86	11.94	10.78	11.0
NSBI	1.66	1.87	2.44	3.47	3.96	5.56	3.16

Source: *Table No. 4.28*

Figure No. 4.29

Bar Diagram of Provision for Bonus to Total Operating Expenses

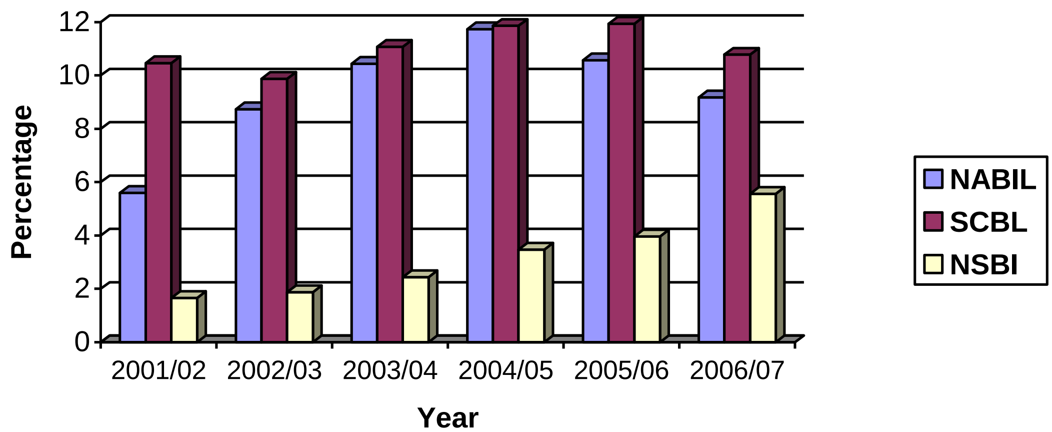


Table no 4.31 and the figure no 4.29 help to conclude that in the study period, comparatively NABIL and SCBL are giving high bonus to the staffs than other bank. However, the ratio on an average of SCBL is highest that is 11% which is followed by NABIL 9.38% and NSBI 3.16% respectively. Staffs motivated to their work on behalf of the banks by which it is increasing the productivity of the bank at last.

iv) Other General Expenses

Other expenses which are directly related to the operation of the bank are grouped as other general expenses. This expenses is the second largest headings for the total expenses. This ratio can be calculated by using the formula:

$$\text{Other General Expenses to Total operating Expenses Ratio} = \frac{\text{Other General Expenses}}{\text{Total Operating Expenses}}$$

Table No. 4.32

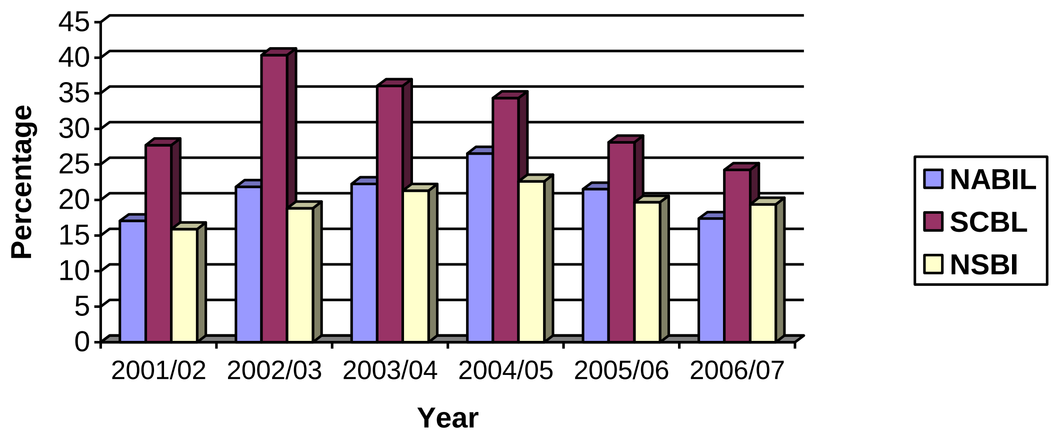
Other General Expenses to Total Operating Expenses (Percentage)

Year / Banks	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Mean
NABIL	17.05	21.85	22.26	26.52	21.51	17.37	21.09
SCBL	27.69	40.36	36.04	34.31	28.11	24.23	31.79
NSBI	15.89	18.84	21.31	22.63	19.66	19.37	19.62

Source: *Table No. 4.28*

Figure No. 4.30

Bar Diagram of Other General Expenses to Total Operating Expenses



Here, SCBL's other expenses is appearing highest i.e., 31.79%. It shows that it is in decreasing trend except uncontrollably fluctuating in 2002/03 i.e., 40.36%. Likewise, the other flowers are NABIL with 21.09% and NSBI with 19.62% respectively. The other expenses percentages of NABIL and NSBI have in increasing trend except the last two year. With the help of analyzing by evaluating above table and figure, the sample banks are trying to decrease the other expenses so that they can improve in future.

4.3 Karl Pearson's Coefficient of Correlation and Probable Error

Correlation is a statistical tool is that measure the relationship between two variables (i.e., one dependent variable and other one is independent variable). It shows the degree and direction of such relationship. There are many mathematical methods of measuring correlation. The Karl Pearson's method is popularly known as Pearson coefficient of correlation. It is the most widely used method in practice. It is denoted by the symbol 'r'.

In this study, correlation coefficient is calculated to measure the relationship between deposit and loan and advances of NABIL, SCBL and NSBI. In other words, it is calculated to justify whether the deposit is significantly used as loan and advance. In this context, correlation coefficient is computed by using direct method is follows.

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

Where,

N = Number of Pairs of X and Y observed

X = Values of X variable

Y = Values of Y variable

Σxy = Sum of product of variable X and Y

r = Karl Pearson's coefficient of Correlation

The values of coefficient of correlation as obtained by the above formula are always lying between -1 to +1.

- When r = +1, there is perfect positive correlation
- When r = -1, there is perfect negative correlation
- When r = 0, there is no correlation
- When r lies between 0.7 to 0.999 (or- 0.7 to -0.999), there is a high degree of positive (or negative) correlation
- When r lies between 0.5 to 0.699, there is a moderate degree of correlation
- When r is less than 0.5, there is low degree of correlation.

However, in practice such value of r as +1, -1, and 0 are rare.

Test of Significance (Probable Error)

The probable error of the coefficient of correlation helps in interpreting its value. It helps to determine the reliability of the value of the coefficient that is obtained as follows:

PEr = 0.6745 $\frac{1-r^2}{\sqrt{N}}$

Where,

r = coefficient of correlation

PE= Probable Error

N = number of pair of observation

1) If the value of r is less than the probable error there is no evidence of correlation i.e. the value is not significant.

2) If the value of r is more than six times the probable error the coefficient of correlation is practically certain, i.e. the value of r is significant.
3) Coefficient of correlation is expected to lie within the range of $\pm$ PEr

Symbolically, limit of population correlation = r $\pm$ PE

By using the above formula coefficient of correlation between total deposit (independent variable X) and loan & advances (dependent variable Y) and probable error of the sample banks are calculated as follows:

4.3.1 Computation of Correlation coefficient of NABIL

Calculation of Pearson coefficient of correlation between deposit and loan & advances are denoted by X and Y respectively.

Table No. 4.33

Correlation coefficient between total deposit and loan & advances

(Rs. In million)

Year	X	Y	x^2	y^2	xy
2001/02	15506.43	7437.89	240449371.3	55322207.65	115335120.6
2002/03	13447.66	7755.95	180839559.5	60154760.4	104299378.6
2003/04	14119.03	8189.99	199347008.1	67075936.2	115634714.5
2004/05	14586.61	10586.17	212769191.3	112066995.3	154416333.2
2005/06	19347.40	12922.54	374321886.8	166992040.1	250017550.4
2006/07	23342.29	15545.78	544862502.4	241671275.8	362874105
Total	Σx= 100349.42	Σy= 62438.32	Σx^2= 1752589519	Σy^2= 703283215.5	Σxy= 1102577202

We have

Coefficient of correlation

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

Putting the values in the above formula

$$r = \frac{6\times 1102577202 - 100349.42\times 62438.32}{\sqrt{6\times 1752589519 - (100349.42)^2}\sqrt{6\times 703283215.5 - (62438.32)^2}}$$

$= \frac{349814014.2}{378265425.7}$

= 0.9248

The calculation shows that the coefficient of correlation between deposit and loan & advances of NABIL is 0.9248. It means that there is a positive and high degree of correlation between them.

Computation of probable error of NABIL

$$P\ Er = 0.6745\ \frac{1-r^2}{\sqrt{N}}$$

$$0.6745 \times \frac{1-(0.9248)^2}{\sqrt{6}}$$

= 0.0398

Since the value of r is more than six times of probable error (i.e., $6 \times 0.0398 \angle 0.9248$). It means deposit is significantly used as loan & advance.

4.3.2 Computation of Correlation Coefficient of SCBL

Calculation of Pearson coefficient of correlation between deposit and loan & advances are denoted by X and Y respectively.

Table No. 4.34

Correlation coefficient between total deposit and loan & advances

(Rs. In million)

Year	X	Y	x^2	y^2	xy
2001/02	15835.75	5364.01	250770978.1	28772603.28	84943121.36
2002/03	18755.63	5695.82	351773656.7	32442365.47	106828692.5
2003/04	21161.44	6410.24	447806542.9	41091176.86	135649909.1
2004/05	19335.09	8143.21	373845705.3	66311869.1	157449698.2
2005/06	23061.03	8935.42	531811104.7	79841730.58	206059988.7
2006/07	24647.02	10502.64	607475594.9	110305447	258858778.1
Total	$\Sigma x=$ 122795.96	$\Sigma y=$ 45051.34	$\Sigma x^2=$ 2563483583	$\Sigma y^2=$ 358765192.3	$\Sigma xy=$ 949790188

We have

Coefficient of Correlation

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

$$= \frac{6 \times 949790188 - 122795.96 \times 45051.34}{\sqrt{6 \times 2563483583 - (122795.96)^2}\sqrt{6 \times 358765192.3 - (45051.34)^2}}$$

$$= \frac{166618583.4}{192724973.2}$$

$$= 0.8645$$

The calculation shows that the coefficient of correlation between total deposit and loan & advances of SCBL is 0.8645. It means that there is a positive and high degree correlation between them.

Computation of probable error of SCBL

$$\text{PEr} = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1-(0.8645)^2}{\sqrt{6}}$$

$$= 0.0696$$

Since, the value of r is more than six times probable error (i.e., 6×0.0696 $\angle$ 0.8645). Thus, the coefficient of correlation between deposit and loan & advances of SCBL is significant.

4.3.3 Computation of Correlation Coefficient of NSBI

Calculation of Pearson Coefficient of correlation between deposit and loan & advances are denoted by x and y respectively

Table no. 4.35

Correlation coefficient between total deposit and loan & advances

(Rs. In million)

Year	X	Y	x^2	y^2	xy
2001/02	5572.47	4299.25	31052421.9	18483550.56	23957441.65
2002/03	6522.82	4468.72	42547180.75	19969458.44	29148656.19
2003/04	7198.33	5143.66	51815954.79	26457238.2	37025762.09
2004/05	8654.77	6213.88	74905043.75	38612304.65	53779702.21
2005/06	11002.04	7626.74	121044884.20	58167163.03	83909698.55
2006/07	11445.29	9460.45	130994663.20	89500114.2	108277593.8
Total	$\Sigma x=$ 50395.72	$\Sigma y=$ 37212.70	$\Sigma x^2=$ 452360148.6	$\Sigma y^2=$ 251189829.10	$\Sigma xy=$ 336098854.5

We have

Coefficient of correlation

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

$$= \frac{6 \times 336098854.5 - 50395.72 \times 37212.70}{\sqrt{6 \times 452360148.6 - (50395.72)^2}\sqrt{6 \times 251189829.10 - (37212.70)^2}}$$

$$= \frac{141232317.4}{146090648.8}$$

$$= 0.9667$$

The calculation shows that the coefficient of correlation between deposit and loan & advances of NSBI is 0.9667. It means that there is a positive and higher correlation coefficient than other sample banks.

Computation of probable error of NSBI

$$PEr = 0.6745\ \frac{1-r^2}{\sqrt{N}}$$

$$= 0.6745 \times \frac{1-(0.9667)^2}{\sqrt{6}}$$

$$= 0.0180$$

Since, the value of r is more than six times, the probable error (i.e., $6\times0.018\angle0.9667$). It means deposit is significantly used as loan and advances.

From the above calculation it can concluded that all the sample bank's loan and advances go on same direction of total deposit. Though the NSBI has highest correlation coefficient and highest deposit utilization rate but operating in low profit earning. The analysis of operating income and expenses make it clear that the NSBI is expending a greater portion of its income in interest expenses which large portion is being utilizing in total credit which contribute in earning interest income but also increase risk of bad debt losses. Among them NABIL came in second position with maintaining deposit utilization rate. Though the SCBL had lowest correlation coefficient and lowest deposit utilization rate than other sample banks but seemed strong financial position from other sectors cause it follows strategies of investing the deposit in other safe and less risky areas like remittance, bank guarantees, treasury bills, investment in government securities and other commission generating activities.

4.4 Major Findings of the study

The main findings of this study based on the analytical as well as descriptive analysis are briefly presented as below:

1. Liquidity position

The study shows that the current ratio of the sample banks are almost fluctuating and below the normal standard 2:1, which indicate unsatisfactory liquidity position or from the working capital viewpoint, selected banks are following an aggressive working capital policy. However, NSBI has slightly higher ratio and maintain constant in comparison of other two banks. Comparatively, the current assets of the NSBI only seemed adequate to meet the current liabilities with their current assets whereas NABIL and SCBL indicates unsatisfactory liquidity position as they are in dangerous limit below than 1:1 ratio.

During the reviewed period NABIL and SCBL have the similar trend of cash reserve ratio where SCBL seems high consistency in comparison. Though they have less amount of CRR than NSBI but capable to manage cash liquidity with their increasing trends of spontaneous assets and liabilities. However the NSBI is having difficulties due to adopting aggressive policy. So their cash reserve ratios are found fluctuation.

Analyzing the cash and banks balance to current asset ratio, NSBI has higher ratio in decreasing rate with passing year. However the ratio of NABIL and SCBL is low but some extend have constant ratio over the six years period. Thus NABIL and SCBL should be increase their cash and bank balance

Analyzing the loan and advances to current asset, NABIL and NSBI are utilizing it's current asset properly but it is clearly seems that SCBL could not able to utilize its current asset and it is suggested that it should utilize it's fund in loan and advances in order to increase its further profit maximization with maintain a proper liquidity position.

2. Capital Structure

Analyzing debt to equity ratio it is found that all the sample banks are highly leveraged. In other words, the claims of the outsiders exceed for more than those of owners over banks asserts. The reason of high debt to equity ratio in the sample banks due to increase in deposits. Thus, all the three banks are required to maintain an optimum debt to equity ratios by increasing their equity capital.

It is determined that debt to total asset ratio of all the sample banks had always remained over 90% during the study period. The main cause to increase debt to total asset ratio is higher flow of deposit.

During the study period, in all sample banks have minimum investment in net fixed assets was through owners of equity. But comparatively, investment on net fixed asset of NABIL is higher than NSBI and SCBL respectively. However, it is not harmful for these sample banks because still they are able to earn profit.

During the reviewed period, the interest coverage ratio of NSBI is lower in comparison to other two banks, which can threaten bad situation of the banks. Therefore, it required to invest the banks resources in more productive sectors resulting in higher returns. In other hand, NABIL and SCBL have good amount of non-interest income, which can be used for the payment of interest to depositors.

3. Efficiency of Management of Assets

The activity ratios examine how efficiently the bank manage and utilize its resources.

NSBI operating in low profit earning showed the highest loan and advances to total deposit ratio indicated less effective mobilization of credit resources. Whereas SCBL operating in highest earning where it has not mobilized its total deposit in the study period. Among them NABIL is lending in a moderate way.

In context of performing asset to total asset ratio, a comparative evaluation reflects that the average ratio of NSBI seems to be quite satisfactory whereas NABIL has good position. Since, the SCBL has slightly lower ratio but not in dangerous. It is recommended to increase the performing assets by investing in loan & advances, risk free securities like government securities or Treasury bill etc.

4. Profitability Conditions

In context of return on total asset, NABIL and SCBL holds high ratio with increasing trend whereas the ratio of NSBI is very low with fluctuating trend. NABIL and SCBL have been able to generate surplus by utilizing the total asset in a satisfactory level. But the NSBI has to think better or hire expert to manage the situation.

Return on net worth of NABIL and SCBL is high and consistent but NSBI has very low this ratio and reflect not consistency. So it can concluded that NABIL and SCBL have efficiently properly utilized their fund in order to profit maximization whereas NSBI has to maintain its ratio and to do hard work to compete with other banks.

Return on capital employed of SCBL and NABIL is commendable. It means that the bank is able to generate higher profit to its capital employed. Though the ratio seems to be okay of NSBI, but management comity must have to take the situation by decreasing the interest expenses and increasing the net profit.

By comparing return on total deposit ratio, NABIL has performed better with high mean ratio whereas SCBL also performed good with consistently. However, NSBI has critical situation due to low mean ratio and it is suggested to do hard labour to maintain this ratio.

Comparatively, NABIL has better utilized its total assets in interest earning purpose whereas NSBI and SCBL are not able properly investing in interest earning assets than NABIL. Hence these banks also seek to invest the funds rather than keeping it idle.

5. Other Findings

From the analysis, it is concluded the EPS of all the sample banks is in increasing trend. The EPS of SCBL is very high and its ratio in average during the analysis period stands at Rs. 153.39, which is commendable one. The average ratio of NABIL is Rs. 100.72 which seems to be good. But the NSBI is not in satisfactory level due to very low EPS.

DPS created a positive attitude toward the bank that helps to increase the market value of the shares. The rate of SCBL remained highest during the reviewed period. So we can say that SCBL enjoys the higher rate of DPS than of other banks. NABIL has also commendable position due to continuous increment of DPS whereas NSBI has critical situation due to low EPS and irregular dividend.

The higher dividend payout ratio indicates a higher portion of its earning as cash dividends to the share holders. Dividend payout ratio showed SCBL at the top level with maintaining its dividend policy though it is wavy. NABIL was also found relatively better than NSBI bank. It has tried to maintain its ratio constant. However, the NSBI is very poor and highly fluctuating.

Interest earning asset to total asset of all the sample banks are constant. The average ratios of NABIL, SCBL and NSBI are 86.12%, 80.12% and 81.49% respectively. It means NABIL is more capable to invest its total assets in interest generating asset whereas SCBL and NSBI are also in good position.

Regarding interest paying liabilities to total liabilities, there is not much difference among these sample banks. The ratios in NABIL, SCBL and NSBI are closes to each other. These banks are required to increase the portion on interest generating assets and to decrease the portion of interest paying liabilities.

Interest paid to interest income of NSBI was too high as huge deposit liabilities. Bank needs to decrease either interest expenses or its deposit where as NABIL and SCBL was in satisfactory due to low interest expenses in respect to interest income.

It is determined that NABIL has more spreads and higher ability to invest. SCBL is also in good position. However, the spread seems to be positive of NSBI but not sufficient.

5.1 Operating Income Analysis

Operating income analysis shows that for the sample banks, interest is the most important contributors to operating income. Comparatively with earning from commission and discount is the second major source, foreign exchange earning comes next and then other income follows thereafter. Comparing the operating income of the banks, its is revealed that NSBI's interest earning is highest with 85.17% whereas commission & discount earning and foreign exchange fluctuation are higher in SCBL with 12.35% and 16.26% respectively. Likewise, NABIL has covered the highest earning from other income by average rate 5.62%. Thus NSBI is earning more income by providing more loan and advances of the deposit on income generating assets and by providing services to the customer. Whereas NABIL and SCBL are earning by commission & discount earning, foreign exchange earning and by other income. There may be a chance to increase the operating income in future by increasing the service with adopting modern technology but may also be subjecting the bank to large potential losses.

5.2 Operating expenses Analysis

The interest and commission are the major expenses of the sample bank. The next major operating expenses in a majority is other general expenses which is followed by staff expenses and the last is provision for bonus. Comparatively, the operating expenditure from the item interest & commission paid is higher percentage in NSBI which is 68.50%. It is trying to maintain the higher expenses on interest as the rate is in decreasing trend on an average. NABIL has higher staff expenses comparatively which shows a positive thought of financial motivation to its personnel but it is in fluctuated rate. Likewise, SCBL has higher expenses on other expenses and provision for bonus but in decreasing trend, which shows a positive symbol for decreasing the expenses in future.

6. Coefficient of Correlation Analysis

Coefficient of correlation between deposit and loan & advances of NABIL, SCBL and NSBI are 0.9248, 0.8645 and 0.9667 respectively. It means that there is a positive and high degree correlation between them. To test the reliability, it is found that the value of r is more than 6 PE. It reveals that the value of 'r' is highly significant i.e., loan and advances will go on same direction of total deposit of the sample banks.

CHAPTER –V

Summary, Conclusion and Recommendation

5.1 Summary

Nepal's financial sector, especially the banking sector has been going through rapid changes in the past two decades. The role of commercial banks was seriously considered in the growth and development of the national economy. Although, commercial banks are especially concerned with the development of commercial sector of the country, they provide banking facilities to general public such as deposit collection, lending, overdraft facilities, share issue, agency service and investment and general utility service. Therefore, it is quite clear that an efficient, sound and stable banking system are crucial for an orderly economic growth. A commercial bank is the heart of the financial system that exchanges deposits money, grants loans and performs other monetary transactions. Now, if we talk about banks, we think of credit card, visa card, ATM, tele banking, Master Card, SWIFT and many more. However, if we study to history about the merchants carrying huge coins or know about "Tejarath Adda" we just get surprise.

The present study has been undertaken to examine and evaluate the financial performance of NABIL, SCBL and NSBI. The financial statements of six years, i.e. 2001/02 to 2006/07 have been examined for the purpose of the study. This study is mainly based on secondary data which were first processed and then analyzed comparatively. To achieve the objective of this research thesis, the appropriate information were systematically analyzed by applying suitable tools and techniques like various financial ratios, income and expenses analysis, Karl Pearson's coefficient of correlation etc. The present study is a comparative study of financial performance of the three joint venture banks. On the basis of comparative analysis recommendations for future improvements are also offered.

5.2 Conclusions

After the observation and analysis of financial performance of three joint venture commercial banks the researcher has been able to draw certain conclusions which are as follows:

- From the secondary data analysis it is found from the liquidity point of view that sample banks' current ratio except NSBI other banks like NABIL and SCBL indicates unsatisfactory liquidity position as they are in dangerous limit below than 1:1 ratio so they should maintain the standard. Similarly, NABIL and SCBL have the similar trend of cash reserve from them SCBL seems high consistency in comparison. Though they have less amount of CRR than NSBI but capable to manage cash liquidity with their consistent trends of spontaneous assets and liabilities. However NSBI is having difficulties due to adopting aggressive policy. NSBI does not reflect consistent than other two bank. Comparing the cash and bank balance to current asset it is found that NSBI has high average ratio with fluctuated. While NABIL and SCBL have low cash and bank balance to current asset ratio due to lower amount of cash in hand and cash at bank. Analyzing the loan and advances to current asset ratio, NABIL and NSBI are utilizing its current assets properly and consistently whereas SCBL could not able to utilize its current assets and it is suggested that it should utilize its fund in loan and advances in order to increase its further profit maximization.

- The leverage ratio of all banks is mainly affected by large volume of deposits. This is calculated to show the financial risk of using debt. The relative claim of creditors and owners against assets is quite high. As a result it may create unnecessary interference and pressure from creditors. To maintain optimum leverage it is recommended to decrease the proportion of debt or to increase the asset whichever is suitable.

- Analyzing activity of the sample banks, it is found that NSBI operating in low profit earning showed the highest credit ratio indicated less effective mobilization of credit resources. In this context, SCBL operating in highest earning where it has not mobilized its total deposit in the study period seemed that the banks are interested to invest the higher rate of deposit in non-risky assets. Among them NABIL is lending in a moderate way. Regarding performing asset to total asset, NSBI seems to be quite satisfactory. Whereas NABIL is in good position. Since the SCBL has slightly lower ratio but not in dangerous.

- Analyzing profitability, return on total assets and return on net worth of most of sample banks i.e., NABIL and SCBL seems to be commendable when NSBI is not being able to perform well. Return on capital employed is higher of NABIL and SCBL during the analysis period. It means that the bank is able to generate higher profit to its capital employed. In the context of return on total deposit ratio, NABIL and SCBL have performed good with consistently whereas NSBI has seemed in the lowest position in comparison. Regarding interest earned to total asset, most of the sample banks are not being investing their assets properly in order to interest generating areas.

- During the analysis period the EPS and DPS of SCBL seems to be more satisfactory. NABIL is also commendable with the sound management and regular dividend. But, NSBI had not distributed its dividend in the regular basis. Comparing the operating income of the banks, it is revealed that NSBI's interest earning is highest whereas commission & discount earning and foreign exchange fluctuation are higher in SCBL. Likewise, NABIL has covered the highest earning from other income in average. In context of operating expenses, comparatively the operating expenditure from the item interest & commission paid is higher percentage in NSBI whereas NABIL has higher staff expenses. In the same way, SCBL has higher expenses on other expenses and provision for bonus.

- The coefficient of correlation between total deposit and loan & advances is positively correlated with highly significant relation of the sample banks. It means loan & advances will go on some direction of total deposit.

5.3 Recommendations

Based on the major findings it may be appropriate to make some suggestions. Although, these suggestion may not be adequate and could give negative reflection, but it is hoped that these suggestions will help improving their performance.

1. The current ratio of the sample bank did not meet the standard. The major reasons for the lower current ratio may be due to declining values or utilizing the funds for some profit-generating projects. The banks should perform revaluation of their current assets or cut down their investments in some projects.

2. The liquidity of bank may be affected by external as well as internal factors such as the prevailing interest rates, supply and demand position of loan, saving to investment situations, central bank's requirements and position of the financial market. The cash and bank balances to total deposit in NABIL and SCBL were lower than that of NSBI. Hence, it is recommended that NABIL and SCBL should increase cash and bank balances to meet its deposit demands.

3. The leverage ratio is highly influenced by the continuous flow of the deposit, which is not favourable in many aspects. The banks need to decrease its deposit and think to increases shareholders equity.

4. SCBL should more serious to improve to efficiency in utilizing the loan and advances for generating the profits. Likewise the NABIL and NSBI should keep up their assets decentralize and search new area of investment instead of getting aggressive in only the risky area of loan and advances.

5. Profit is essential for the survival and growth of the banks and also a psychological impact on the shareholders and investors. It represent how the resource of the banks are being utilized for the betterment of the owner's interest but over the study period, most of the sample banks i.e., NABIL and SCBL profitable ratio are in satisfactory level whereas NSBI should not

effectively mobilized it's funds to earn sufficient profit. All of the banks recommended more to earn operational profit either by increasing their operational efficiency or by decreasing their operational expenses as far possible.

6. The earning per share of SCBL is one of the best among all banks in Nepal. Thus, rest of the banks should take deep consideration in keeping its EPS high to attract and retain its valuable customers. The DPS is also very high of SCBL during the analysis period. Comparatively, NABIL has also commendable position for EPS and attempted to maintain a constant DPS. However, NSBI has to take serious exercises to develop their system and to keep their position in the field of banking sector in Nepal.

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

8. NSBI and NABIL are showing aggressive and are spontaneously increasing loan & advances facilities so it is suggested to updates its position and strength spontaneously with the increasing new facilities and services provided by their competitors banks and search for new areas for investment.

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

10. As social institutions living and operating in the society and for the society, commercial banks have social responsibilities. But most of the commercial banks are found to be centralized in the urban areas ignoring the social responsibilities. Therefore, these banks are recommended and suggested to expand their banking services in rural areas providing special loans to the deprived and priority sectors.

11. NABIL and SCBL should conduct feasibility study and extend their branches. These banks have great opportunity to grow because they had already in the category of good bank. NSBI should explore new productive sectors and mobilize its resources in such sectors. This will definitely increase its profit.

12. The commercial banks are recommended to formulate and implement some sound and effective financial and non financial strategies to meet required level of opportunity as well as social responsibility.

Finally, commercial banks are recommended to diversify its business thought creating opportunities to provide foreign employment loans, personal loan and educational loan and so on, which bank is not entertaining at the moment. These loans specified above will definitely boost the economy and create opportunities of the citizens of Nepal. Likewise, most of the commercial banks have national and international links and they can encourage multinational companies to invest in Nepal, because these companies are unfamiliar with local rule and regulation. Foreign investment will definitely create more employment and will ultimately help the over-all development of the country.

Bibliography

1. Acharya Arun (2006), **"Performance Evaluation of Commercial Banks in Nepal"** An unpublished Master level Thesis, Bhairahawa Multiple Campus.
2. Acharya Gyanendra (1997), **"A Comparative Study of Financial Performance of JVBs in Nepal, Especially NABIL and NIBL"**, an unpublished Master Degree's Dissertation, T.U., Kritipur.
3. Adhikari Lalmani (2043), **"An Evaluative Study on the Mobilization of Commercial Bank's Resources"**, an unpublished Master Degree's Thesis, T.U., Kritipur.
4. Ahuja B.N., **"Academics Dictionary Management"**, Academics (India) Publishers, 2nd edition.
5. Annual Reports (2001/02 to 2006/07) of NABIL, SCBL and NSBI.
6. Bajracharya B.C. (2054), **"Business Statistics and Mathematics"**, Mk publishers and Distributors, Kathmandu.
7. Bista Bhagat (2048), **"Nepal Ma Aadhunik Banking Byawastha",** Indus Chhapakhana, Kupundol, Lalitpur.
8. Brigham Eugene F. and Houstan Joel F. (2001), **"Fundamentals of Financial Management"**, Harcourt Asia Pte. Ltd. New Delhi, 9th Edition.
9. Chopra Sunil (2046), **"Role of Foreign Banks in Nepal"**, Rastra Bank Samachar, NRB.
10. Dangol Ratnaman (2061), **"Management Accounting"**, Taleju Prakashan, Kathmandu.
11. Dangol Ratnaman and Prajapati Keshav (2059), **"Accounting Analysis and Planning"**, Taleju Prakashan, Kathamandu.
12. Dhungana Pramod (1994), **"A Study of the Joint Venture Bank's Profitability"**, An unpublished Master Degree's Dissertation, T.U., Kritipur.
13. Fourteen writer (2064) **"Principles of Accounting-II"** Asmita Publication, Kathamandu.
14. Hampton John J. (1989), **"Financial Decision Making"**, Prentice Hall of India Pvt. Ltd., New Delhi.

15. James C Van Horne, **"Financial Management and Policy"**, Prentice Hall of India Ltd. New Delhi, IIth edition.
16. Joshi Deepadk Raj (1990), **"A Study on Commercial Banks of Nepal with Reference to Financial Analysis of RBB",** an unpublished Master Level's Thesis, T.U., Kritipur.
17. Joshi Pushpa Raj (2061), **"Research Methodology"**, Buddha Academic Publishers and Distributors Pvt. Ltd, Kathmandu.
18. Kerlinger F.N. (1986), **"Foundation of Behavioral Research",** Surjeet Publication, New Delhi.
19. Khan MY and Jain PK (2000), **"Financial Management",** Tata Mc Graw-Hill Publishing Co. Ltd, New Delhi, 3rd Edition.
20. Kothari C.R. (1986), **"Research Methodology; Method and Techniques"**, Wishwa Prakashan, New Delhi
21. Kothari C.R. (1984), **"Quantitative Techniques",** Vikash Publishing House Pvt. Ltd., New Delhi, 3rd Edition.
22. Lamsal Rajendra (1999), **"A Comparative Financial statement Analysis of Nepal Grindlays Bank Ltd and Himalayan Bank Ltd.",** An unpublished Master Degree's Dissertation, T.U, Kritipur.
23. Nepal Rastra Bank in Fifty years (2055), NRB, Kathamndu.
24. Pandey I.M (1992), "**Financial Management"** Vikash Publication House Pvt. Ltd., New Delhi.
25. Pandey I.M (1991), **"Financial Management**", Vikash Publication House Pvt. Ltd, New Delhi.
26. Pant G.D. and Chaudhary AK (2055) **"Business Statistics and Mathematics"**, Bhundi Puran Prakashan, Bagbazaar, Kathmandu.
27. Poudel R. (1985), **"A Case Study on Capital and Assets Structure of NBL",** an unpublished Master's Thesis, T.U., Kritipur.
28. Regmi Ganesh (Vol1), **"A Comparative Study of Financial Performance of Himalayan Bank Ltd. And Nepal Bangladesh Bank Ltd.",** an unpublished Master's thesis, Shankar Dev Campus.
29. Regmi Hari Prasad (2064), **"Problem Banks and Corporate Governance",** Arthik Mimangsa, Nepal Bittiya Sanstha Karmachari Sangh, NRB.

30. Rimal B.N. (2046), **"Policy Issues and Development in Nepalese Banking System",** NRB Samachar, 34th Anniversary.
31. Shakya Amogh Siddhi (2000), **"Evaluation of Financial Performance of Himalayan Bank Ltd.",** an unpublished Mater's level thesis, Shankar Dev Campus.
32. Shakya D.R. (1995), **"Financial Analysis of JVBs in Nepal with Special reference to NABIL Bank Ltd. and Nepal Grindlyas Bank Ltd.",** an unpublished Master's Thesis T.U. Kritipur.
33. Sharma Murari R. (1998), **"Joint Venture Banks in Nepal co-existing or crowding".**
34. Sharma P. and Adhikari D. (2005), **"Fundamental Financial Management",** Neema Pustak Prakashan, Kathmandu.
35. Shrestha MK (2047), **"Commercial Bank's Comparative Performance and Evaluation",** Karmachari Sanchaya Kosh Publication, Kathamdnu.
36. Siwakoti R.P. (1998), **"A Study on Appraisal of Financial Posotion of Nepal Grindlays Bank Ltd"**, an unpublished Master level's Dissertation, Shankar Dev Campus.
37. Thapa Govinda Bahadur (1994), **"Financial System of Nepal",** Development Version, Patan Multiple Campus, Lalitpur.
38. Wolff H.K and Pant P.R. (1999), **"Social Science Research and Thesis Writing"**, Buddha Academic Enterprises Pvt. Ltd., Kathmandu.
39. www.nrb.np