CHAPTER I
INTRODUCTION

1.1 General Background

The financial performance is vital for the existence of any business organization in the long run. The financial performance of commercial bank is of immense issue as it is closely related to the survival of the banks as well as service provided by the banks to the customers of banking sector. Since banks are rendering a wide range of services to the people from different walk of life, they have become an essential part of modern society. In other words, bank is an institution that accepts the deposits from people and in turn advance loan by creating credit. In this process, they earn interest and commission, out of which they pay interest to the depositors i.e. People who deposits fund with them. Banks have opened their branches in towns and villages offering different types of services to the different level of people. Banks' debt-usually referred as 'Bank Deposit' that is commonly accepted in final settlement of debt of other people. It is different from other financial institution in the sense that they cannot create credit though they may be accepting deposits and making advances. Thus, bank's business was basically to buy and sale of credit. Credit instruments are kept on stock-in-trade also on the basis of its own credit and banks create money transferred by credit instruments. They must gain the confidence and trust of the people to create credits. It is said that the flow of credit is very much important like the circulation of blood in human life. If the circulation of blood is not smooth it will do irreparable harm to the body. Similarly, unsteady and unevenly flow of credit harms the economy. Bank came in existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sectors and causing an overall economic development. That mobilized deposits contribute to the development of economic infrastructure of the nation. Banks are not just storehouses of the wealth but are reservoir of resources. The contribution of the bank has been very substantial in increasing production and employment by motivating people to save and in collecting the scattered saving in the form of deposits. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

1.2. Historical Background of Banks

The evolution of banking industry had started a long time back, during ancient time. The name bank derives from the Italian word banco "desk/bench", used during the Renaissance by Florentine bankers, who used to make their transactions above a desk covered by a green tablecloth. However, there are traces of banking activity even in ancient times. In 1157, the first bank named 'Bank of vanish' was established. The first modern bank was found in Italy in Genoa in 1406, its name was Banco di San Giorgio (Bank of St. George). But after the establishment of Bank of England in 1694, modern banking was begun. Now, there are a lot of banks that are providing quality services world widely. To think about business, trade even life without bank is now impossible. For the contribution of economic development, banking sector plays vital role.

In Nepal, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual moneylender has acted as fence to institutional credit in presence of unorganized money market. In the Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shankhadar Shakhwa, a surda merchant of kantipur in 880 A.D. after having paid all the outstanding debts in the country. This shows the basic of money lending practice in ancient Nepal. The establishment of the "Tejaratha Adda" during the year 1877 AD was fully subscribed by the government of Kathmandu Valley, which played a vital role in the banking system. This establishment helped the general public to provide credit facilities at a very low rate of 5 percent. Tejaratha Adda distributed credit facilities to the public especially on the collateral of gold and silver. Hence, the establishment of Tejarath Adda" could be regarded as pioneer foundation of banking in Nepal. When government started trade with India and Tibet the need of banking institution was realized. In the 1937 AD, Nepal Bank Ltd was established under the "Nepal Bank Act 1937" as the first commercial bank of Nepal with 10 million authorized capitals. Rastriya Banijya bank, the second commercial bank was established in the year 1965 AD. RBB being the largest commercial bank plays a major role in the economy. The financial shapes of the two old banks have a tremendous impact

on the economy. That is the reason why these banks still exist in spite of their bad position (www.nrb.org.np). Having felt need of development of banking sector and to help the government for formulate monetary policies, fiscal policies, issue of currency etc., Nepal Rastra Bank was established in 1956 A.D. as a central bank of the nation under Nepal Rastra Bank act 1956 A.D. Since then, it has been functioning as the government bank and has contributed to the growth of financial sector. With the opening of Nabil Bank Ltd. in 1985 AD, the door of opening commercial banks was opened to the private sectors. As the commercial banks grew they stopped entertaining small projects. Thus a scope for opening finance companies emerged. Nepal Housing & Development Finance Company was the first finance company (www.nrb.org.np). No matter what name give to banks like Business Banks, Retail Banks, Clearing Banks, Joint Venture Banks, Merchant Banks, etc, they all perform the same basic function. Like other organization, the main objective of the banking industries will be profit maximization and wealth maximization. Many other financial activities were added over time. For example banks are important players in financial markets and offer financial services such as investment funds. Banks have influence economics and politics for centuries. Historically, the primary purpose of a bank was to provide loans to trading companies.

1.3 An Introduction of Sampled Banks

NABIL Bank Limited, Nepal Investment Bank Limited (NIBL) and Himalayan Bank Limited (HBL bank) are taken as samples of study out of 32 commercial banks. These three banks were formerly established with the motive of commercial nature.

1.3.1 NABIL Bank Limited

NABIL Bank which previously known as Nepal Arab Bank Limited is the first private commercial bank of Nepal and major joint venture Bank commenced operation on July 12, 1984 A.D under the technical service agreement approved by Nepal Rastra Bank, Joint venture operation in Nepal was started by NABIL Bank after Nepal encouraged foreign investment and joint venture operation with Nepalese investors or in certain circumstances as fully owned subsidiary. NABIL Bank has worldwide correspondent network, which enables it to conduct International Trade Business with high level of

accuracy and efficiency. NABIL Bank has Head office at Durbarmarg, Kathmandu has 51 branches in Nepal. NABIL Bank is the only authorized Bank to operate inside the International Airport at arrival and departure lounges. In addition, NABIL Bank is authorized to collect embarkation fee of departing passengers. NABIL Bank provides the issuance of international Bank guarantee and letter of credit and any other Banking services anywhere in the world. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Telebanking system. In 2004 A.D., NABIL Bank has awarded for "Bank of the Year".

The mission of NABIL bank is to be the "Bank of the 1st Choice". The slogan of NABIL Bank is "Your Bank at Your Service". The value of NABIL Bank is CRISP.

C=Customer Focus I= Innovation P=Professional

R= Result Oriented S=Synergistic

Its share capital distribution is as follows

Authorized Capital (21,000,000 shares of Rs. 100) Rs 2,100,000,000

Issued Capital (20,297,694 shares of Rs. 100) Rs 2,029,769,400

Paid up Capital (20,297,694 shares of Rs. 100) Rs 2,029,769,400

1.3.2 Nepal Investment Bank Limited

Nepal Investment bank limited (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1980 as a joint venture between Nepalese and French partners which was the second private commercial bank of Nepal. The French partners (holding 50 % of the capital of NIBL) were Credit Agricole Indosuez, a subsidiary of one of the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of banks, professionals, industrialists and businessmen, has acquired on April 2002 the 50% share holding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank

Limited upon approval of bank's Annual General Meeting, NRB, and Company Registrar's office with the following shareholding structure.

- A group of company's holding 50% of the capital
- RBB holding 15% of the capital
- Rastriya Beema Sansthan holding 15% of capital
- Remaining 20% being held by the general public

NIBL has Head office at Durbar Marg, Kathmandu and has 41 branches in Nepal. NIBL, which is managed by a group of experienced bankers and professionals having proven track record, are offering customers what they are looking for. The bank claims to ensure that the customer's choice of the bank will be guided among other things by its reliability and professionalism as the slogan states that "Our vision is to be the most preferred provider of financial service in Nepal."

The mission of Nepal Investment bank is to be the leading Nepali Bank, delivering world class service through the blending of state of the art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all our stakeholders. We are committed to do this mission while ensuring the highest level of ethical standards, professional integrity, corporate governance and regulatory compliance. In 2003, 2005, 2008 & 2010, NIBL has awarded for "Bank of the Year".

Its share capital distribution is as follows

Authorized Capital (40,000,000 shares @ Rs 100) Rs 4,000,000,000

Issued Capital (30,129,242 shares@ Rs 100) Rs 3,012,924,200

Paid up Capital (30,129,242 shares@ Rs 100) Rs 3,012,924,200

The main focus of NIBL is to become most preferred provision of financial services. It is operating with a motto: "Truly a Nepali Bank". Mobile Recharging Facility Through ATM, Savings A/c in Re 1, Family Saving A/c, NTC- Recharge through internet (1st in Nepal) etc are some focuses of this bank.

1.3.3 Himalayan Bank Limited

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits. Himalayan Bank Limited holds of a vision to become a Leading Bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

The Bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the Bank; Preferred Provider and Quality Financial Services**;** therefore we at HBL believe that the mission will be accomplished only by satisfying these two important components with the Customer at focus. The Bank always strives positioning itself in the hearts and minds of the customers. Bank of first choice is the main objective of the Bank.

Its share capital distribution is as follows

Authorized Capital (30,000,000 shares @ Rs 100) Rs 3,000,000,000

Issued Capital (24,000,000 shares@ Rs 100) Rs 2,400,000,000

Paid up Capital (24,000,000 shares@ Rs 100) Rs 2,400,000,000

The Bank is committed towards providing financial services to its patrons by the means of efficient and cost effective service delivery through its Transaction Banking, Consumer Banking, Business Banking and Treasury divisions. Consumer Banking comprises of consumer lending, retail credit products and banking services for individuals with dedicated teams. Consumer Banking services include home loans, auto loans, personal loans, education loans, travel loans, etc. Liability Marketing & Transaction Banking comprises of institutional and personal deposit products and transaction banking services including debit cards, ATMs, safe deposit lockers, payment services, drafts, remittance, SMS Banking, Travelers' Cheques, etc.

1.4 Statement of the Problem

Financial Performance Analysis or Financial Management is the main indicator of the success or failure of any financial institution and commercial banks. Financial condition of the business firm should be sound from the viewpoint of shareholders, debenture holders, financial institution and nation as a whole. The survival of the existing commercial bank and other financial institutions depend upon how they manage their assets and liabilities to maximize their profits with the minimum exposure of assets to risk, and are guided by three important conflicting criteria of solvency, liquidity and profitability. Commercial banks deal with other people's deposits, adequate cash flow, liquidity, and better utilization of assets.

Joint venture Banks and Nepalese Promoters bank are being increased in response to the economic liberalization policies of government. Besides joint venture banks, Nepalese promoters are also registering numbers of commercial banks. Other institutions offering similar services are development banks, finance companies, saving & co-operative societies. These institutions have the tendency to centralize in major cities focusing the activities among the industrialists, traders & entrepreneurs. Banks have been facing the considerable pressure to lower the lending rates, which has been adversely affecting the profitability of banks. The commercial banks are competing with limited opportunity, narrow clientele base and barring investment in the economic activities in the country, the demand for credit has not picked up. Besides, competition in the banking sectors has turned intense and lending opportunity in the good projects is very limited. Government policies on economic liberalization have further intensified the competition. Every banks show their huge amount of profit & high technology, however, the profit is not the instrument to measure good health of that institution. There should also be the proper examination of their performance in term of overall management of the banks. Financial plans may take many forms, but any good plan must be related to the firms existing strength & weakness. The strength must be understood if they are to be used to proper advantage & the weakness must be recognized if effective action is to be taken.

Saving mobilization and effective credit management system is must for economic development especially for a country like Nepal where the economic growth rate is very low. In this regard, the good banking system can play a vital role in accelerating the pace of economic development through the mobilization of scattered savings and channeling it in the productive sector of the economy. The adaptation of open and free marker economic and financial policies is believed to generate more savings as well as improve investment opportunities. Adequate infrastructure development in saving mobilization and investment is therefore the demand of the day. Therefore the bank can contribute a lot by savings and investing it in the productive and development sector of the economy of Nepal through bringing in appropriate and new innovative banking technologies. Keeping in pace with the development in the banking industry, the leading commercial banks NABIL, NIBL & HBL have been regularly coming up with new and innovative service to attract customers as well as doing its level best to satisfy the existing customers. They have been able to maintain the position as the market leaders in the banking industry. In compare to other commercial banks, they are getting success in terms of recognition and profitability.

Nepal is 147th member of World Trade Organization (WTO). In general, there is much curiosity in people about the opportunities and threats after the accession of membership of WTO. Many questions may arise at once. It is crystal clear that Nepal has to face various challenges in different aspects in coming days. Liberalization in services sector is inevitable. We cannot escape from the ground reality of globalization, widespread acceptance of WTO and necessity of membership in this international trade institution. It should not be opposed to hide our inefficiencies or governance problems. Rather it is right time to find out the impacts, continue and finish the reform process making the service sector really competitive. Otherwise, we will lose the opportunities. Transparency and disclosure practices are must for the sustainable liberalization process and for the growth and development of financial services sector especially for commercial banks. In short, SWOT analyze is necessary in this sector.

There are altogether 32 commercial banks in Nepal. Recently, Civil Bank and Century Bank are operated in the country. Sanima Bank Ltd. has been upgraded to 32th commercial bank recently. They had used customers' oriented marketing concepts as well as modern technology as required by the present competitive environments. The problem of the study on the issues related to the comparative strength & weakness of NABIL Bank Ltd, NIBL & HBL Bank Ltd. Thus, this study is strived to find the answer of the following question:

- What is the existing position of the sample banks in term of liquidity, profitability, turnover, and leverage and capital adequacy?
- Is there any difference in financial performance among sample banks?
- What is the relation between the major financial indicators and profitability of sample banks?
- Is there any trend of financial performance of these sample banks?

1.5 Objectives of the Study

The basic objective of this study is to analyze the financial performance of NABIL Bank Ltd, Nepal Investment Bank Ltd & Himalayan Bank Ltd. The specific objectives of the study are as follows:

- To examine the liquidity, profitability, leverage, efficiency of capital adequacy position of sample banks.
- To analyze the comparative financial position of sample banks.
- To assess the relationship of financial performance and profitability of sample banks.
- To explore the trend of financial performance of sample banks

1.6 Significance of the study

This study will be helpful to different parties interested in the financial performance of the bank. All the information regarding the banking sector is essential for the depositors, prospective customers, creditors etc. It will be helpful to the management to go deep into the matter as to why the performance of this bank is better or worse than its competitors.

This study will give information about the joint venture banks by analyzing financial tools and will definitely contribute to increase the financial performance of the joint venture bank. This study will help to persons and parties who are concerned with banking sectors such as shareholders, management of the bank, stock brokers, financial institutions, general public and other policy making bodies.

1.7 Limitations of the Study

The study has been conducted for the requirement of the master degree in business study and it has been limited in terms of period of study as well as source & nature of data. Every study has its own limitations. This study is also not an exception. Thus, the limitations of this study are:

- There are 32 commercial banks operating with in Nepal. Since the study deals with only three commercial banks namely NABIL, NIBL & HBL Bank. The conclusion drawn from the study may not be applicable to other banks.
- The study covers the period of five years starting from FY 2007/08 to 2011/12 of three banks. Hence conclusions drawn are confined only the above period.
- The study is mainly focused on the financial performance of three banks among various commercial banks. It does not cover the other areas of the banks.
- Many financial & statistical tools are used to study the financial performance. But this study has used limited tools.
- The study is carried out on based of secondary data from the annual report of the banks. Similarly, the study focused on Balance Sheet & Profit And Loss A/C maintained by banks & published annual reports.

1.8 Organization of the Study

The study has been divided into five sequential Chapters and at the end bibliography & appendicess have been maintained.

Chapter one deals with Introductory aspects like general background of the study, introduction of sampled banks, statement of problems, objective of study, and limitation of the study and organization of the study. The Second chapter presents the Review of

Literature which contains conceptual review/ review of related books, journals & articles, and past research works. This chapter contains Research Methodology which includes research design, population & sample, nature & source of data, data processing procedure, tools & techniques for analyze, period covered and diagram & graphical representation. The forth chapter deals with presentation, analyze and interpretation of data which attempt to analyze and evaluate the data with the help of analytical tools, i.e. ratio analysis, correlation analysis and trend analysis and interpretation of the results obtained. Finally, the fifth chapter contains summary, conclusion and recommendation which includes summary of whole study, main conclusion that flow from the study, and offers suggestions & recommendations for the improvement in future.

CHAPTER II
REVIEW OF LITERATURE

The term review of literature is very important for the researcher or investigator in the area of concerned problem. Review of literature refers the survey of materials which means reviewing research studies or other relevant propositions in the related area of the study. So that all past studies, their conclusion and deficiencies may be known and the further research can be conducted. It is an integral and mandatory process in research work (Joshi 2003:107).

In other words, review of literature is finding the pertinent fact with the available literature in ones fields of research. The study of the material available on research topics is called review of literature. Review of literature not only provides solid information on the topic but also guides along the future stream of action. The textual constraints would help it to support area of research in order to explore the relevant and true facts for the reporting purpose.

The study aims to analyze and compare the financial performance of NABIL Bank, NIBL & HBL Bank. For the purpose it needs to review of literatures on the concerned area. There are several studies which have been already done from which the researches can make clear ideas and concepts. What is other's opinion and concepts? What is the outcome of others researches? What has done and written? These all and other related questions are reviewed in this chapter, which is the guideline and inputs of the study. This chapter has been organized into three headings i.e. conceptual framework, review of related articles and review of different masters' thesis.

2.1 Conceptual Framework

The concept is derived from the review of text books which have been presented in this section. It gives an overview of the concept of joint venture banks and commercial bank. In addition, concept of financial analysis & its methods and steps have been described in this section.

Banks are financial institutions that play significant role in the development of country. Bank

is an intermediary of lender and borrower. It collects funds from surplus unit of the society and provides to deficit unit. A bank is a business organization that receives and holds deposits of funds from others, makes loans or intends credit and transfers fund by written orders of deposit (Encyclopedia, 1984: Vol 3).

Traditionally, banks act as financial intermediaries to channel funds from surplus units to deficit units. Unlike other non-banking financial companies, commercial banks do not produce loans and financial innovations to facilitate trade transactions, because of especial role they play in the economy concerned authorities have regulated them. Analyze of banks' financial statement is different from threat of other companies due to especial nature of assets and liabilities.

2.1.1 Concept of Joint Venture Banks

A joint venture is an association of two or more persons or parties undertaken to make the operation highly effective with their collective efforts. They use and do work by using each other's resources, technologies or services etc. Joint venture is a single deal, which is jointly undertaken by two or more person to fulfill their objectives such as profit or wealth maximization by optimum use of resources. It takes place at that time when they have exceptional profit or advantages in relation to business deal.

In developing countries like Nepal, foreign investment plays a significant role for the economic development by following capital, technology, skills, managerial efficiency and others so, local foreign joint investments have been considered more important. Joint venture is a general model for direct foreign investment. A joint venture bank is the joining of forces between for the purpose of carrying out a specific operation (Gupta, 1984). Joint venture is a new organization of two or more independent firms mutually decide to participate in a business by contributing their resources, capital establishes.

Their objectives is to fulfill the shortage of funds required for investment in development works and to make competence in the field of resources, they share new methods, new technology and services of management and get advantages from foreign investors.

To establish a new bank requires capital, technology, experience and new market etc. For the purpose, a new bank and an established bank enter into technical services agreement in which old bank provides channel of global network to its experts to help the new bank in technical aspects. Sometimes old bank provides management services and investment also. The joint venture banks are playing dynamic and vital role in the economic development of the country.

2.1.2 Concept of Commercial Banks

Especially, commercial bank deals with the activities of trade, commerce, industry and agriculture. The main objective of commercial bank is to mobilize ideal resources in productive area after collecting them from scattered sources for profit maximization. Commercial banks help other financial institutions like NIDC, ADB, co-operative society, hire purchase companies and financial companies in various aspects.

A Commercial bank is a bank which exchanges money, accepts deposits, grant loan and performs commercial banks functions and which is not a bank meant for co-operative agriculture, industries as per such specific functions (Commercial Bank Act, 2031).

The business of commercial bank is primarily to hold deposits and make loan and investments with the objects of security profits for its shareholders. Its primary motive is profit, other considerations are secondary (Vaidhyam, 1999:27). Thus, all the above definitions of commercial bank try to introduce on the basis of its functions. In 1980, the government introduced 'Financial Sector Reforms of Nepal' which allowed the entry of the foreign banks as joint venture with up to a maximum of 50% equity participation. The first joint venture bank was Nepal Arab Bank Limited (NABIL). It was established in 1984; later on many joint venture banks were established.

Financial Analysis as a part of finance is also one of the major parts in every type of organization, which is very useful to understand the firm's performance. As the financial service industry becomes more complex, the financial information provided to public

becomes more difficult to understand. Quality governance is impossible without effective analyze and evaluation of financial information. Traditional financial ratio analyze has focused on the numbers. The value of this approach is that quantitative relations can be used to diagnose strength and weaknesses in the firm's performances. It provides the framework for financial planning and control. Financial managers need the information provided both to evaluate the firm's past performances and to map future plans. Financial analysis concentrates on financial statement analysis, which highlights the key aspects of firm's operation.

Main function of commercial bank is accepting deposit and provides loan or formation of capital, collection of small savings. Vaidya (1999) says the functions of commercial banks are: credit creation, accepting deposits and advancing loans, promoting foreign trade, safeguarding valuables, agency services.

2.1.3 Role of Commercial Banks in the National Economy

Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy, with major thrust in industrial development. So, commercial banks are those that accept deposits and finance to the business and project. They provide short term and long-term finance. As per Commercial Bank Act 2031 B.S, A commercial Bank means the bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions.

Commercial Banks play the role of financial intermediary collecting the fund from surplus unit and supplying to the deficit units (investors). Commercial banks help the process of saving and holding of saving in a socially described form. In a planned economy, bank emerges for the good economy and makes the entire planned productive process possible by providing funds for all types of production incorporated in the plan, regardless of whether the production is in the public sector or whether the production is undertaken by one type of organization or another. All employment income distribution and other objectives of plan are as far as possible subsumed into production plan which banks finance. The importance of

commercial banks is directing the economic activities in the system is indeed overwhelming with the establishment of commercial banks the flood gates of development promising great hopes for people in the life open.

However, poor economy may be there will be needed for institution, which allows such saving as are currently forthcoming to be invested conveniently and safely and which ensure that they are channeled into the most useful purpose. Therefore, the tasks of commercial banks in underdeveloped countries are almost self-evident. Their purpose is to provide a collecting point for saving of a relatively small average amount from a large number of individual sources so long as the means to utilize saving safely and profitably are not available within an economy, funds will either to be directed aboard, sterilized in useless hoards of cash or precious metals or more likely still will not accumulated all.

2.1.4 Development of Banking System in Nepal

The development of banking is relatively recent in Nepal. In case of Nepal too there were merchants, goldsmiths and moneylenders working as ancestors of modern banking. In Nepal, the origination of banks started through Sahu (Goldsmith).Even though the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the Lichhavi period, King Gunkamdev had borrowed money from the rich people to build the city. The historical record shows that Gunkamdev, the king of Kathmandu, borrowed money to rebuild his kingdom in 723AD. Some fifty-seven years thereafter, a merchant 'Shankhadhar' introduced 'Nepal Sambat' by clearing all the indebtedness of the people in 880AD. This clearly proved that money-lending practices were prevalent at that time. Later, during the regime of Mallas, money-lending business became more penetrating and popular. Towards the end of the 14th century, Jayasthiti Malla, the rular of Kathmandu, divided the people in sixty-four classes on the basis of their occupation. Among them one was Tankadhari and the people belonging to this class were engaged in money lending business. It is believed that the money lending business became quite popular in the reign of Mallas, particularly in financing the trade with Tibet and India. Thus, the role of Tankadhari was a kin to that of a banking agent. However, these moneylenders advanced loan against personal security of land, building etc. As they were free to charge any amount as interest and other

charges on the loan advances. Naturally, the interest rate was higher, discriminatory and unfair. Of course, this gave birth to malpractices, frauds and exploitation in the whole Nepalese society. Even today, such practices are prevalent in Nepalese village, which are beyond the preview of modern banking system. Thus, it was the duty of government to control the malpractices of the moneylenders and to set up a financial institution to make easy credit facilities for the general people. As a result, with growing consciousness and awareness of this, 'Tejarath Adda' had been established as an institution, during the period of RANA, under the Prime Minister of Ranodip Singh in 1933 B.S.

Modern baking started with the inception of NBL under the Nepal Bank Act 1936 in 1994 B.S. NBL had Herculean responsibilities of attracting people towards the banking system from pre-dominant moneylenders and to expand banking services. Thus, Nepal Rastra Bank (NRB) was set up in 14th Baisakh 2012 B.S. as a central bank with an authorized capital of Rs 10 million fully subscribed by the HMG under Nepal Rastra Bank Act 2012 B.S. Nepal Rastra Bank, the central bank of Nepal regulates, inspects, supervise and monitor the whole functions of bank and financial companies of Nepal. The second commercial bank Rastriya Banijaya Bank was established in 2022 B.S. The two commercial banks extended their operation extensively throughout the country.

Nepal Industrial Development Corporation (NIDC) and Agriculture Development Bank were established to facilitate development activities by providing loans and equity capital. The former Industrial Development Center was established in 2013 B.S. and was converted into NIDC in 2016 B.S. to finance equity and loan capital to industries that are going to be established in the country. Agricultural Development Bank Nepal was established in 2004 to finance agricultural sector as well as agro-based industries within the country.

In modern times , commercial banks , which are facilitated, regulated and supervised by the Central bank, confined them and concentrated in their activities of fulfilling the financial needs of their customers. With the opening of NABIL bank in1985 A.D. the door of opening commercial banks was opened to the private sector. As the commercial banks grew they stopped entertaining small projects. Thus a scope for opening finance companies emerged. In

2042 B.S., finance company Act was passed; but private sector kept stony silence till 2049 B.S. The first break came in the month of Shrawan of that year, when the first company Nepal Housing and Finance Company came. The second came in the Poush of the same year, Nepal Finance and Saving Company. Now there are altogether 79 finance companies operating in Nepal.

Altogether there are 32 Commercial Banks, 83 Development Banks, 79 Finance Companies and 35 microfinance and cooperatives. They all have got their own rules and regulations and own vision but ultimately they are serving the nation to build a huge financial resource and mobilize in the best possible way. The banking Sector remained still for a long period of time but as the time passed on many developments occurred. In the present scenario, Nepalese banking system is evolving itself as a powerful instrument of planning and economic growth of all the developed and underdeveloped sectors. The scope and scale of banking too have undergone substantial change in response to the saving and credit needs of people.

2.1.5 Concept of Financial Performance

Financial analysis is concerned with analyzing the financial statement of an organization in difference aspect. The term indicates the real picture of an organization by interpreting financial ratios and analysis, which enables to evaluate and disclose the conditions of an organization. Every stakeholder such as share holders, Trade creditors, long term investors or debtor, customers, employees, tax authorities, managements etc. wants to know about the position or condition of an organization before or after their involvement to the organization. By financial statement analysis they are able to take corrective actions to introduce new policies or to correct their old policies, to know about their strength weakness etc. By analyzing financial statements someone can predict or know the financial performance of that organization.

Financial performance as a part of financial management is the main indicator of the success or failure of the enterprises. Financial performance analysis can be considered as a heart of the financial decisions (Clark John, Chicago).

Financial analysis is the process of determining financial strength and weakness of a company by establishing strategic relationship between the components of a balance sheet and other operative data (Pandey, 1993:94). Therefore, the analyze of financial statement consists of a study of relationship and trends to determine whether or not the financial position and results operations and financial progress of the company are satisfactory. It is the process of determining the significant operating and financial statements. The goal of such analyze is to determine the efficiency and performance of the firm‘s management reflected in the financial records and reports (Hampton, J.J. (1998:98).

Financial statement analysis involves a comparison of a firm‘s performance with that of other firms in the same line of business which often is identified by the firm‘s industry classification. Generally speaking the analysis is used to determine the firm‘s financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weakness (Weston J.F. Besley S. And Bringham, (1996:78).

The main function of financial strength and weakness of a business undertaking by regrouping and analysis of figures contained in financial statements by making comparison of various components and by examining their content. This can be used to financial managers as basic to plan future financial requirements by means of forecasting and budgeting procedures.

2.1.5.1 Method of Financial Performance Analysis

An enterprise communicates financial information to users through financial statement and reports. Financial statements are summarized information of the firm’s financial affairs, organized systematically. They are the means to present the firm’s financial situation to owners, creditors and general public. The preparation of financial statement is the responsibility of top management. As investor and financial analyze to examine the firm’s performance in use these statement under to make investment decisions. So concern authority should be prepared very carefully and contain as much as information as possible. The two

basic financial statements are prepared for the purpose of external reporting to owner, investor and creditors are:

1. Balance Sheet (*or Statement of Financial Position)*
2. Profit and Loss Account (*or, Income Statement)*

For internal management purpose i.e. for the planning and controlling much information than contained in published financial statement is needed. The accountant or account officer prepares these financial statements at the end of firm's income year. Balance sheet and income statement undoubtedly provides useful financial data regarding the operation of an enterprise but they fail to present all the useful financial data required for major investing and financial decision by the management. Therefore, another financial statement fund flow statement is also in use. It summarized the source from which funds have been applied. It is prepared to show additional useful information not covered by the traditional statements.

2.1.5.2 Limitations of Financial Performance Analysis

From the above discussion, it has been evident that financial performance analysis of great significance for investor, creditors, management, economist and other parties having interest in business. It helps management to evaluate its efficiency in past performance and take decisions relating to future. However, it is not free from drawbacks. Its limitations are listed below (Jain, S.P, and Narang K.L, 1989:B23-B25):

a) **Historical Nature of Financial Statements**: - The basic nature of statements is historical. Past can never be a precise and infallible index of the future and can never be perfectly helpful for the future forecast and planning.

b) No Substitute for Judgment: - Analyze of financial analysis is a tool to be used by expert analyst to evaluate the financial performance of a firm. That's why; it may lead to faculty conclusion if used by unskilled analyst.

c) **Reliability of Figure**s: - Reliability of analysis depends on reliability of figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by

manipulation in the income statement, window dressing in the balance sheet, questionable producers adopted by the accountant for the valuation of fixed assets and such other facts.

d) Single year Analysis is not much valuable: - The analysis of these statements relating to single year only will have limited use and value. From this, one cannot draw meaningful conclusion.

e) Result may have different Interpretation: - Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the index of sufficiency of the management due to under-utilization of fund.

f) Changes in Accounting Methods: - Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods, the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

g) Pitfall in inter-firm Comparison: - When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of firm as compared to whole industry.

h) Price level change reduces the validity of analysis: - The continuous and rapid changes in value of money, in the present day, economically also reduces the validity of the analysis. Acquisition of assets at different levels of prices makes comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting period.

2.2 Review of Related Articles

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

Poudel**,** in the journal entitled, "*Financial statement Analysis: An Approach to Evaluate bank's Performance"* which was published NRB Samachar (An annual publication-2053) is reviews as follows:

According to Mr. Poudel, Balance sheet, profit and loss a/c and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank's balance sheet and profit and loss a/c. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet item.

According to Mr. Poudel the principle objectives of analyzing financial statement are to identify: Liquidity, Profitability and solvency. Most of users of the financial statements are interest in assessing the bank's overall performance which is affected by the following factors:

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

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

Govinda Bahadur Thapa in his articles Nepal banking system: can on the mess be managed" stated that the joint venture banks have been earning a huge profit not from fund based lending but from investing outsides. That is why, there banks have been less interested to lending aggressively in the domestic market. Economics activities have slowed down in

Nepal for several years; however commercial banks have not lowered their lending rate to revitalize the economy. On the contrary, the commercial banks have been discouraging the deposit to get rid of excess liquidity. And new avenue that is investing aboard has been opened for the commercial banks to earn profit rather than motivating then to invest locally.

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

2.3 Review of Previous Thesis

Various studies have been conducted on the financial performance of commercial banks of Nepal. Many of them are concentrated to Nepalese commercial banks and only few are focused on joint venture bank especially comparative studies. In this chapter, different previous studies have been reviewed so that the chances of duplication will be avoided from the present study and some newness can be created in this field of study.

Manandhar (2010) conducted a dissertation on a topic "*Financial performance analysis of Nepal Bangladesh bank Ltd*". In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have been also been used for financial analysis.

The specific objectives of his research are:

- To analyze the functions, objectives procedure and activities of the NBBL.
- To analyze the lending practices and resources utilizations of NBBL.
- To determine the impact of growth in deposit on liquidity and lending practices.
- To examine the lending efficiency and its contribution to profit.
- To make suitable suggestions based on the findings of this study, the financial and statistical tools are used.

It found that NBBL has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. So, the study has the following findings:

- NBBL has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances.
- The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NBBL.
- Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make for the profit.

The recommendations of this study are:

- The bank has enough liquated but enables to invest the liquidity in proper sector so it is recommended that the bank should made proper investment to commercial sector.
- The bank providing different schemes to attract good customer and has issued the deposit to the needy area to make profit for the bank.

Gautam (2010) has conducted a study on "*Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangladesh Bank Limited"*. The financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

The objectives of his study are:

- To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
- To access the debt serving of the joint venture commercial bank.
- To examine the correlation and the signification of their relationship between different ratios related to capital structure.

- To provide suggestions and the recommendations for the optimal capital structure of the joint venture commercial bank.
- To obtain the objectives, some financial, statistical and accounting tools.

He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. However, this study has been undertaking SCBNL and NBBL to examine and evaluation the financial data. In this study, the following are the findings of his study:

- The study sample JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claims in total assets of the bank is owner's claim.
- On an average, NBBL bank constitutes 16.27 times of P/E ratio, which should be reduced as quickly as possible.
- The financial risk of the banks NBBL average degree of finance leverage constitute 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks.
- The average ROE of JVB's i.e. SCBNL and NBBL area 37.63% & 21.75% respectively.

Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. So, the recommendations of his study are:

- The bank use high percentage of debt which indicates that it has highly financial risk. It is recommended that the bank immediately control the financial risk.
- P.E ratio of NBBL is 16.27 times. It is too high, so the bank reduces the position.
- Nepal is underdeveloped country; almost banks are established and operated in urban area. So, it is recommended that the bank should open its branch different parts of the country.

Mr. Bobby K.C (2011) has conducted a thesis on a topic "*Comparative Financial Performance Analysis of Everest Bank Limited and Bank of Kathmandu*". He has mainly

focused his study on comparing & analyzing liquidity, profitability, solvency and activity ratio analysis as well as reviewing the government policies related to banking industry of Nepal. The main objectives of his study are:

- To compare the financial ratios of sampled banks in terms of liquidity, capital adequacy, capital structure, activity and profitability.
- To evaluate the trends of growth of in total deposit, loan and advances & net profit.
- To examine the relationship between key financial variables such as total deposit and net profit, total deposit and total investment & net worth and net profit of the sampled banks.
- To review the government policies related to banking industry of Nepal.

Time period covered by it was five years data from 2006/07 to 2010/2011. Necessary data and other information have been collected from the secondary sources of data. In this study, Mr. Booby had pointed out various remarkable findings were:

- The cash reserve ratio of the banks was maintained as per the directives of NRB. So, BOK is utilizing its liquid assets better than EBL.
- EBL has maintained liquidity as per financial standard than BOK. So, BOK has poor in the liquidity.
- EBL & BOK appeared highly levered and capital structure of EBL is a little riskier than BOK.
- Earning generating capacity of EBL's assets is far better than BOK. Management of EBL is successful to utilize their resources efficiently and effectively.

The recommendations of this study are:

- EBL has maintained liquidity as per financial standard but BOK is not able to meet the standard. So EBL can be recommended to utilize the excess amount of current assets on secured and highly liquidity investment and BOK is to increase the liquidity capacity to meet immediate and short term obligations.
- Capital structures of booth banks are highly levered so it is recommended to introduce new products with high quality services, adopt new technology, made adjustment interest rate as per situation.

- To meet their objectives and goals it is recommended to open new branches at new potential urban areas to collect more deposit and to increase investment as well as shareholder's wealth.

Mr. Madhav Prasad Kuikel (2011) conducted a thesis on a topic "*Financial Performance of Leading Commercial Banks in Nepal*". He attempt to analysis the financial performance with the help of financial analysis such as liquidity, leverage, activity, profitability & solvency ratio of SCBNL, NABIL, HBL and EBL. The main objectives of his study are as follows:

- To measure liquidity, leverage, activity, profitability ratio and ownership/solvency ratios of SCBNL, NABIL, HBL and EBL.
- To analyze and compare the position of NPA.
- To analyze the comparative financial position of SCBNL, NABIL, HBL and EBL.
- To examine whether these commercial banks are following NRB directives or not.

Mr. Madhav comes out with some valuable findings which are as follows:

- Regarding the liquidity management, all the banks are in better position except EBL. EBL was unable to maintain the liquidity (CRR) as per the directives of central bank (NRB). It obviously strikes that EBL was failure to meet short-term obligations.
- SCBNL is successful on maintaining capital adequacy ratio as per the directives of central bank. However, NABIL, HBL and EBL had not significant differences as per the directives should be maintained. HBL had least ratio.
- The analysis of P/E ratio indicates all banks SCBNL, NABIL, HBL and EBL had getting more competitive value. This shows they all had better P/E ratio. Among them, HBL is the highest.
- The analysis of NPA indicates that EBL, NABIL and SCBNL had comparatively lower average of such ratio. HBL had comparatively high average. EBL has lowest and is more consistent in NPA; which indicates its sound lending & recovery policy.

Mr. Madhav has recommended some measure on the basis of his studies. His major recommendations were:

- For strengthening the liquidity position; EBL is strongly recommended to maintain CRR as per the directives of central bank.
- He has suggested improving the credit collection performance and maintaining an adequate bad debt provision.
- Except SCBNL and NABIL; he recommended to HBL & EBL to maintain Capital Adequacy ratio as per the directives of central bank. EBL is strongly recommended to generate cheaper fund by bearing favorable lower interest rate on deposits. SCBNL is suggested to keep-it-up.
- NPA is the most sensitive part of banking performance. The effectiveness of loan & recovery is depicted from NPA position. It is key variable for measuring bank's performance. HBL is recommended to make conscious efforts for lowering NPA in recent years. EBL is highly appreciated for its substantially lowest NPA and suggested to keep-it-up.

Mr. Mohan Prasad Tiwari (2012) has conducted a dissertation on "*Financial Performance Analysis as Tools for Profit Planning"*. He attempts to analysis the financial performance with the help of financial analysis of EBL, NABIL and BOK. The objectives of this study are:

- To find out the relationships between total investment, loan and advances, deposit, net profit and outside assets.
- To identify the investment priority sectors of Commercial banks.
- To assess the impact of investment on profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of Commercial banks.
- To provide suggestions and possible guidelines to improve investment policy and its problems.

In this study, the findings of his study are:

- Current assets of all three banks i.e. EBL, NABIL & BOK are not satisfactory.
- The ratio of cash & bank balance to total deposit and current assets of EBL is higher than that of NABIL & BOK.

- From the study, he found that NABIL has not invested funds in government securities than that of other banks which shows that NABIL has kept relatively funds as cash and bank balance which does not earn any return.
- Profitability ratios of banks are not satisfactory, if resources held idle bank have to bear more cost and result would be lower profit margin.
- The investment policy of EBL is good in every aspect as studied above but the consistency in the above investment sectors is in equilibrium states. He found that bank focuses much of its attention to one sectors leaving other sectors untouched.

Now, in Nepal many banks & other financial institutions are functioning to collect the deposits and invest money somewhere in the productive sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged. So, the recommendations of this study are as follows:

- In commercial banks the liquidity position affects external & internal factors such as saving for investment situations, central banks requirements, the leading policies management capacity etc. So, all the banks are recommended to improve current assets and mobilize cash and bank balance in profitable as loan and advances.
- In the light of growing competition in the banking sectors the business of the bank is customer oriented. It should strengthen and active its marketing function as it is an effective part of attracting and retaining customers. The bank should develop on Innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient way.
- EBL's investment policy is satisfactory so EBL is recommended to touch all the sectors and balance it effectively as to have the optimal performance of the bank.

2.4 Concluding Remarks

Commercial Bank invests its deposit in different profitable sector according to the directives and circulars of the Nepal Rastra bank and guidelines and policy of their own bank. Financial analysis statement has to prepare according to direction of NRB. Nepal Rastra Bank's policy

and guidelines are changing according time. So, the up to dated study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial data and analysis is done within the latest guidelines and curriculum of Nepal Rastra Bank.

There is a certain gap between the present research and past research. Previous research's analyses expressed all items in the statement in the form of amount. The previous researchers did not disclose the practical comparative analysis, which is practiced by the commercial banks. Thus, to fulfill this gap the present research is conducted. The analysis based on expressing all items in the statement as a percentage taking the most recent data.

Most important point to remember about performance analysis is that every financial measure should be compared across time and across over same line of companies to be meaningful. Banks as a service-organization, only few financial ratios would be sufficient to compare the performance; however, different sources and different analyses use different lists or combination of financial ratio analysis. Prior research has been conducted on the basis of traditional financial ratio analysis. The value of the approach was quantitative relations.

The world is becoming more dynamic and subject to rapid changes. This research will be based upon the modern approaches to financial analysis; in which comparable group approach and include consideration of economic and strategic factors where feasible. Even the study will base upon those core indicators especially related with banking sector as well as it will compares across time and across same line of banks i.e. maximum of leading three commercial banks (NABIL, NIBL & HBL). Thus the research will be an interest to a wide range of its stakeholders and other government regulatory interests.

CHAPTER III
RESEARCH METHODOLOGY

The objectives of study are to analyze the financial position, evaluate strength and weakness, and recommend policy measures for improvement of NABIL, NIBL and HBL. To fulfill the objective a scientific analytical procedure should be adopted. Thus the method of the study has been described in this chapter. In this chapter, we study the various steps that are generally adopted by studying other research problem along with the logic behind them. It consists of research design, population and sampled source of data, data processing procedure and tools & techniques of analysis of data. The main purpose of the research is to discover answer to questions through the application of scientific procedures. The aim of research is to find the truth which is hidden and has not been discovered yet.

3.1 Research Design

Research Design is a method of defining the research problem. According to C.R., Kothari, research design is a plan, structure and strategy of investing conceived so as obtain answer to research question and to control variances. Research design refers to the framework of the study. It is the blue print for any kinds of studies. "Research design is the arrangement of condition and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

Research design is plan for collection and analysis of data. The purpose of design is to provide answer to research questions and control variance. Some financial & statically tools will be used to examine the facts and descriptive techniques to evaluate the financial performance of three banks and comparing between themselves. This study aims to find out the relation of financial performance of three commercial banks fully managed and owned by Nepalese entrepreneurs. The research design used for is basically, a historical, empirical, descriptive-cum-analytical research methodology.

3.2 Populations and Sample

The population for this study comprises all the license commercial banks of the country. The commercial banks of Nepal can be categorized into two type namely public sector and private sector. Out of total 32 commercial banks, NABIL Bank Limited, Nepal Investment Bank Limited and Himalayan Bank Limited have been chosen as sample banks for study by using judgmental sampling method. Population comprises of data published by the concerned authority or institution to make the descriptive and analytical study. For the analytical part, sample of data should be taken into consideration within which the analysis and evaluation is made. The financial statements of latest five years (i.e. from 2007/2008 to 2011/2012) have been taken as sample data for analyzing the financial performance.

3.3. Nature and Source of Data

The study is mainly based on secondary data. Data relating to financial performance of these three banks are directly obtained from concerned banks. The supplementary data were obtained from unpublished official records of concern banks, bank's staff, booklets, and journals and other sources viz. Security Exchange Center and Nepal Rastra Bank.

3.4 Data Processing Procedure

The data analysis tools are applied as simple as possible. Data obtained from the various sources cannot directly be used in their original form. They need to further verified and simplified for the purpose of analysis. Data, information, figures and facts so obtained need to be checked, rechecked, edited and tabulated for computation. According to the nature of data, they have been inserted in meaningful Tables, which have been shown in appendices. Homogeneous data have been sorted in one Table and similarly various Tables have been prepared in understandable manner, odd data are excluded from the Table. Data have been analyzed and interpreted using financial and statistical tools. The detail calculations that cannot be shown in the body part of the report are presented in appendices at the end of the report.

3.5 Tools and Techniques of Analysis

On the basis of historical data financial and statistical tools are used to analysis of different variables.

3.5.1. Financial Tools

Financial tools are those, which are used for the analysis and interpretation of financial data. These tools can be used to get the prescribe knowledge of business which in turn are fruitful in exploring the strength and weakness of the financial policies and strategies. In order to meet the purpose of study, following financial tools have been used.

3.5.1.1. Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statement evaluate the performance of an organization by creating the ratio from the figures if different accounts consisting in balance sheet and income statement is know as ratio analysis. It is a powerful tool of financial analysis. An explained in second Chapter, ratio analysis is most frequently used tool to evaluate the financial health, operating result and growth of the banks under scrutiny. It helps to summarize the large quantities of financial data and to make quantitative judgments about the firm's financial performance. The ratios calculated for the study is described separately under following headings.

3.5.1.1.1. Liquidity Ratios

The liquidity refers the liquid assets of a firm or those types of assets, which can convert into cash easily. And liquidity ratio measures the ability of a firm to meet its short-term obligations. The ratio reflects its short-term solvency capacity. It shows the capacity of a firm to pay interest and principal to suppliers of short-term credit and trade creditors. It is extremely essential for a firm to be able to meet its current obligations as they become due.

Depending on the special nature of current assets and current liabilities of the banks the following ratios are calculated:

a) Current Ratio

Current ratio is also known as Working capital ratio. The ratio is to evaluate or indicates the current solvency position of the organization. The current ratio (CR) represents a margin of safety for creditors at bad situation. It is the ratio of total current assets to current liabilities. Financial norms say that 2:1 is the optimal position of liquidity and profitability point of view. If the current ratio of the firm is less than 2:1 the solvency position of the firm is not good .The cash may not be available to pay current liabilities. If the ratio of the firm is under financial standard, the firms' liquidity position measured as better. Higher ratio of the firm is measured higher liquidity, i.e. meant the firm has excessive investment in current assets that do not produce a return so more than financial standard is poor utilization of assets.. It is calculated by dividing current assets by current liabilities, which is expressed as follows:

$$\text{Current ratio} = \frac{\textit{Current assets}}{\textit{Current liabilities}}$$

In which current assets represents those assets which can be converted into cash within an accounting period such as cash balance, bank balance, investment in treasurer bills, money at call, bills purchase, inter branch account, other short terms, receivable, prepaid expenses, etc. Current liabilities refers to short term maturing obligation such as deposits bills payable, tax provisions, dividend payable staff bonus, bank over drafts, accrued expenses and provisions etc.

b) Quick Ratio

Quick ratio established a relationship between quick asset and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonable soon without a loss of value cash is the most liquid asset. Other assets which are considered to be relatively liquid are included in quick assets are book debts and marketable securities. This quick ratio can be calculated by dividing the total of quick assets by total current liabilities.

$$\text{Quick Ratio} = \frac{\textit{Quick assets}}{\textit{Current liabilities}}$$

c) Cash and Bank Balance to Current Assets Ratio

This ratio is found out the ability of banks to pay total call made on current deposit. Cash and Bank Balance is highly liquid assets than others in current assets proportions. Higher ratio indicates the banks ability to meet the daily cash requirement of their customer deposit and vice versa. But higher ratio is not preferred as the bank has to pay more interest in deposit and will increase the cost of fund. Lower ratio is also very risky as the bank may not be able to make the payment against the cheque presented by the clients. So, the bank has must be maintain such ratio in such way that it should have sufficient cash for the clients demand against deposits when required and less interest is required to pay against the cash deposit. These ratios not only analyzed the use of total resources of the firm but also the use of resources component of total assets. The formula to obtain this ratio is;

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

Cash and Bank balance includes cash in hand, foreign cash in hand, clearing cheque and other cash items, balance with NBR current account, other domestic bank current account and balance held in foreign banks.

d) Cash and Bank Balance to Current, Saving & Margin Deposit Ratio

The ratio measures the ability of bank to meet its immediate obligations. The bank should maintain adequate cash and bank balance to meet the unexpected as well as heavy withdrawal of deposits. High ratio indicates sound liquidity position of the bank. However, too high ratio is not good enough as it reveals the under utilization of fund. The ratio is computed by dividing the total amount of cash and bank balance held in the bank by total deposit (expect fixed deposits) collected by the bank.

$$\text{Cash \& Bank Balance to Deposits (Expect FD Ratio)} = \frac{Cash\ \&\ Bank\ Balance}{Total\ deposit\ (Except\ FD)}$$

Cash and Bank balance comprises cash on hand, foreign cash on hand, cheque and other cash items, balance with domestic bank and balance held in foreign banks. Current and saving deposits consist of all types of deposits excluding fixed deposits.

e) Cash and Bank Balance to Total Deposits Ratio

The ratio is employed to measure whether cash & bank balance is sufficient to cover its current call margin including deposits. It shows the proportion of total deposits held as most liquid assets. High ratio shows the strong liquidity position of the bank. But too high ratio is not favorable for the bank because it produces adverse effect n profitability due to idleness of high-interest bearing fund. The ratio is calculated using following formula;

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

Total deposit consists of both interest bearing deposits & non-interest bearing deposits i.e. current deposits, saving deposit, fixed deposit, money at call and short notice and other deposits.

f) NRB Balance to Current Saving Deposit Ratio

The ratio shows the percentage of amount deposited by the bank in Nepal Rastra bank (NRB) as compared to current & saving deposits. Commercial banks are required to hold certain portion of current and saving deposits in Nepal Rastra Bank's account. It is to ensure th e smooth functioning and sound liquidity position of the bank. As per the directive of Nepal Rastra Bank, the required ratio is 8%. Therefore, the ratio measures whether the bank is following the direction of NRB or not. The ratio is computed by dividing the balance held with Nepal Rastra Bank by saving deposits. It express as;

$$\text{NRB Balance to Current and Saving Deposit Ratio} = \frac{NRB\ Balance}{Current\ \&\ Saving\ deposits}$$

g) NRB Balance to Fixed Deposit Ratio

The ratio shows the percentage of the amount deposited by the bank in Nepal Rastra Bank as compared to fixed deposits. According to the direction of NRB, this ratio should be maintained 6%. Hence the ratio so calculated finds whether the bank has obeyed the direction of central bank or not. The ratio is computed by dividing the balance held with Nepal Rastra Bank by fixed deposits accepted.

$$\text{NRB Balance to Fixed Deposit Ratio} = \frac{NRB\ Balance}{Fixed\ Deposits}$$

3.5.1.1.2 Efficiency Ratios

The fund of creditors and owners are invested in various assets to generate income and profit. Better the management of assets, the larger the amount of income. Activity ratio measures the degree of effectiveness in use of resources of fund by an entrepreneur. This ratio is also called turnover ratio because they indicate the number of times the assets are being converted or turnover into income. In other words, turnover ratios, also known as utilization ratios or activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. They measure how effectively the firm uses investment and economic resources at its command. High ratio depicts the managerial efficiency in utilizing the resources. They show the sound profitability position of the bank. Low ratio is the result of insufficient utilization of resources. However, too high ratio is also not good enough as it may be due to the sufficient liquidity. Depending upon special nature of assets and sales of the banks, following ratios are tested.

a) Loans and Advances to Total Deposit Ratio

The ratio indicates the proportion of total deposits invested in loans and advances. It is calculated to find out how the banks are successfully utilizing their total deposits for profit generating purpose on loan and advances. High ratio means the greater use of deposit for investing in loans and advances. In other words, Greater the ratio implies the better utilization of outsiders fund (Total Deposits). But very high ratio shows poor liquidity position and risk in loans. On the contrary, too low ratio may be the cause of idle cash or use of fund in less productive sector. The ratio is computed by dividing total loans and advances by total deposit liabilities.

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

Loan and advanced consist of loans, advances, cash credit, overdrafts, and foreign bills purchased and discounted.

b) Loans and Advances to Fixed Deposit Ratio

The ratio indicates what proportion of fixed deposits has been used for loans and advances. Loans and advances are the major sources of investment to generate income by the

commercial banks. Fixed deposits are long-term interest-bearing obligation. It carries high rate of interest. Funds collected are needed to invest in such sectors, which yield at least sufficient return to meet the obligations. The ratio measures the extent to which the fixed deposits are utilized for the income generating purpose. High ratio means utilization of fixed deposit in form of loans. The ratio is calculated by dividing loans and advances by fixed deposits.

$$\text{Loans and Advances to Fixed Deposits Ratio} = \frac{Loans\ \&\ Advances}{Fixed\ deposits}$$

c) Loans and Advances to saving Deposit Ratio

The ratio indicates how many times the short-term interest bearing deposits are utilized for generating the income. Saving deposits are the short-term interest bearing liabilities. Loans and advances are the major sources of investment to generate income in commercial banks. Loans and advances to saving deposits ratio is measured to find out how many time of fund is used in loan and advances against saving deposit. High ratio indicates greater utilization of the saving deposits in advancing loans. The ratio is calculated dividing the amount of loan and advances by total deposit in saving account. The following formula is used to calculate this ratio as:

$$\text{Loans and Advances to Saving Deposit Ratio} = \frac{Loans\ \&\ Advances}{Saving\ deposits}$$

3.5.1.1.3 Profitability Ratios

A company should earn profits to survive & grow over a long period of time. It is a fact that sufficient profit must be earned to sustain the operations of the business; to be able to obtain funds from investors for expansion and growth; and to contribute towards the social overheads for the welfare of society. The profitability ratios are calculated to measure the operating efficiency of the company. Management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a reasonable return from their investment (Pandey, 1994:116) Profitability ratios are calculated to measure the operating efficiency of the company. Various profitability ratios are calculated to measure operating efficiency of

business enterprises. Though profitability ratios the lender & investors want to decide whether to invest in particular business or not. To meet the objective of the study, following ratios are calculated in this group.

a) Return on Total Asset

The ratio is measuring the profitability of funds invested in the bank's assets. In other words, it measures the efficiency of bank in utilization of the overall assets. High ratio indicates the success of management in overall working fund i.e. total assets. It is also called net profit or loss to working fund i.e. total assets ratio or simply called ROA. The firm has to earn satisfactory return on assets or working funds otherwise its survival is threatened. High ratio indicates the success of management in overall operation. Lower ratio means insufficient operation of the bank. It is calculated by dividing net profit after tax (NPAT) by total assets of the bank

$$\text{Return on Assets} = \frac{Net\ \text{Pr}ofit\ After\ tax(NPAT)}{Total\ Assets}$$

Net profit refers to the profit after deduction of interest and tax. Total assets mean the assets that appear in asset side of balance sheet.

b) Return on Net Worth

The ratio is tested to see the profitability of the owner's investment. It reflects the extent to which the objective of business is accomplished. All commercial banks have its main objective to earn the maximum profit, so that they can run smoothly and get the fame. For that they must mobilize resources and its equity capital properly. Equity capital is owned capital of banks. The ratio is also called net profit (or loss) to net worth or net profit (or loss) to shareholder's equity or return on shareholders equity or simply called *ROSE*. The ratio is of great interest to present as well as prospective shareholders and also of great significance to management, which has the responsibility of maximizing the owner's welfare. So, higher ratio is desirable. It is computed by dividing net profit after tax by net worth.

$$\text{Return on Net Worth} = \frac{Net\ \text{Pr}ofit\ After\ tax(NPAT)}{Net\ Worth}$$

Net worth refers the owner's claim on banks. It can be find out subtracting the total liabilities from total assets. It includes shareholder's reserve and share capital.

3.5.1.1.4 Capital Structure Ratios

Short-term financial positions refer to the liquidity position of the firm. Long-term financial position refers to the capital structure or financial leverage. Long-term financial position of the firm is judged by the capital structure ratio or leverage ratio or structure ratio. The leverage ratio or structural ratio is calculated to measure the financial risk and the firm's ability of the using for debt the benefit for the shareholders. Leverage refers to the ratio of debt to equity in the equity in the capital structure of the firm. Debt & equity are long-term obligation and remaining parts in the ability side of the balance sheet are termed as short – term obligation. Both types of obligations are required in forming the capital structure of the firm. The long-term financial position of the firm is determined by leverage or capital structure. Debt is more risky from the form the firm's point of view. The firm has legal obligation to pay interest to debt holders irrespective of the profit made or losses incurred by the firm. But use of debt is advantageous to shareholders in two ways:

- They can retain control on the firm with a limited stake.
- Their earning is magnified when rate of return of the firm on total capital is higher than the cost of debt.

  Following ratios are calculated to test the optimality of capital structure.

a) Debt-Equity Ratio

This ratio is calculated to find out the proportion of the outsider's fund to owner's fund to finance the total assets. It is also called the proportion of outsider's claim and insider's claim on total assets of the banks. It is also called debt to net worth ratio. The ratio shows the mix of debt and equity in capital. It measures creditors' claims against owners'. High ratio shows that the creditors' claims are greater than those of owners. Such a situation introduces inflexibility in the firm's operation due to the increasing interference and pressures from creditors. Low ratio implies a greater than claim of owners than creditors. In such a situation, shareholders are less benefited if economic activities are good enough. Therefore, the ratio

should neither be too high nor too low. The ratio is calculated by dividing total debt by shareholder's equity.

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

Total debt consists of all interest-bearing long-term debts. These include loans and short-term debts. These include loans advances taken from other financial institutions, deposits carrying interest etc. Shareholder's equity includes paid-up capital, reserves and surplus and undistributed profit.

b) Debt- Asset Ratio

This ratio shows the contribution of creditors in financing the assets of the bank. It is the proportion of debt on the total capital or proportion of outsider's claim on total assets. Greater proportion of the banks assets has been financing through outsider's funds. High ratio indicates that the greater portion of the bank's assets has been financed through outsider's fund. The ratio should neither be too high per too low. The ratio can be calculated by dividing total debt by total assets.

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

c) Interest Coverage Ratio

This ratio is calculated to find out the bank's ability to meet interest obligation. The ratio also known as times interest-earned ratio is used to test the debt servicing capacity of the bank. It shows the number of times the interest charges are covered by funds that are ordinarily available for their payment. It indicates the extent to which the earning may fail without causing any embarrassment to the firm regarding the payment of interest. Higher ratio is desirable, but too high a ratio indicates the firm is very conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation. The ratio calculated by dividing net profit before deduction of interest and tax by interest charges.

$$\text{Interest Coverage Ratio} = \frac{\text{Earning Before Interest \& } \chi ax(\eta\delta\lambda\chi)}{Interest\ Ch\arg ed}$$

EBIT or Earning Before Interest and Tax Net Profit Before Interest and Tax (NPBIT) is amount of operating profit before deduction of the amount of interest and tax.

3.5.1.1.5 Capital Adequacy Ratios

Capital adequacy ratio measures whether the firm has maintained sufficient capital or not. In other words, it helps to decide whether the existing capital is adequacy or there is the not need of reforms. The ratio is tested to ensure the safety and stability of the firm in long run. Over capitalization and under capitalization both have adverse effect on profitability of the firm. If the capital is excess, it remains idle. If the capital is insufficient, the firm may not be able to grasp the opportunity from potential profitable sectors. Therefore, the commercial banks have been directed to retain sufficient ratio by the central bank. Here, capital fund refers to the core capital and supplementary capital. Commercial banks cannot declare and distribute dividend until they meet capital adequacy ratio. Under this group, following ratios are tested.

a) Net Worth to Total Deposit Ratio

This ratio measures the percentage of net worth n relation to the total deposits collected in the bank. The ratio is a yardstick to see whether the bank has maintained the capital fund according to the direction of Nepal Rastra Bank. The ratio is calculated by dividing net worth by total deposits.

$$\text{Net Worth to Total Deposit Ratio} = \frac{Net\,Worth}{Total\ Deposits}$$

b) Net Worth to Total Assets Ratio

The ratio measure what is the percentage of shareholders' fund is relation to the total assets owned by the bank. High ratio means greater contribution of investors' fund and strong capital adequacy position. The ratio is calculated by dividing the net worth by total assets of the bank.

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

c) Net Worth to Total Credit Ratio

It measures the relative proportion of the shareholders fund with respect to the credit. High ratio shows that the firm has adequacy capital, which is the index of safety. Moreover, a bank with higher ratio is less affected by the instability of the financial market. The ratio is obtained when net worth is dividend by the total credit of the bank

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

Total credit refers to the total of loans and advances granted, cash credit, overdrafts, bill purchased and discounted.

3.5.1.1.6 Assets Quality Ratios

As explained earlier, turnover ratios measure the turnover of economic resource in terms of quality. Only the investment is not of great significance, but the return from them with minimum default in payment by debtors is significant. A firm may be in a state of enough profit and through unable to meet liabilities. Therefore, asset quality ratios are intended to measure the quality of assets contained by the bank. Following ratios are dealt in this group.

a) Loan Loss Coverage Ratio

Nepal Rastra Bank has directed commercial banks to maintain provision for loan loss on the basis of category of loans and risk grade. The ratio, therefore, measures whether the provision is sufficient to meet the possible loss created by defaulted in payment of loan or not. High ratio indicates that the major portion of loan is risky. The ratio is calculated by dividing provision for loan loss by total risk assets.

$$\text{Loan Loss Coverage Ratio} = \frac{Loan\ Loss\ \text{Pr}ovision}{Total\ Risk\ Assets}$$

For the study purpose, risk assets constitute loans and advances, bill purchased and discounted.

b) Loan Loss Provision to Total Income Ratio

This ratio shows what portion of total income has been held as safety cushion against the possible bad loan. Higher ratio indicates that the greater portion of loan advanced by the bank

is inferior in quality. Low ratio means that the bank has provided most of its loans and advances in secured sector. The ratio is obtained by dividing loan loss provision by total income.

$$\text{Loan Loss Provision to Total Income Ratio} = \frac{Loan\ Loss\ \text{Pr}ovision}{Total\ Income}$$

c) Loan Loss Provision to Total Deposit Ratio

It shows the proportion of bank's income held as loan loss provision in relation to the total deposit collected. Higher ratio means quality of assets contained by the bank in form of loan is not much satisfactory. Low ratio is the index of utilization of resources in healthy sector. The ratio is obtained by dividing the provision for loan loss by total deposit in the bank.

$$\text{Loan Loss Provision to Total Deposit Ratio} = \frac{Loan\ Loss\ \text{Pr}ovision}{Total\ Deposits}$$

d) Accrued Interest to Total Interest Income Ratio

This ratio shows the percentage of accrued interest with respect to total income in form of interest. High ratio indicates the large portion interest remained to be collected. Lower ratio reflects the better quality of assets in the bank. The ratio is obtained by dividing accrued interest by total interest income.

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

Accrued interest refers to the interest that is accrued but not collected. Total interest income includes the interest received from the investment in various sectors.

3.5.1.1.7 Others Indicators

Above stated ratios throw light on various aspects of bank. Management, investors and creditors can get information regarding their interest. Some indicators are dealt here which provide more knowledge about the performance of bank. They are listed below.

a) Earning Per Share (EPS)

Earning Per Share refers to the income available to the common shareholders on per share basis. It enables us to compare whether the earning based on per share basis has changed over past period or not. The investors favor high EPS. It reflects the sound profitability position of the bank. It is obtained by dividing earning available to common shareholders by number of equity shares outstanding.

$$\text{Earning Per Share} = \frac{\text{Earning Available Common Shareholder(EAC)}}{\text{No of Equity Share Outstanding}}$$

Earning available to common shareholders is the amount of that profit which can be found after deducting the amount of interest to the outsiders' fund, dividend to the preferred shareholders and income tax to the government. For this purpose, it is net profit after tax.

b) Price –Earning Ratio (P/E ratio)

P/E Ratio is widely used to evaluate the bank's performance as expected by investors. It represents the investors' judgment or expectation about the growth in the bank's earning. In other words, it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates greater expectation of the market towards the achievement of firm. It is obtained by dividing market value per share by earning per share.

$$\text{Price-Earning Ratio} = \frac{\text{Market Value Per Share(MVPS)}}{\text{Earning Per Share (EPS)}}$$

c) Market Value Per Share to Book Value Per Share (MVPS/BVPS)

The ratio measures the value that the financial market attaches to the management and organization of the bank as a growing concern. High ratio is the indication of strong management and organization. It is the ratio of market value per share to book value per share.

$$\text{Market Value Per Share to Book Value Per Share} = \frac{\text{Market Value Per Share(MVPS)}}{\text{Book Value Per Share (BVPS)}}$$

BVPS is net worth dividend by the number of shares outstanding.

3.5.2 Statistical Tools

Various statistical tools can be used to analyze it. These tools are used in order to draw the reliable conclusion through the analysis of financial data. Following tools are used for this purpose.

3.5.2.1 Arithmetic Mean

An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group (Waugh A.E). Out of various measures of the central tendency, arithmetic mean is one of the useful tools applicable here. It is easy to calculate and understand and understand and based on all observations.

Arithmetic mean of a given set of observations is their sum divided by the number of observation. In general, if X1, X2, X3----------Xn are the given observations, then arithmetic mean usually denoted by X is given by;

$$X = \frac{X_1 \Gamma X_2 \Gamma X_3 \Gamma .....X_n}{n} = \frac{X}{n}$$

Where, n = number of observation.

3.5.2.2 Standard Deviation

Average like other mean, mode and medium gives us the idea of concentration of the items around the central part of distribution. But average do not gives clear picture about the distribution because two distributions with same average may differ in the scatter ness of the items from the central value. To remove this drawback, dispersion is used. Dispersion is defined as the measure of variation I the item from the central value. Among various measure of dispersion, standard deviation is widely used. Standard deviation is absolute measure of dispersion, which defined as the positive square root of the mean of the square of deviation taken from the arithmetic means, if X1, X2, X3------Xn are the given observations, then standard deviation denoted by σ is given by;

$$\sigma = \sqrt{\frac{X^2}{n} Z \frac{X}{n}^2}$$

Where, n= number of observation in series X

ΣX =Sum of observation in series X

ΣX^2 = Sum of squared observations in series X

Standard deviation is the absolute measure of dispersion. The relative measure of dispersion based on the standard deviation is known as the Coefficient of Standard deviation.

$$\text{Coefficient of S.D.} = \frac{S\tan dard\ \ deviation}{Mean} = \frac{\pm}{}$$

The coefficient of dispersion based on standard deviation multiplied by 100 is known as Coefficient of Variance and written, as C.V is given by;

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

It is independent unit. So two distributions can bitterly compared with the help of C.V. for their variability. Less the C.V more will be the uniformity consistency etc and more the C.V less will be the uniformity consistency etc.

According to Prof. Karl Pearson, coefficient of variation is the percentage variation in mean, standard deviation being considered as the total variation in the mean. It is one of the relative measures of dispersion that is useful in comparing the amount of variation in data groups with different mean.

For comparing the variability of two distributions, we compute the coefficient of variation for each distribution. A distribution with smaller CV is said to be more homogeneous or uniform or less variable than other. Conversely, a series with greater CV is said to be more variable or heterogeneous than the other (Gupta, S.C. 2000:769).

3.5.2.3. Correlation Coefficient Analysis

If the distribution consists of two variables then correlation is used to find out the relation between them. Two variables are said to correlation when they are so related that the change in the value of one variable is accompanied by the change in the value of other. Correlation is

the measure of relationship between two or more characteristics of population or sample. It is simply measure the chance between the phenomenons's (Joshi, R.P. 2001).

Correlation is a statistical tools with the help of which we can determine whether or not two or more variable are correlated & if they are correlated the degree (extent) and direction of correlation is determined (Shrestha S and Silwal D.P).

Correlation is the statistical tools that we can used to describe the degree of which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two set of figure. Among the various method of finding out coefficient (i.e. Karl Pearson's Coefficient of Correlation, Spearman's Rank Correlation Coefficient, Kendall's Tau etc); Karl Pearson's method is applied in this study.

If two variables vary in the same direction i.e. if increase (or decrease) in the value of one variable result increase (or decrease) in the value of other variable, then two variables are said to have positive correlation. Similarly, the two variables are said have negative correlation if they vary in the opposite direction i.e. if increase (or decrease) in the value of one variable result decrease (or increase) in the value of other variable.

One of the widely used mathematical methods of calculating the correlation coefficient between two variables is Karl Pearson's Correlation coefficient. It is also known as Pearson's correlation coefficient & denoted by rxy or, simply r. if x be the one variable and y be the other variable with n number of observation then r is defined;

$$r = \frac{n \quad XY \; Z \quad X \quad Y}{\sqrt{n \quad X^{2} \; Z f \quad X \AA} \sqrt{\quad Y^{2} \; Z f \quad Y \AA}}$$

Where,

n = number of observation in series X and Y

ΣX= Sum of observations in series X

ΣY= Sum of observation in series Y

ΣX2= Sum of squared observations in series X

ΣY2= Sum of squared observations in series Y

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

The result of correlation coefficient is always lies between –1 & +1
When, r = +1, there is positively perfect correlation between two variables
When, r = -1, there is negatively perfect correlation between two variables
When, r = 0, there is no correlation between two variables or the variables are uncorrelated.
Neither the value of r to +1, closer will be relationship between two variables nor will the value of r to 0 lesser be the relationship between two variables.

Probable Error of Correlation Coefficient

Probable error of correlation coefficient is an old measure of testing the reliability of an observed value of correlation coefficient. It is calculated to find the extent to which correlation coefficient is dependable as it depends upon the condition of random sampling.

Probable error of correlation coefficient denoted by P.E(r) is obtained as;

$$P.E(r) = 0.6745 \mid \frac{1 Z r^2}{\sqrt{n}}$$

where,

$\frac{1 Z r^2}{\sqrt{n}}$ = Standard Error

Reasons for taking 0.6745 is that in a normal distribution 50% of observation lie in the range $\mu \pm 0.6745\ \sigma$ where, μ and σ denoted the populations mean and standard deviation.

P.E(r) is used to test if an observed value of sample correlation coefficient is significant of any correlation in the population. It is used to interpret whether the calculated value of r is significant or not.

If r>P.E; correlation is insignificant. So there is no evidence of correlation
If r>6P.E. r is definitely significant.

In this study, following relationship is calculated;

- Total Deposits and Loan and Advances
- Total Deposits and Net Profit
- Loan and Advances and Net Profit
- EPS and MVPS

3.5.2.4 Trend Analysis

Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term, on the basis of the tendencies in the dependent variable in the past period.

The straight-line trend implies that irrespective or decrease by absolute amount per unit of time. The linear trend values form a series in arithmetic progression.

The tools that are used to show gradually increase or a decrease of variable over a period of time is known as trend analysis. With the help of trend analysis the tendency of variables over the period can be seen clearly.

Mathematically, $Y = a + bx$

Where,

Y = the value of dependent variable

a = Y-intercept, b = slope of the trend line

X = value of the independent variable i.e. time = Year-2006/07 (with regard to the data used in the study)

Normal equations fitting above equation are;

$\Sigma Y = Na + b\Sigma X$

$\Sigma XY = a\Sigma X + b\Sigma X^2$ Since $\Sigma X = 0$ $a = \frac{X}{N}$, $b = \frac{X^4}{EX^2}$

For this study, the following variables are used: Total Deposits, Loans and Advance, Performing Assets, Net Profit and Net worth etc.

3.5.2.5 Diagrammatic & Graphical Representation

Diagrams and graphs are visual aids that give a bird's eye view of a given set numerical data. They present the data in simple and readily comprehensive form. Diagrams are primarily used for comparative studies and can't be used to study the relationship between the variables under study. This is done through graphs.

CHAPTER IV
PRESENTATION AND ANALYSIS OF DATA

This Chapter deals with the analysis and interpretation of data following the research methodology dealt in the third chapter. In course of analysis, data gathered from the various sources have been inserted in the tabular form according to their homogeneous nature. The various tables prepared for the analysis purpose have been shown in annexes. Using financial and statistical tools, the data have been analyzed. The result of the analysis has been interpreted keeping in mind the conventional standard with respect to ratio analysis, directives of NRB and other factors while using other tools. Moreover, financial performance of the sampled banks has especially been analyzed in cross sectional manner. Specially, the chapter includes an interpretation of the ratio Analysis, Income and Expenditure Analysis, Correlation Analysis and Trend Analysis.

4.1 Financial Analysis of Commercial Banks

Financial tools are an instrument that helps to analyze and interpret the financial performance of an organization. In other words, financial tools help to analyze the strength and weakness of a firm. Ratio analysis is a most important part of financial analysis, which is used in this study that gives us financial performance of three sampled banks. It helps to show the quantities relationship between two numbers. It may be expressed in terms of proportion, rates and times or in percentage. It is used to compare a firm's financial performance and status with other firms. Many writers like J.C Vanhorn, R.M Srivatav, I.M Pandey, etc. describe that the following ratios have been used according to data which helps to analyze, interpret and find out the actual financial performance of any organization.

i) Liquidity Ratios
ii) Efficiency/Activity/Turnover Ratios
iii) Profitability Ratios
iv) Capital Structure/ Leverage/ Solvency Ratios
v) Capital Adequacy Ratios
vi) Assets Quality Ratios
vii) Other indicators

4.1.1 Liquidity Ratios

Liquidity ratios have been employed to test the ability of the banks to pay immediate liabilities (i.e. short term liabilities). These include current ratio, quick ratio, cash & bank balance to current assets ratio, cash & bank balance to deposit (expect Fixed Deposits) ratio, cash & bank balance to total deposit ratio, NRB balance to current and saving deposit ratio and NRB balance to Fixed deposits ratio.

4.1.1.1 Current Ratio

Current ratio is also known as working capital ratio. It is computed by dividing the current assets liabilities.

$$\text{Current Ratio} = \frac{\textit{Current assets}}{\textit{Current Liabilities}}$$

Table 4.01
Current Ratio (Times)

(Rs in Millions)

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Current Assest	Current Liabilities	Ratio	Current Assest	Current Liabilities	Ratio	Current Assest	Current Liabilities	Ratio
2007/08	36,535	34,456	1.06	37,902	35,137	1.08	35,439	32,803	1.08
2008/09	43,206	40,437	1.07	51,950	48,053	1.08	38,355	35,710	1.07
2009/10	51,298	47,945	1.07	56,169	51,670	1.09	41,655	38,778	1.07
2010/11	57,206	53,275	1.07	57,248	52,147	1.10	45,549	42,241	1.08
2011/12	62,313	57,449	1.08	64,700	58,656	1.10	53,059	49,232	1.08
Mean			1.07			1.09			1.08
SD			0.01			0.01			0.01
CV			0.74			0.87			0.93

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

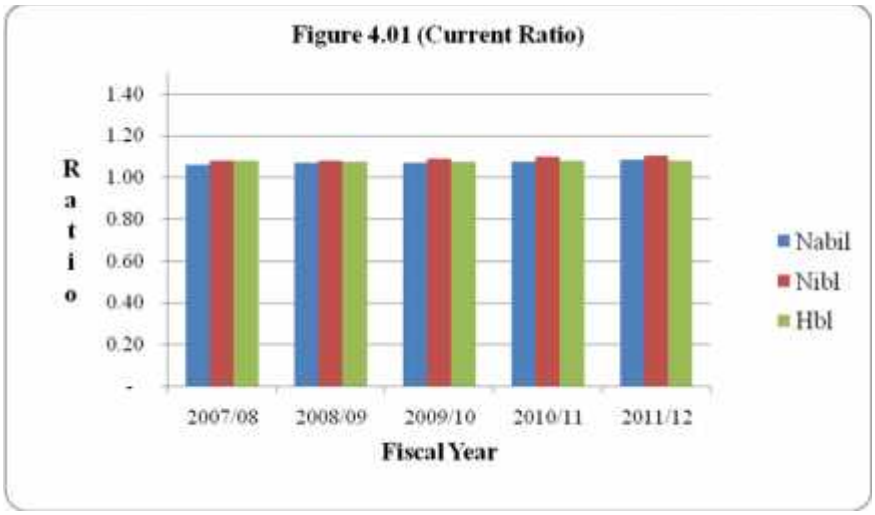


Table 4.01 and figure 4.01 clearly shows that Nabil Bank has highest in FY 2011/12 i.e. 1.08 times and lowest in FY 2007/08 i.e. 1.06 times. NIBL has highest in FY 2010/11 and FY 2011/12 i.e. 1.10 times and lowest in FY 2007/08 and 2008/09 i.e. 1.08 times. Similarly, HBL has decreasing trend from 2007/08 to FY 2009/10 and then it started to rise in FY 2010/11 and 2011/12 i.e. 1.08 times. Mean of the ratios in NIBL was slightly greater than these two banks, which depicts that the banks could not maintain the conventional standard of 2:1. The nature of assets and liabilities of commercial banks, the ratio below the stated standard may be accepted as satisfactory, but it signifies that the banks have the poor liquidity position. For commercial banks, it is very important to maintain a good balance between liquidity and profitability. If banks keep large portion of money under its control it affects in profit because idle money returns nothings but other hand the bank should have enough cash balance with it to fulfill the requirement of short-term liabilities.

4.1.1.2 Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets & current liabilities. It is computed by dividing the quick assets by current liabilities.

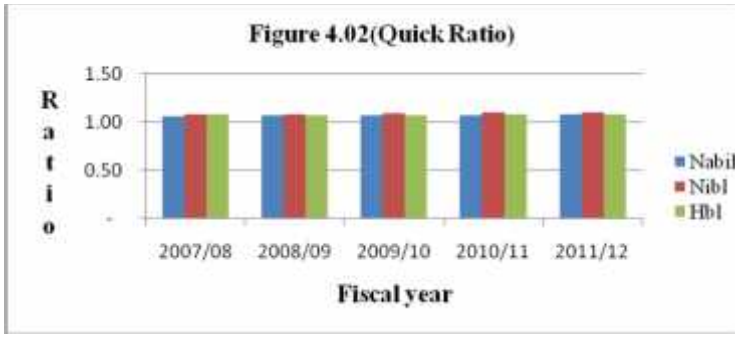
$$\text{Quick Ratio} = \frac{Quick\ assets}{Current\ liabilities}$$

Table 4.02
Quick Ratio (Times)

(Rs in Millions)

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Quick Asset	Current Liabilities	Quick Ratio	Quick Asset	Current Liabilities	Quick Ratio	Quick Asset	Current Liabilities	Quick Ratio
2007/08	36,512	34,456	1.06	37,835	35,137	1.08	35,409	32,803	1.08
2008/09	43,171	40,437	1.07	51,909	48,053	1.08	38,340	35,710	1.07
2009/10	51,252	47,945	1.07	56,113	51,670	1.09	41,611	38,778	1.07
2010/11	57,169	53,275	1.07	57,230	52,147	1.10	45,485	42,241	1.08
2011/12	62,274	57,449	1.08	64,674	58,656	1.10	52,995	49,232	1.08
Mean			1.07			1.09			1.08
SD			0.01			0.01			0.01
CV			0.74			0.91			0.93

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12



From Table 4.02 and Figure 4.02, Nabil Bank has the quick ratio of 1.06, 1.07, 1.07, 1.07 and 1.08 from the FY 2007/08 to FY 2011/12 respectively. Mean and CV of Nabil bank were 1.07 and 0.74 respectively. Similarly, the quick ratio of Nibl from FY 2007/08 to 2011/12 was 1.08, 1.08, 1.09, 1.10 and 1.10 respectively. NIBL has maintained highest mean i.e. 1.09 times as compared with Nabil i.e. 1.07 times and HBL i.e. 1.08 times. Similarly, the quick

ratio of HBL bank for the study period remained 1.08, 1.07, 1.07, 1.08 and 1.08 times respective from the FY 2007/08 to 2011/12. Mean and CV were 1.08 and 0.93 respectively. The standard quick ratio is 1:1 i.e quick assets must be equal to current liabilities. Higher the current ratio, better the liquidity position is. All the three banks have maintained better liquidity positions because of quick ratios of every year were maintained.

4.1.1.3 Cash and Bank Balance to Current Assets Ratio

The ratio shows the ability of banks to pay total call made on current deposits. Cash and bank balance are highly liquid assets in current assets proportion. So, the ratio utilizes higher liquidity position than current ratio. The ratio is calculated by dividing cash and bank balance by current assets and expressed as;

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

Table 4.03
Cash and Bank Balance to Current Asset Ratio (Times)

(Rs in Millions)

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Cash and Bank Balance	Current Assest	Ratio	Cash and Bank Balance	Current Assest	Ratio	Cash and Bank Balance	Current Assest	Ratio
2007/08	2,671	36,535	0.07	3,755	37,902	0.10	1,448	35,439	0.04
2008/09	3,373	43,206	0.08	7,918	51,950	0.15	3,049	38,355	0.08
2009/10	1,400	51,298	0.03	6,816	56,169	0.12	3,866	41,655	0.09
2010/11	2,437	57,206	0.04	8,140	57,248	0.14	2,965	45,549	0.07
2011/12	4,276	62,313	0.07	11,804	64,700	0.18	6,362	53,059	0.12
Mean			0.07			0.14			0.08
SD			0.02			0.03			0.03
CV			28.58			19.85			33.34

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

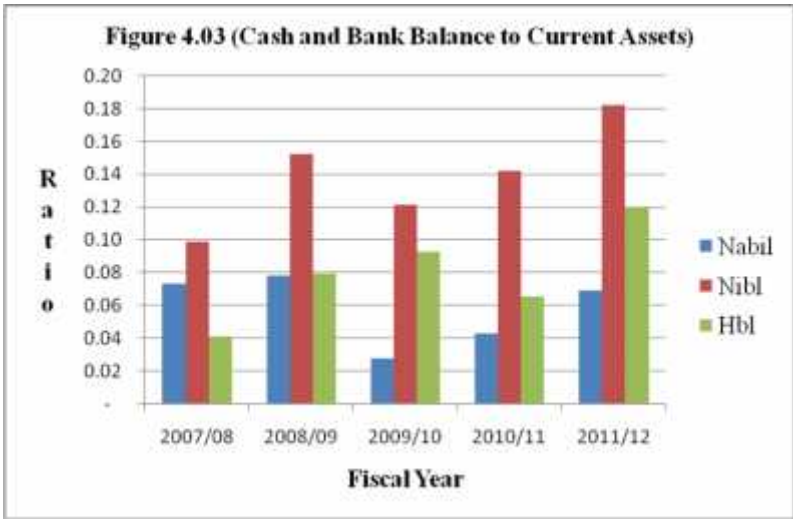


Table 4.03 and Figure 4.03 indicates that the Nabil bank has highest ratio in FY 2008/09 i.e. 0.08 times and lowest in FY 2009/10 i.e. 0.03 times. The ratios of NIBL and HBL were fluctuating trend. So, the highest ratio of NIBL was 0.15 times appeared in FY 2011/12 and lowest was 0.10 times in FY 2007/08. Similarly, the highest ratio HBL was 0.12 times in FY 2011/12 and lowest in FY 2007/08 i.e. 0.04 times. Table 4.03 shows that the mean ratio of NIBL was higher than that of the two banks, which indicates NIBL has higher ability to meet the daily cash requirement of their customer's deposits. NIBl has more liquidity position and utilized its fund more effectively. Higher CV of ratios in HBL as compared to Nabil and NIBL signifies greater variation in the ratios.

4.1.1.4 Cash and Bank Balance to Deposits (Except Fixed Deposits) Ratio

The ratio measures the ability of the banks to meet its immediate obligation. The bank should adequate cash and bank balance to meet the unexpected as well as the heavy withdrawal of deposits. The ratio is computed by dividing the cash and bank balance to total short-term deposits i.e. Saving Deposits, current Deposits, and Margin Deposits & Call deposits. It express as;

$$\text{Cash \& Bank Balance to Deposit (except FD) Ratio} = \frac{Cash \,\&\, Bank\ Balance}{Total\ deposit\ (Except\ FD)}$$

Table 4.04
Cash and Bank Balance to Total Deposit (Except Fixed Deposit) Ratio (Times)

(Rs in Millions)

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Cash and Bank Balance	Total Deposit (Except Fixed Deposit)	Ratio	Cash and Bank Balance	Total Deposit (Except Fixed Deposit)	Ratio	Cash and Bank Balance	Total Deposit (Except Fixed Deposit)	Ratio
2007/08	2,671	23,451	0.11	3,755	26,507	0.14	1,448	25,419	0.06
2008/09	3,373	29,038	0.12	7,918	35,065	0.23	3,049	28,305	0.11
2009/10	1,400	31,630	0.04	6,816	33,270	0.20	3,866	26,283	0.15
2010/11	2,437	32,855	0.07	8,140	31,760	0.26	2,965	27,413	0.11
2011/12	4,276	40,979	0.10	11,804	36,953	0.32	6,362	35,864	0.18
Mean			0.10			0.23			0.11
SD			0.03			0.06			0.04
CV			26.43			25.93			37.66

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

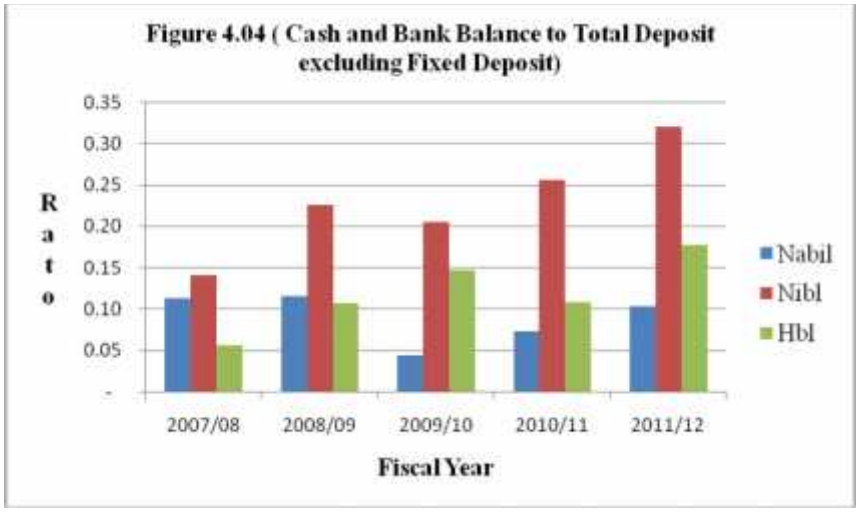


Table 4.04 and figure 4.04 shows the ratios of Nabil Bank were fluctuating trend. It has highest ratio in FY 2008/09 i.e. 0.12 times and lowest in FY 2009/10 i.e. 0.04 times. NIBL shows that the ratio is in increasing trend except in FY 2009/10. It was highest in 2011/12 i.e. 0.32 times and lowest in FY 2007/08 i.e. 0.14 times. Likewise, HBL has highest in FY 2011/12 i.e. 0.18 times and lowest in FY 2007/08 i.e. 0.06 times. The mean ratio of NIBL appeared greater than that of two banks, which indicates that NIBL can maintain its immediate obligation and also should maintain its adequate cash and bank balance efficiently than Nabil and HBL. Higher ratio indicates sound liquidity postion of bank. But higher ratio is not good enough to reveal under utilization of its fund. Higher CV of ratio in HBL as compared to two banks signifies greater variation in the ratios.

4.1.1.5 Cash and Bank Balance to Total Deposit Ratio

The ratio shows the proportion of total deposits held at most liquid assets. The ratio computed by dividing the cash & bank balance by total Deposits.

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

Table 4.05
Cash and Bank Balance to Total Deposit Ratio (Times)

(Rs in Millions)

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Cash and Bank Balance	Total Deposit	Ratio	Cash and Bank Balance	Total Deposit	Ratio	Cash and Bank Balance	Total Deposit	Ratio
2007/08	2,671	31,915	0.08	3,755	34,452	0.11	1,448	31,843	0.05
2008/09	3,373	37,348	0.09	7,918	46,698	0.17	3,049	34,682	0.09
2009/10	1,400	46,341	0.03	6,816	50,095	0.14	3,866	37,611	0.10
2010/11	2,437	49,696	0.05	8,140	50,138	0.16	2,965	40,921	0.07
2011/12	4,276	55,024	0.08	11,804	57,011	0.21	6,362	47,731	0.13
Mean			0.08			0.16			0.09
SD			0.02			0.03			0.03
CV			29.40			20.30			33.44

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

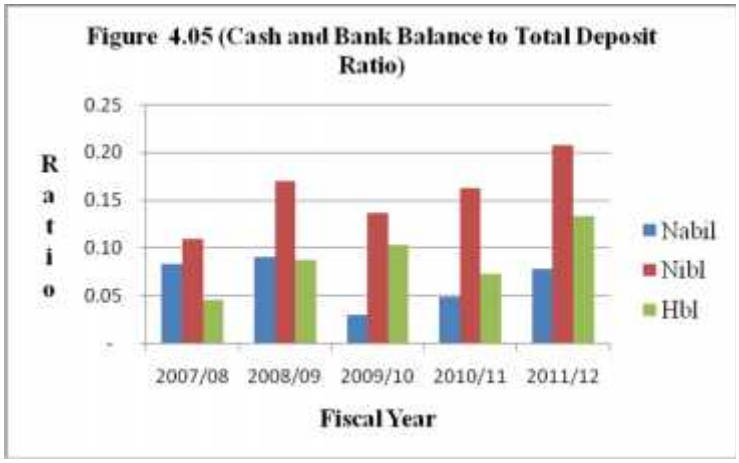


Table 4.05 and figure 4.05 show that the ratio of Nabil bank is highest in FY 2008/09 i.e. 0.09 times and lowest in FY 2009/10 i.e. 0.03 times. The ratio in NIBL was fluctuating trend. So, the highest ratio was 0.21 times in FY 2011/12 and the lowest ratio was 0.11 times in FY 2007/08. The ratio in HBL was also in fluctuating trend. So, the highest ratio was 0.13 times in FY 2011/12 and the lowest ratio was 0.05 times in 2007/08. The mean ratio of NIBl appeared greater than Nabil and HBL, which means that NIBL has greater ability to repay the deposits i.e. NIBL is more efficient to serve the customers from liquidity point of view. A high ratio represents the greater ability to meet their all types of deposits. But too high ratio of cash and bank balance to total deposits may be unsuitable and harmful because it affects their profitability position and also low ratio is unfavorable as capital will be tide-up and opportunity cost will be higher. Higher CV of ratios in HBL as compared Nabil and NIBL signifies greater variation in the ratios.

4.1.1.6 NRB Balance to Current and Saving Deposit Ratio

The ratio shows the percentage of amount deposits by the banks in Nepal Rastra Bank (NRB) as compare to the current and saving deposits. Commercial banks required holding certain position of current and saving deposits in NRB account. It is computed by dividing the NRB balance by current and saving deposits.

NRB Balance to Current and Saving Deposit Ratio = $\frac{NRB\ Balance}{Current\ \&\ Saving\ deposits}$

Table 4.6
NRB Balance to Current and Saving Deposit Ratio (Times)

(Rs in Millions)

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	NRB Balance	Current and saving Deposit	Ratio	NRB Balance	Current and saving Deposit	Ratio	NRB Balance	Current and saving Deposit	Ratio
2007/08	1,829	17,444	0.10	1,820	16,827	0.11	936	22,757	0.04
2008/09	2,649	20,101	0.13	4,411	20,823	0.21	2,328	23,279	0.10
2009/10	549	21,688	0.03	3,237	18,350	0.18	2,605	20,040	0.13
2010/11	1,474	12,029	0.12	4,009	17,533	0.23	1,391	19,689	0.07
2011/12	3,682	32,283	0.11	8,503	23,887	0.36	3,979	26,500	0.15
Mean			0.11			0.21			0.10
SD			0.04			0.08			0.04
CV			33.53			38.33			39.31

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

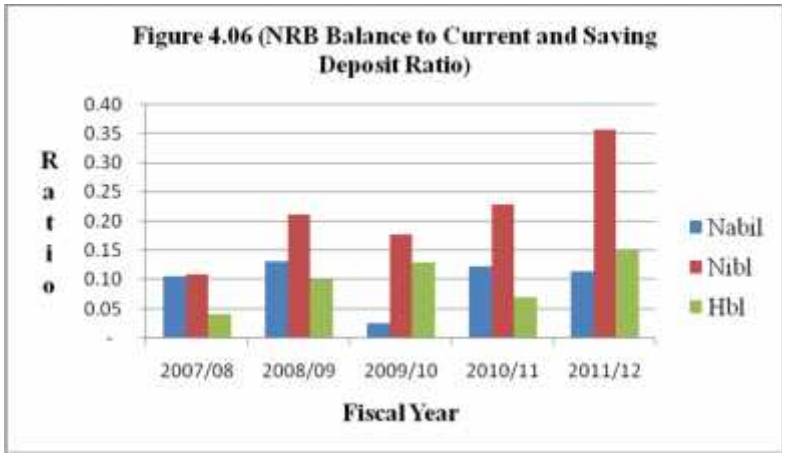


Table 4.06 and figure 4.06, the ratio of Nabil, NIBL and HBL remained highest in FY 2011/12 i.e 0.11, 0.36 and 0.15 times respectively. Similarly, the lowest ratio of Nabil, NIBL and HBL remained in FY 2009/10, 2007/08 and 2007/08 i.e. 0.03, 0.11 and 0.04 times respectively. As per directive of Nepal Rastra bank, the required ratio is 0.08 times. Therefore, Nabil bank shows below the standard in FY 2009/10 and FY 2010/11 and HBL shows below the standard in FY 2007/08 and 2010/11. Mean ratio of NIBL can higher than that of Nabil and HBL, which means that NIBL has greater ability to repay the current and saving deposits and NIBL is more efficient to serve the customers from liquidity point of view. From the CV analysis, it can be concluded that the ratio of HBL varied to a greater than that of Nabil and NIBL.

4.1.1.7 NRB Balance to Fixed Deposit Ratio

The ratio shows the proportion of cash balance at Nepal Rastra Bank's current account as compare to the commercial banks' fixed deposits amount. The ratio is calculated as using the following formula;

$$\text{NRB Balance to Fixed Deposit Ratio} = \frac{NRB\ Balance}{Fixed\ Deposits}$$

Table 4.07
NRB Balance to Fixed Deposit Ratio (Times)

(Rs in Millions)

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	NRB Balance	Fixed Deposit	Ratio	NRB Balance	Fixed Deposit	Ratio	NRB Balance	Fixed Deposit	Ratio
2007/08	1,829	8,464	0.22	1,820	7,944	0.23	936	6,424	0.15
2008/09	2,649	8,311	0.32	4,411	11,633	0.38	2,328	6,377	0.37
2009/10	549	14,711	0.04	3,237	16,825	0.19	2,605	11,329	0.23
2010/11	1,474	16,841	0.09	4,009	18,378	0.22	1,391	13,507	0.10
2011/12	3,682	14,045	0.26	8,503	20,057	0.42	3,979	11,867	0.34
Mean			0.22			0.23			0.23
SD			0.11			0.09			0.10
CV			49.01			41.07			44.54

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

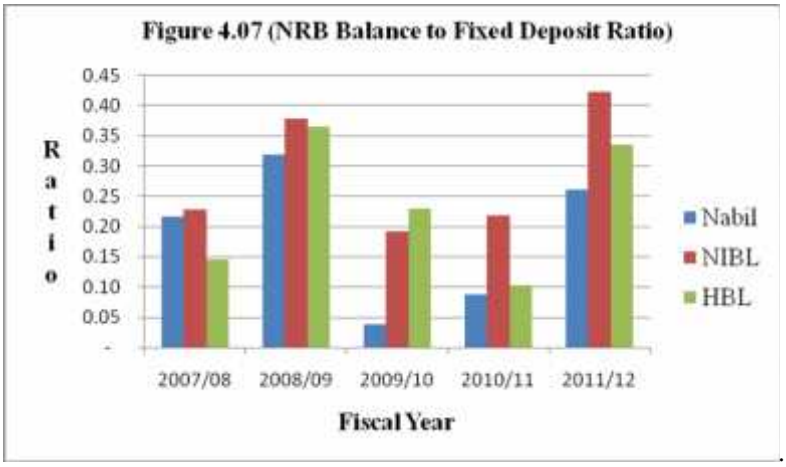


Table 4.07 and figure 4.07 shows that the ratio of Nabil bank is maximum of 0.32 times in FY 2008/09 and minimum of 0.04 in FY 2009/10. Similarly, in NIBL the ratio ranged from minimum of 0.19 times in FY 2009/10 and maximum of 0.42 times in FY 2011/12. Similarly, in HBL the ratio ranged from minimum of 0.10 in FY 1010/11 and maximum of 0.37 in FY 2008/09. In all of the years, the ratio remained higher than 0.06 times, the minimum standard set by Nepal Rastra Bank. Mean ratio of NIBL and HBL is equal and it is higher than Nabil bank. It reveals that NIBL and HBL have slightly stronger the fixed deposits to be repaid than that of Nabil bank. Furthermore, CV of the ratios remained higher in Nabil than NIBL and HBL, due to greater fluctuation in the ratios of Nabil bank.

4.1.2 Efficiency /Activity/ Turnover Ratios

Turnover ratios have been used to evaluate the efficiency with which the banks have managed and utilized their assets. So, it is also called Efficiency ratio. These ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover help in measuring the bank's ability to utilize their available resources. In this study these ratios include; loans and advances to total deposit ratio, loans and advances to saving deposit ratio, loans and advances to fixed deposit ratio, investment total deposit ratio and performing assets to total assets ratio.

4.1.2.1 Loans and Advances to Total Deposit Ratio

This ratio is calculated to find out how the banks are successful utilizing the outsiders' fund i.e. total deposits for profit generating purpose in the form of extending loan and advances. It is calculated as;

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

Table 4.08
Loans and Advance to Total Deposit Ratio

(Rs in Millions)

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Loans and Advance	Total Deposit	Ratio	Loans and Advance	Total Deposit	Ratio	Loans and Advance	Total Deposit	Ratio
2007/08	21,365	31,915	0.67	26,997	34,452	0.78	19,498	31,843	0.61
2008/09	27,590	37,348	0.74	36,241	46,698	0.78	24,793	34,682	0.71
2009/10	32,269	46,341	0.70	40,318	50,095	0.80	27,981	37,611	0.74
2010/11	38,034	49,696	0.77	41,096	50,138	0.82	31,567	40,921	0.77
2011/12	41,606	55,024	0.76	41,637	57,011	0.73	34,965	47,731	0.73
Mean			0.74			0.78			0.73
SD			0.04			0.03			0.05
CV			4.95			3.89			7.45

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

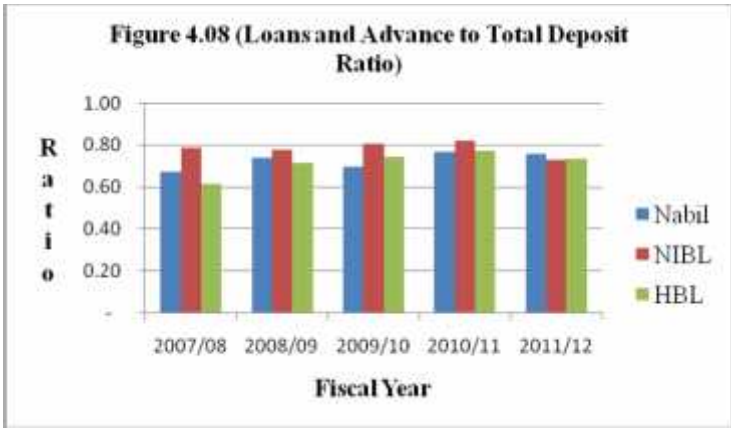


Table 4.08 and Figure 4.08 depicts that the ratio in the three banks fluctuated throughout the study period. In Nabil bank, it ranged from minimum in FY 2007/08 i.e. 0.67 times to maximum in FY 2010/11 i.e. 0.77 times. In NIBl, it is the highest in FY 2010/11 i.e. 0.82 times and the lowest in FY 2011/12 i.e. 0.73 times. In HBL, it is highest in FY 2010/11 i.e. 0.77 times and lowest in FY 2007/08 i.e 0.61 times. Mean ratio of NIBL appeared considerably higher than that of Nabil and HBL, which signifies that NIBL is more successful in utilizing the resource in profitable sectors than two banks. From the CV analysis, is can be concluded that the ratio of HBL varied to a slightly greater than that of two banks. There is not standard turnover ratio for loan and advances to total deposits ratio. Higher turnover ratio is considered significant as it is indicated that the bank is utilizing its assets in profitable field and vice versa. For this analysis we can say that from point of view of both amount and ratio, the NIBL is better than Nabil and HBL.

4.1.2.2 Loans and Advances to Saving Deposit Ratio

Saving deposits are interest- bearing obligation for short- term purpose where as loan and advances are long-term investment for generating income. So the ratio indicates how money time's short –term interest-bearing deposits are utilized for income generating purpose. It is calculated as;

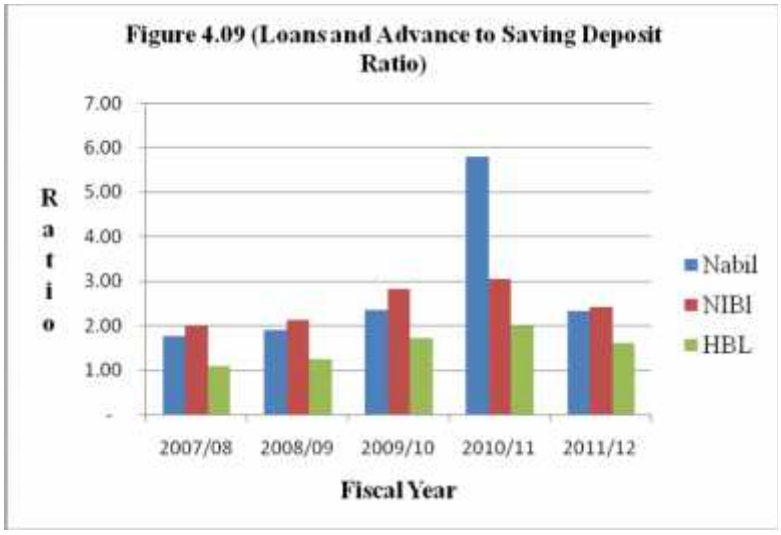
$$\text{Loan and Advances to Saving Deposit Ratio} = \frac{Loans\ \&\ Advances}{Saving\ deposits}$$

Table 4.09
Loans and Advance to Saving Deposit Ratio

(Rs in Millions)

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Loans and Advance	Saving Deposit	Ratio	Loans and Advance	Saving Deposit	Ratio	Loans and Advance	Saving Deposit	Ratio
2007/08	21,365	12,160	1.76	26,997	13,689	1.97	19,498	17,972	1.08
2008/09	27,590	14,620	1.89	36,241	17,066	2.12	24,793	20,061	1.24
2009/10	32,269	13,784	2.34	40,318	14,324	2.81	27,981	16,295	1.72
2010/11	38,034	6,572	5.79	41,096	13,490	3.05	31,567	15,995	1.97
2011/12	41,606	17,995	2.31	41,637	17,276	2.41	34,965	21,915	1.60
Mean			2.31			2.41			1.60
SD			1.50			0.41			0.32
CV			64.99			16.83			20.22

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12



The ratios of all three banks show the increasing trend in FY 2007/08 to 2010/11 and decrease in FY 2011/12 from table 4.09 and figure 4.09. In Nabil, the highest ratio is 5.79 times in FY 2010/11 and lowest ratio is 1.76 in FY 2007.08. In NIBL, the highest ratio is 3.05 times in FY 2010/11 and lowest is 1.97 times in FY 2007/08. Similarly, in HBL, the highest ratio is 1.97 in FY 2010/11 and the lowest is 1.08 times in FY 2007/08. With respect to these ratios, the three banks have not shown good performance. In other hand, these banks have not well utilized the interest bearing deposits in terms of loans and advances. Since average of the ratios in NIBL seem greater in term of Nabil and HBL, the turnover position of NIBL was greater than that of these two banks. But in comparing the each year ratio and CV analysis, Nabil bank has alos good performance than NIBL and HBL.

4.1.2.3 Loans and Advances to Fixed Deposits Ratio

This ratio examines that how many the fund is used in loans and advance against fixed deposits. It is calculated as;

$$\text{Loans and Advances to Fixed Deposit Ratio} = \frac{Loans\ \&\ Advances}{Fixed\ deposits}$$

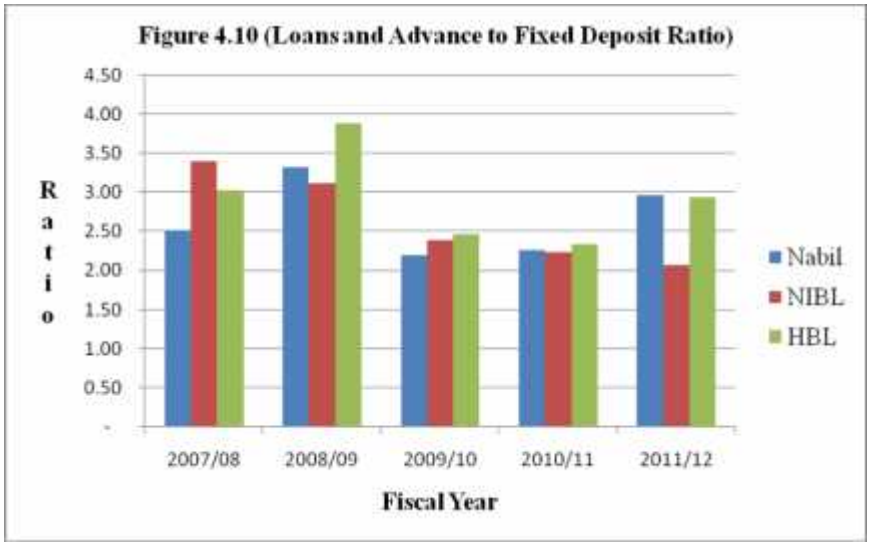
Figure 4.10 indicates that the highest of Nabil bank in FY 2008/09 i.e. 3.32 times and lowest in FY 2009/10 i.e. 2.19 times. It showed fluctuating trend in NIB & HBL for the period. In NIBL, the highest was in FY 2008/09 i.e. 3.12 times and lowest in FY 2011/12 i.e. 2.08 times. In HBL, the highest was in FY 2008/09 i.e.3.89 times and lowest in FY 2010/11 i.e. 2.34 times. Mean turnover ratio of HBL is greater than that of Nabil and NIBL, which means it utilized the high interest bearing fixed deposits in yielding sector satisfactory return or utilizes its fixed deposits more efficiently. CV analysis of NIBL is greater than Nabil & HBL. In comparing the saving deposits turnover ratio, the fixed deposits turnover gives good performance in three banks.

Table 4.10
Loans and Advance to Fixed Deposit Ratio

(Rs in Million)

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Loans and Advance	Fixed Deposit	Ratio	Loans and Advance	Fixed Deposit	Ratio	Loans and Advance	Fixed Deposit	Ratio
2007/08	21,365	8,464	2.52	26,997	7,944	3.40	19,498	6,424	3.04
2008/09	27,590	8,311	3.32	36,241	11,633	3.12	24,793	6,377	3.89
2009/10	32,269	14,711	2.19	40,318	16,825	2.40	27,981	11,329	2.47
2010/11	38,034	16,841	2.26	41,096	18,378	2.24	31,567	13,507	2.34
2011/12	41,606	14,045	2.96	41,637	20,057	2.08	34,965	11,867	2.95
Mean			2.52			2.40			2.95
SD			0.43			0.52			0.55
CV			17.03			21.62			18.54

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12



4.1.3 Profitability Ratios

Profit is an important factor that determines the firm's expansion &diversification. A required level of profit is necessary for the firm's growth and survives in the competitive environment. Profitability ratios have been employed to measures the operating efficiency of the sampled banks. For the purpose, return on assets, return on net worth, return on total deposit, total interest expenses to total interest income ratio and interest earned to total asset ratio have been analyzed and interpreted.

4.1.3.1 Return on Assets (ROA)

The ratio is useful in measuring the profitability of all financial resources invested the firm's assets. It is also called net profit or loss to total assets or working fund ratio and denoted by ROA. It is calculated as;

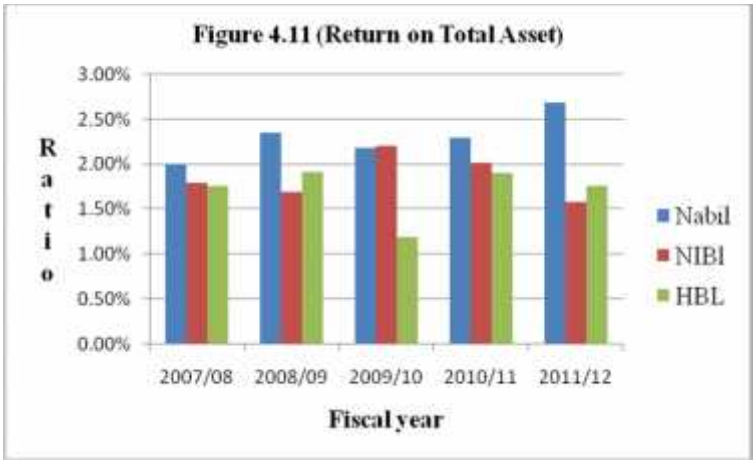
$$\text{Return on Assets} = \frac{Net\ \text{Pr}ofit\ After\ tax(NPAT)}{Total\ Assets}$$

Table 4.11
Return on Total Asset

(Rs in Millions)

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	NPAT	Total Assets	Ratio	NPAT	Total Assets	Ratio	NPAT	Total Assets	Ratio
2007/08	746	37,133	2.01%	697	38,873	1.79%	636	36,176	1.76%
2008/09	1,031	43,867	2.35%	901	53,011	1.70%	753	39,330	1.91%
2009/10	1,139	52,080	2.19%	1,266	57,305	2.21%	509	42,717	1.19%
2010/11	1,338	58,141	2.30%	1,177	58,357	2.02%	893	46,736	1.91%
2011/12	1,696	63,200	2.68%	1,039	65,756	1.58%	959	54,364	1.76%
Mean			0.02			0.02			0.02
SD			0.00			0.00			0.00
CV			9.65			12.60			15.14

Source: Annual report of Nabil, Nibl and HBL from FY 2007/08 to FY 2011/12.



Above table 4.11 and figure 4.11 states that the ratios of Nabil is in fluctuation trend. It reached 2.68% in FY 2011/12 at highest point & 2.01% in FY 2007/08 at lowest. The ratio of NIBL was highest in FY 2009/10 i.e. 2.21% and lowest in FY 2011/12 i.e. 1.58%. Similarly, the ratios of HBL was highest in FY 2010/11 i.e. 1.91% and lowest in FY 2011/12 i.e. 1.76%.The mean ratio was considerably equal in all three banks, which signifies that the profitability position of three banks are better. If bank earns high profit, it will increase its goodwill in competitive market at it can gives attractive bonus and dividend to staffs and shareholders respectively. From the above analysis overall profitability of Nabil is better than NIBL & HBL and whole credit goes to good management of banking sectors. CV of the ratios was higher in HBL than that of Nabil & NIBL. In total, the three banks profitability position was in satisfactory.

4.1.3.2 Return on Net Worth / Shareholders' Equity (ROE)

The ratio is tested to see the profitability of owners' investment. It reflects the extent to which the objective of business is accomplished. So, all commercial banks have its main objectives to earn the maximum profit, so that they can run smoothly and get the name and fame. The ratio is of great interest to present as prospective shareholders' and also of great significance to management, which has the responsibility maximizing the owners' welfare. So, higher is desirable. Net worth refers the owner's claim on banks. It is also called net

profit to shareholders equity ratio on shareholder equity simply denoted by ROE. It is calculated as;

$$\text{Return on Net Worth} = \frac{Net\ \text{Pr}ofit\ After\ tax(NPAT)}{Net\ Worth}$$

Table 4.12
Return on Net Worth

(Rs in Millions)

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	NPAT	Net Worth	Ratio	NPAT	Net Worth	Ratio	NPAT	Net Worth	Ratio
2007/08	746	2,437	30.63%	697	2,687	25.93%	636	2,513	25.30%
2008/09	1,031	3,130	32.94%	901	3,908	23.05%	753	3,120	24.13%
2009/10	1,139	3,834	29.69%	1,266	4,585	27.61%	509	3,439	14.79%
2010/11	1,338	4,567	29.29%	1,177	5,160	22.80%	893	3,995	22.35%
2011/12	1,696	5,451	31.12%	1,039	6,050	17.18%	959	4,632	20.70%
Mean			0.31			0.23			0.22
SD			0.01			0.04			0.04
CV			4.17			15.44			16.46

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

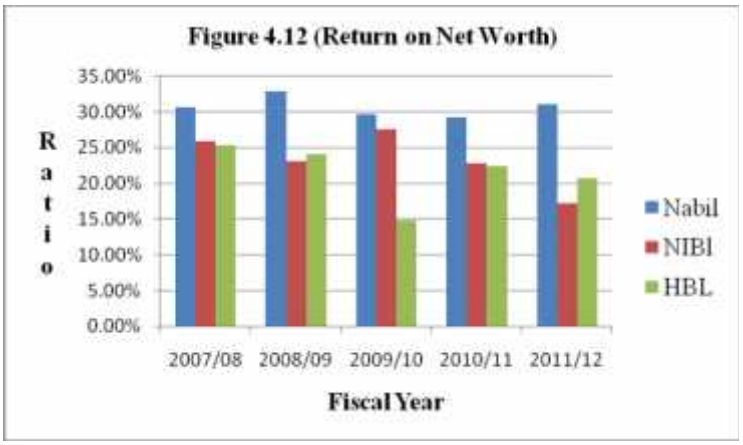


Table 4.12 and figure 4.12 shows that the highest ratio of Nabil bank is in FY 2008/09 i.e. 32.94% and the lowest is in FY 2010/11 i.2 29.29%. Likewise, the highest ratio of NIBL is in FY 2009/10 i.e. 27.61% and lowest is in FY 2011/12 i.e. 17.18%. Similarly the highest ratio of HBL is in FY 2007/08 i.e. 25.30% and lowest ratio is in FY 2009/10 i.e. 14.79%. Mean ratio of Nabil bank appeared more than that of NIBL and HBL, which indicates that Nabil has effectively utilized the owners' capital and able to give regular and significant return to them. Higher C of the ratios in HBL signifies that the lesser uniformity in the ratio or the ratios were far from the mean ratios.

4.1.4 Capital Structure/ Leverage/ Solvency Ratios

Leverage refers to the ratio of debt to total equity in the capital structure of the firm. Debt and equity are long- term obligation and remaining part of the liabilities side of Balance Sheet are term as short-term obligation. Therefore a firm has strong short-term liabilities as well as long-term financial position. Long-term financial position of the firm is determined by leverage or capital structure. So, leverage ratios have been analyzed and interpreted to judge the long-term financial health of the sampled banks. These include debt-equity ratio, debt-assets ratio, debt to total capital ratio and interest coverage ratio.

4.1.4.1 Debt-Equity Ratio

The ratio shows the mixed of debt & equity in capital. It measures creditors' claim against owners'. It is computed as;

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

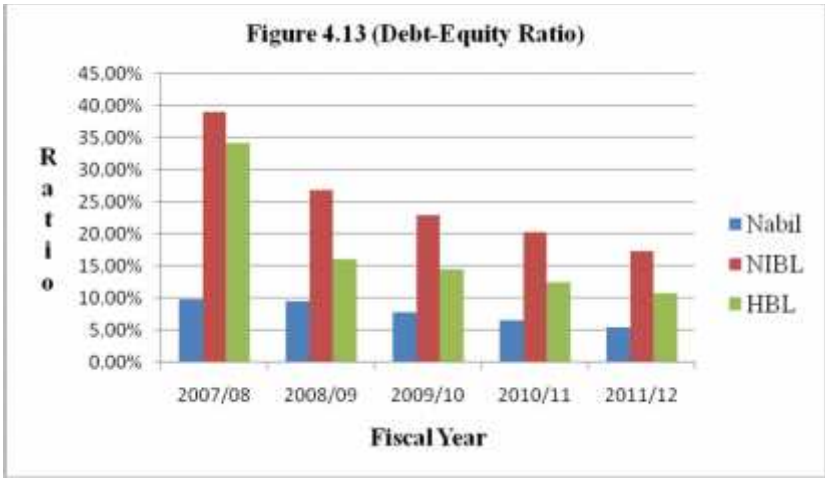
Table 4.13 and figure 4.13 reveals that the ratio of all banks is in decreasing trend. The average of the ratios appeared significantly greater in NIBL as compared to that of two banks. Such situation introduces in flexibility in the bank's operation due to the increasing interference and pressure from creditors. From the above analysis we can say that the three banks seemed levered. In other words, capital structure of NIBL is riskier than that of Nabil and HBL. CV of Nabil is lower which clarifies that the ratio of NIBL and HBL were less consistent.

Table 4.13
Debt-Equity Ratio

Rs in Million

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Total Debt	Net Worth	Ratio	Total Debt	Net Worth	Ratio	Total Debt	Net Worth	Ratio
2007/08	240	2,437	9.85%	1,050	2,687	39.08%	860	2,513	34.22%
2008/09	300	3,130	9.58%	1,050	3,908	26.87%	500	3,120	16.03%
2009/10	300	3,834	7.82%	1,050	4,585	22.90%	500	3,439	14.54%
2010/11	300	4,567	6.57%	1,050	5,160	20.35%	500	3,995	12.51%
2011/12	300	5,451	5.50%	1,050	6,050	17.36%	500	4,632	10.79%
Mean			0.08			0.23			0.15
SD			0.02			0.08			0.08
CV			21.49			33.01			58.39

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12



4.1.4.2 Debt Assets Ratio

The ratio shows the contribution of creditors in financing the assets of the bank. It is calculated as;

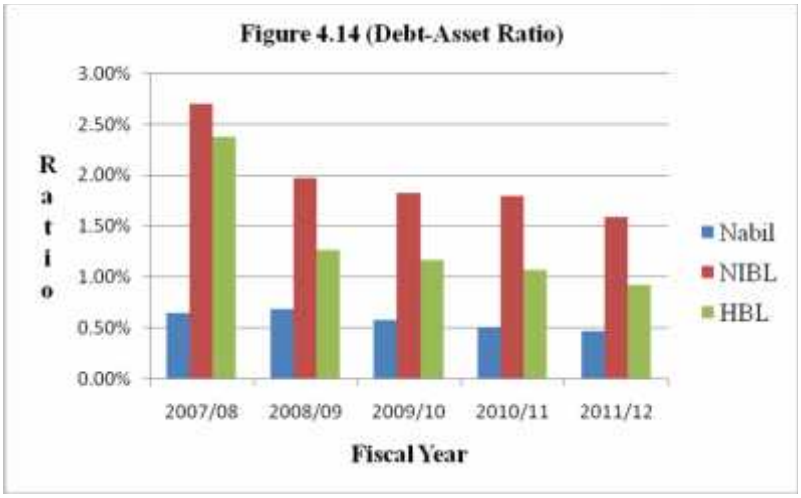
$$\text{Debt-Asset Ratio} = \frac{Total\ Debt}{Total\ Assets}$$

Table 4.14
Debt-Asset Ratio

Rs in Million

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Total Debt	**Total Assets**	**Ratio**	**Total Debt**	**Total Assets**	**Ratio**	**Total Debt**	**Total Assets**	**Ratio**
2007/08	240	37,133	0.65%	1,050	38,873	2.70%	860	36,176	2.38%
2008/09	300	43,867	0.68%	1,050	53,011	1.98%	500	39,330	1.27%
2009/10	300	52,080	0.58%	1,050	57,305	1.83%	500	42,717	1.17%
2010/11	300	58,141	0.52%	1,050	58,357	1.80%	500	46,736	1.07%
2011/12	300	63,200	0.47%	1,050	65,756	1.60%	500	54,364	0.92%
Mean			0.01			0.02			0.01
SD			0.00			0.00			0.01
CV			13.54			20.73			44.50

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12



According to the above table and figure, mean of the ratios came slightly greater in NIBL as compared to that in HBL & Nabil, which signifies that the former followed more aggressive policy in raising the capital. On the other hand, capital structure of Nabil seems less risky. Higher ratio in NIBL indicates that the greater portion of the bank's assets has been financed through outsider's fund. From the CV analysis, it can be noticed that the ratios of HBL varied considerably throughout the review period.

4.1.5 Capital Adequacy Ratios

Capital adequacy ratios of the banks have been tested to find whether they are successful to Measures the depositors and creditors about their soundness; and also to maintain general confidence in banking system. These include net worth to total deposit ratio, net worth to total assets and net worth to total credit ratio.

4.1.5.1 Net Worth to Total Deposits Ratio

The ratio measures the percentage of shareholders' fund in relation to the total deposits collected in the bank. It is the yardstick to see whether the bank has maintained the capital fund according to the direction of Nepal Rastra Bank. It is calculated as;

$$\text{Net worth to Total Deposit} = \frac{Net\,Worth}{Total\,Deposits}$$

Table 4.15
Net Worth to Total Deposit Ratio

Rs in Million

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Net Worth	Total Deposit	Ratio	Net Worth	Total Deposit	Ratio	Net Worth	Total Deposit	Ratio
2007/08	2,437	31,915	0.08	2,687	34,452	0.08	2,513	31,843	0.08
2008/09	3,130	37,348	0.08	3,908	46,698	0.08	3,120	34,682	0.09
2009/10	3,834	46,341	0.08	4,585	50,095	0.09	3,439	37,611	0.09
2010/11	4,567	49,696	0.09	5,160	50,138	0.10	3,995	40,921	0.10
2011/12	5,451	55,024	0.10	6,050	57,011	0.11	4,632	47,731	0.10
Mean			0.08			0.09			0.09
SD			0.01			0.01			0.01
CV			9.40			11.80			7.38

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

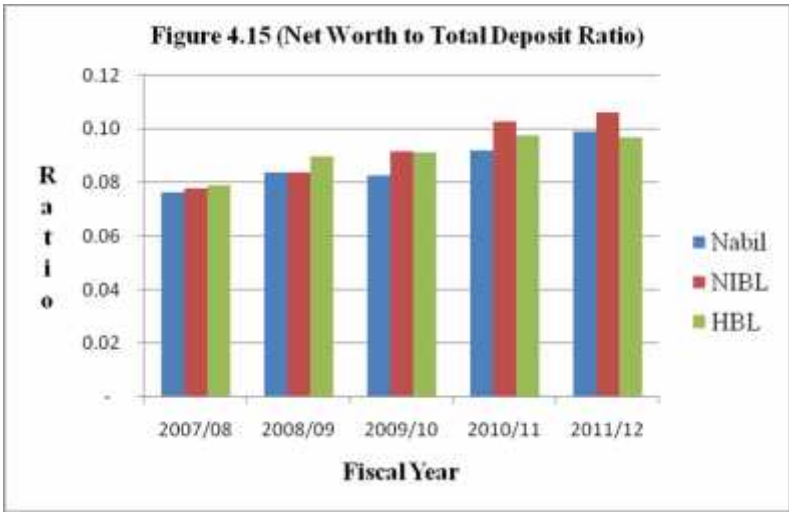


Table 4.14 and figure 4.14 denotes that average ratio of NIBL and HBL appeared higher than Nabil which means the former is better with respect to the capacity adequacy position.

Higher CV of the ratios of NIBL shows less consistency in the maintaining net worth with respect to deposits.

4.1.5.2 Net Worth to Total Assets Ratio

The ratio measures the percentage of net worth in relation to the total assets owned by the banks. It is calculated as;

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

Table 4.16
Net Worth to Total Assets Ratio

Rs in Million

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Net Worth	Total Assets	Ratio	Net Worth	Total Assets	Ratio	Net Worth	Total Assets	Ratio
2007/08	2,437	37,133	0.07	2,687	38,873	0.07	2,513	36,176	0.07
2008/09	3,130	43,867	0.07	3,908	53,011	0.07	3,120	39,330	0.08
2009/10	3,834	52,080	0.07	4,585	57,305	0.08	3,439	42,717	0.08
2010/11	4,567	58,141	0.08	5,160	58,357	0.09	3,995	46,736	0.09
2011/12	5,451	63,200	0.09	6,050	65,756	0.09	4,632	54,364	0.09
Mean			0.07			0.08			0.08
SD			0.01			0.01			0.01
CV			9.45			10.76			7.22

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

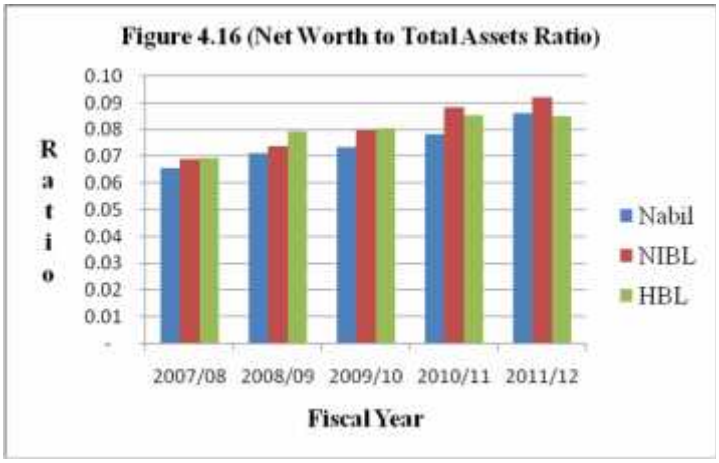


Table 4.15 and figure 4.15 explores that the mean ratio of NIBL and HBL seemed higher than that of Nabil, which indicates that net worth in they have covered comparatively greater portion of total assets. In other words, NIBL and HBL are superior to Nabil and which refers to check the possible risk that might arise due to high leverage. CV of the ratio remained greater in NIBL, which means that the ratios in NIBL highly as against Nabil and HBL.

4.1.6 Assets Quality Ratios

Assets quality ratios intend to measure the quality of assets owned by the banks. These include loan loss coverage ratio, loan loss provision to total income ratio, loan loss provision to total deposit ratio and accrued interest to total interest income ratio.

4.1.6.1 Loan Loss Coverage Ratio

Nepal Rastra Bank has directed Commercial banks to maintain provision for loan loss on the basis of category of loan & risk grade. The ratio therefore measures whether the provision is sufficient to meet the possible loss created by defaulted in payment of loan or not. High ratio indicates that the major portion of loan is risky. Therefore, for the study purpose, risky assets constitute loans and advances, bill purchased and discounted. It is computed by dividing loan loss provision by total risk assets.

$$\text{Loan Loss Coverage Ratio} = \frac{Loan\ Loss\ \text{Pr}ovision}{Total\ Risk\ Assets}$$

Table 4.17
Loans Loss Coverage Ratio

Rs in Million

Fiscal year	Nabil bank			NIBL Bank			HBL Bank		
	Loan Loss Provision	Total Risk assets	Ratio	Loan Loss Provision	Total Risk assets	Ratio	Loan Loss Provision	Total Risk assets	Ratio
2007/08	48	21,365	0.23%	13	26,997	0.05%	52	19,498	0.27%
2008/09	24	27,590	0.09%	166	36,241	0.46%	59	24,793	0.24%
2009/10	356	32,269	1.10%	93	40,318	0.23%	667	27,981	2.39%
2010/11	109	38,034	0.29%	267	41,096	0.65%	470	31,567	1.49%
2011/12	391	41,606	0.94%	743	41,637	1.78%	448	34,965	1.28%
Mean			0.29%			0.46%			1.28%
SD			0.00			0.01			0.01
CV			142.61			133.32			63.05

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

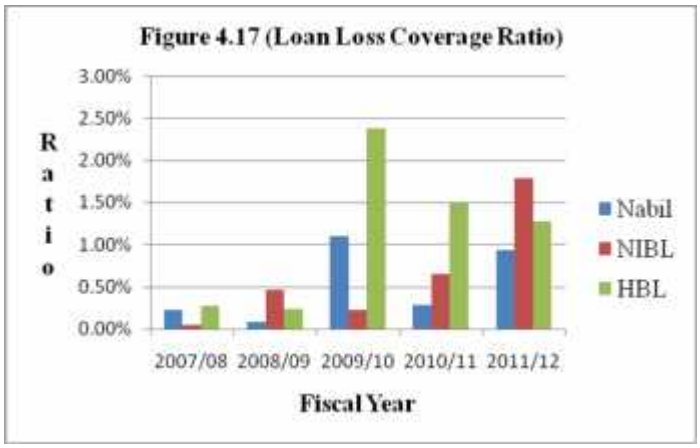


Table 4.16 and figure 4.16 exhibits that the ratios of all Banks were in fluctuating trend. Mean ratio of HBL was slightly greater than Nabil and NIBL. It indicates that Nabil, and NIBL have been more successful to foresee the quality of loans lent. Conversely, the assets

possessed by HBL have higher degree of risk as compared to that of Nabil & NIBL. That's why, the former bank has maintained comparatively higher ratio to prevent itself from possible default in payment by borrowers. CV of the ratios seemed less in HBL, which reveals that consistency in the ratios greater in Nabil and NIBL bank.

4.1.6.2 Loan Loss Provision to Total Income Ratio

The ratio shows that portion of total income has been held as safety cushion against the possible bad loan. Higher ratio indicates that the greater portion of loan advanced by the bank is inferior in quality. Low ratio means that the bank has provided most of its loans & advances in secured sector. The ratio is obtained by dividing loan loss provision by total income. It is calculated as;

$$\text{Loan Loss Provision to Total Income Ratio} = \frac{Loan\ Loss\ \text{Pr}ovision}{Total\ Income}$$

Table 4.18
Loan Loss Provision to Total Income Ratio

Rs in Million

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Loan Loss Provision	Total Income	Ratio	Loan Loss Provision	Total Income	Ratio	Loan Loss Provision	Total Income	Ratio
2007/08	48	1,979	2.44%	13	2,194	0.59%	52	1,964	2.67%
2008/09	24	2,798	0.86%	166	3,268	5.08%	59	2,342	2.53%
2009/10	356	4,050	8.79%	93	4,654	2.00%	667	3,149	21.20%
2010/11	109	5,258	2.08%	267	5,803	4.61%	470	4,326	10.87%
2011/12	391	6,134	6.37%	743	5,983	12.42%	448	4,725	9.48%
Mean			2.44%			4.61%			9.48%
SD			0.03			0.04			0.07
CV			122.23			88.79			72.12

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

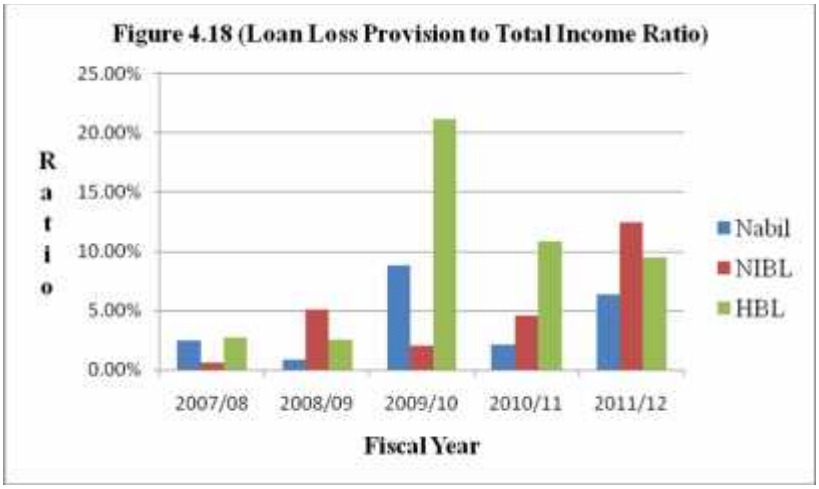


Table 4.17 and figure 4.17 explain that the ratios of all three banks were in fluctuation trend. The Nabil bank has at maximum in FY 2009/10 i.e 8.79%, NIBl has maximum in FY 2011/12 i.e. 12.42% and HBL has maximum in FY 2009/10 i.e 21.20% and minimum in FY 2008/09 i.e. 0.86%, 0.59% and 2.67% in Nabil, NIBL and HBL respectively. Mean ratio remained higher in HBL than in NIBL and Nabil, which signifies that HBL held comparatively greater portion of risky assets. Moreover, HBL has been forced to retain greater portion of its income idle as the cushion against loans of inferior quality. CV analysis signifies that the ratios of Nabil remained less uniformity as compared with NIBL and HBL.

4.1.6.3 Loan Loss Provision to Total Deposit Ratio

The ratio shows the proportion of banks income held as loan loss provision in relation to total deposits collected. It is calculated as;

$$\text{Loan Loss Provision to Total Deposits Ratio} = \frac{Loan\ Loss\ \text{Pr}ovision}{Total\ Deposits}$$

Table 4.19
Loan Loss Provision to Total Deposit Ratio

Rs in Million

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Loan Loss Provision	Total Deposit	Ratio	Loan Loss Provision	Total Deposit	Ratio	Loan Loss Provision	Total Deposit	Ratio
2007/08	48	31,915	0.15%	13	34,452	0.04%	52	31,843	0.16%
2008/09	24	37,348	0.06%	166	46,698	0.36%	59	34,682	0.17%
2009/10	356	46,341	0.77%	93	50,095	0.19%	667	37,611	1.77%
2010/11	109	49,696	0.22%	267	50,138	0.53%	470	40,921	1.15%
2011/12	391	55,024	0.71%	743	57,011	1.30%	448	47,731	0.94%
Mean			0.22%			0.36%			0.94%
SD			0.00			0.00			0.01
CV			134.17			124.57			65.37

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

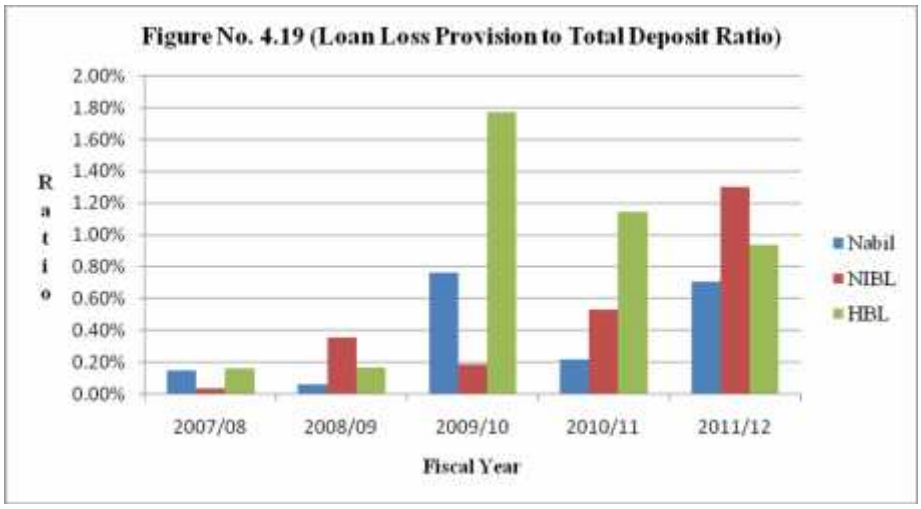


Table 4.18 and figure 4.18 highlights that the mean ratio of HBL exceeded that in Nabil and NIBL, which means assets owned by assets owned by NIBL are superior to that of Nabil and assets owned by NIBL are superior to that of HBL. In other words, HBL has lend greater

portion of its loan in riskier sectors. Lower CV ratio in HBL means that the consistency in the loan loss provision with respect to the deposits was higher in Nabil and NIBL.

4.1.6.4 Accrued Interest to Total Interest Income Ratio

The ratio shows the percentage of accrued interest with respect to total income in form of interest. It is calculated as;

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

Table 4.20
Accrued Interest to Total Interst Income Ratio

Rs in Million

Fiscal Year	Nabil bank			NIBL Bank			HBL Bank		
	Accrued Income	Total Interest	Ratio	Accrued Income	Total Interest	Ratio	Accrued Income	Total Interest	Ratio
2007/08	128	758	16.88%	107	992	10.75%	348	824	42.20%
2008/09	152	1,153	13.14%	154	1,687	9.11%	377	935	40.30%
2009/10	221	1,960	11.28%	185	25,554	0.72%	500	1,554	32.20%
2010/11	309	2,955	10.45%	230	3,620	6.37%	618	2,415	25.61%
2011/12	371	3,155	11.76%	333	3,814	8.73%	534	2,816	18.97%
Mean			11.76%			8.73%			32.20%
SD			0.02			0.03			0.09
CV			19.26			40.08			27.20

Source: Annual reports of Nabil, Nibl and HBL from 2007/08 to 2011/12

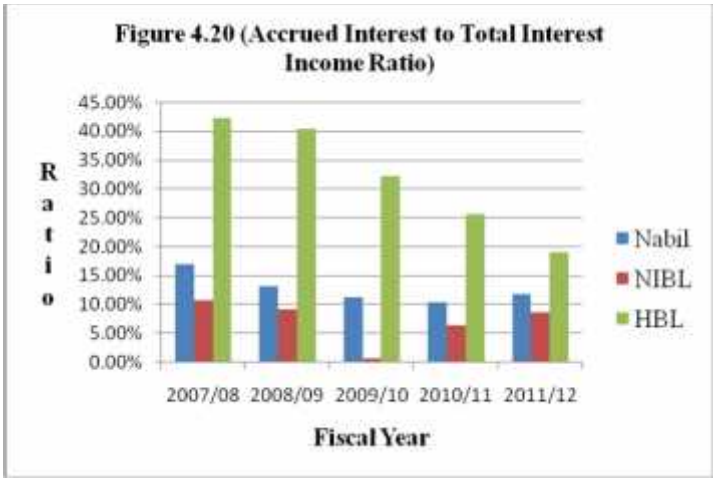


Table 4.19 and figure 4.19 shows that the mean ratios appeared greater in HBL, which signifies that comparatively more portion of total interest income in the bank remained accrued. Moreover, the loans advance by HBL bank seemed less effective. Lower ratio in NIBL indicates better quality of assets. Higher CV of the ratio in NIBL indicates greater variability of the ratios in it.

4.1.7 Other Indicators

Above stated ratio shows light on various aspect of the banks management, investment & creditors can get information regarding their investment. Besides the above-analyzed ratios, some indicators have been tested to have the boarder knowledge of financial performance of the banks. For this, EPS, P/E ratio and MVPS to BVPS have been analyzed.

4.1.7.1 Earning Per Share (EPS)

EPS refers to the income available to the common shareholder on per share basis. It is computed as;

$$\text{Earning Per Share} = \frac{\text{Earning Available Common Shareholder (EAC)}}{\text{No of Equity Share Outstanding}}$$

Table 4.21

Earning per share

Fiscal Year	Nabil	NIBL	HBL
2007/08	115.86	57.9	62.74
2008/09	113.44	37.4	61.9
2009/10	83.81	52.5	31.8
2010/11	70.67	39.1	44.66
2011/12	83.57	27.6	39.94
Mean	83.81	39.10	44.66
SD	17.95	10.92	12.24
CV	21.42	27.92	27.40

Source: Annual reports of Nabil, NIBL and HBL from FY 2007/08 to FY 2011/12

Table 4.20 and figure 4.20 indicates that mean of EPS was much higher in Nabil bank in contrasts to NIBL and HBL; which indicates that the profitability position of the former is far better than that of the latter. In this sense, Nabil bank seems more successful to attract the investors. Net profit earned by Nabil bank is greater than that of NIBL and HBL but number of equity share outstanding in NIBL is greater than HBL and Nabil and HBL is greater than Nabil bank. So, Nabil bank was seem well then NIBL and HBL.

4.1.7.2 Price-Earning Ratio (P/E ratio)

P/E ratios widely used to evaluate the banks performance as expected by investors. It represents the investor's judgment or expectation about the growth in banks earning. In other words, it measures how the market is responding toward the earning performance of the concerned banks. It is obtained as;

$$\text{Price –Earning Ratio} = \frac{\text{Market Value Per Share(MVPS)}}{\text{Earning Per Share (EPS)}}$$

Table 4.22

Price-earning Raio

Fiscal Year	Nabil	NIBL	HBL
2007/08	45.53	42.3	31.56
2008/09	53.19	37.1	28.43
2009/10	28.45	13.4	25.66
2010/11	17.72	10.5	12.88
2011/12	16.21	18.5	16.35
Mean	28.45	8.50	25.66
SD	14.82	12.89	7.16
CV	52.08	69.67	27.91

Source: Annual reports of Nabil, NIBL and HBL from FY 2007/08 to FY 2011/12

Table 4.21 and figure 4.21 indicates that mean ratio of Nabil bank appeared higher than Nabil and HBL. It indicates that the investors are well satisfied with the performance of the bank or market has positively judged the performance of NIBL and HBL. At CV analysis, NIBl has higher CV than Nabil and HBL, which indicates that the ratios varied in the bank.

4.1.7.3 Market Value Per Share to Book Value Per Share (MVPS/BVPS)

The ratio measures the value that the financial market attaches to the management and organization of the banks as a growing concern. It is calculated as;

$$\text{Market Value Per Share to Book Value Per Share} = \frac{\text{Market Value Per Share (MVPS)}}{\text{Book Value Per Share (BVPS)}}$$

Table. 4.23

Market Value Per Share to Book Value Per Share

	Nabil			NIBL			HBL		
Fiscal Year	**MVPS**	**BVPS**	**Ratio**	**MVPS**	**BVPS**	**Ratio**	**MVPS**	**BVPS**	**Ratio**
2007/08	5275	354	14.90	2450	223	10.99	1980	248	7.98
2008/09	4899	324	15.12	1388	162	8.57	1760	256	6.88
2009/10	2384	265	9.00	705	190	3.71	816	227	3.59
2010/11	1252	225	5.56	515	171	3.01	575	200	2.88
2011/12	1355	269	5.04	511	161	3.17	653	193	3.38
Mean			9.00			3.71			3.59
SD			4.37			3.27			2.07
CV			48.59			88.20			57.69

Source: Annual reports of Nabil, NIBL and HBL from FY 2007/08 to FY 2011/12

Table 4.22 and figure 4.22 exhibit that the mean value of indicators appeared greater in Nabil, which indicates comparatively stronger management and organization in Nabil bank than NIBL and HBL. CV of the indicators came less in Nabil, which means the indicators, varied less over the period of study.

4.2 Correlation Analysis

Correlation coefficient is the statistical tools that can be describe to which one variable is linearly related to another the coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's Method is applied in the study. It is the most common and useful tool to measure the relationship between two variables in the bank. The correlation coefficient(r) between two variables X and Y can be obtained by using following formula:

$$r = \frac{n \quad XY\,\mathrm{Z} \quad X \quad Y}{\sqrt{n \quad X^2\,\mathrm{Z}f \quad X\text{Å}}\sqrt{\quad Y^2\,\mathrm{Z}f \quad Y\text{Å}}}$$

Where,

n = number of observation in series X and Y

ΣX= Sum of observations in series X

ΣY= Sum of observation in series Y

ΣX^2= Sum of squared observations in series X

ΣY^2= Sum of squared observations in series Y

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

Here,

r = +1 implies that two variables are positively and perfectly correlated.

r = -1 implies that two variables are negatively perfectly correlated.

r = 0, does not necessarily mean that the variables are independent. They may, however be related in some other form such as quadratic, logarithm or exponential.

Under the correlation analysis, the intensity of linear relation between the following variables has been measured:

- Total Deposit and Loans and Advances
- Total Deposit and Net Profit
- Loans and Advances and Net Profit
- EPS and MPS

4.2.1 Correlation Analysis between Total Deposit and Loans and Advances

The correlation coefficient between total deposits and loan and advances to measure the relationship between major financial sources i.e. total deposits and major component of income generating assets i.e. loans and advances. In Correlation Analysis, deposit is the independent variable (Y) and loan and advances is dependent variable (X). The purpose of computing the coefficient of correlation is to justify whether the deposits are significant used in loan and advances or not and whether there is any relationship between these two variables.

Table 4.24

Correlation Coefficient and Probable Error between Total Deposits and Loan and Advances

Banks	**r_{xy}**	**PE(r)**	**6PE(r)**	**Condition**
Nabil	0.9882	0.0071	0.0424	$r_{xy} > 6PE(r)$
NIBL	0.9587	0.0244	0.1463	$r_{xy} > 6PE(r)$
HBL	0.9644	0.0211	0.1266	$r_{xy} > 6PE(r)$

(See Appendix 1.1)

Table 4.23 denotes that the correlation coefficient of Nabil, NIBL and HBL is highly strong. Also they has significant relationship between total deposit and loan and advances r_{xy}>6PE(r). This indicates that the three sampled banks seems to increase or decrease the investment in loans and advances portfolio with the increase or decrease in the deposit. But between three banks, Nabil shows better relationship as well as utilization of deposits on loan and advances than Nibl and HBL due to higher value of r.

4.2.2 Correlation Analysis between Total Deposit and Net Profit

Coefficient of correlation between total deposits and net profit measures the degree of relationship between total deposits and net profit. In Correlation Analysis deposit is the independent variable (Y) and net profit is dependent variable (X). The purpose of computing the coefficient of correlation is to justify whether the banks significantly utilization of deposits for income generating purpose or not and whether there is any relationship between these two variables. To find out the correlation (r) various calculations are done.

Table 4.25

Correlation Coefficient and Probable Error between Total Deposits and Net Profit

Banks	**r_{xy}**	**PE(r)**	**6PE(r)**	**Condition**
Nabil	0.9596	0.0239	0.1433	r_{xy} > 6PE(r)
NIBL	0.7427	0.1352	0.8114	r_{xy} <6PE(r)
HBL	0.7173	0.1464	0.8786	r_{xy} <6PE(r)

(See Appendix 1.2)

As shown in table 4.24, the coefficient of correlation strongly or near to perfect (i.e. 1) for Nabil bank. This indicates positive relation between deposit and net profit for nabil bank. The empirical test of significance of correlation with the help of probable error shows that the relation is significant for Nabil bank and insignificant for NIBL and HBL due to r_{xy} <6PE(r) . Nabil bank seems more efficient regarding the utilization of the deposits for income generating purpose as reveals by greater coefficient of correlation in Nabil.

4.2.3 Correlation Analysis between Loans and Advances and Net Profit

The basis function of commercial banks to collect deposits and used these funds on loan and advances to generate higher profit. Large amount of Loan and advances generate higher profit. Correlation coefficient between loans and net profit measures the degree of relationship between loan and advances and net profit. In Correlation Analysis, loans and advances is the independent variable (Y) and net profit is dependent variable (X). The purpose of computing the coefficient of correlation is to justify whether the banks loans and advances are significantly generate profit or not and whether there is any relationship between two variables. To find out the correlation (r) various calculations are done.

Table 4.26

Correlation Coefficient and Probable Error between Loans and Advance and Net Profit

Banks	**r_{xy}**	**PE(r)**	**6PE(r)**	**Condition**
Nabil	0.9741	0.0154	0.0925	r_{xy} >6PE(r)
NIBL	0.8840	0.0659	0.3954	r_{xy}> 6PE(r)
HBL	0.6655	0.1680	1.0082	r_{xy} <6PE(r)

See Appendix 1.3)

Table 4.25 shows that the coefficient of correlation for Nabil and NIBl bank found to be almost "1" which indicates there is proportional relation between the net profit and loans and advances for Nabil and NIBl. While testing of 6pe(r) for all sample banks, Nabil bank and NIBL found to be significant as the r_{xy} value for Nabil bank and NIBl are greater than 6PE(r) value and HBL found to be insignificant as the r_{xy} value for HBL is less than 6pr(r). It shows that the loan and advance depends upon net profit and vice-versa.

4.2.4 Correlation Analysis between EPS and MVPS

Correlation coefficient between MPS and EPS measures the degree of the relationship between two variables. In correlation Analysis, EPS is the independent variable (Y) and MVPS is dependent variables (X). The purpose of computing the coefficient of correlation is justify whether the MVPS significantly relation in EPS or not and whether there is any

relationship between these two variables. To find out the correlation (r) various calculations are done.

Table 4.27

Correlation Coefficient and Probable Error between EPS and MVPS

Banks	**r_{xy}**	**PE(r)**	**6PE(r)**	**Condition**
Nabil	0.9756	0.0145	0.0872	$r_{xy} > 6PE(r)$
NIBL	0.6175	0.1866	1.1198	$r_{xy} < 6PE(r)$
HBL	0.8737	0.0714	0.4284	$r_{xy} > 6PE(r)$

(See Appendix 1.4)

Table 4.26 exhibits that the coefficient of correlation of Nabil and HBL is significant due to $r_{xy} > 6PE(r)$ and NIBL is insignificant due to $r_{xy} < 6PE(r)$. It indicates that there is proportional relationship between EPS and MVPS. In other words, EPS depends upon MVPS and vice-versa.

4.3 Trend Analysis

Trend analysis is very useful to predict the future events on the basis of the past tendencies. This method is based on the assumption that past tendency continues in the future. The future trend of any variable is forecasted using the equation,

$$Yc = a + bX$$

Where,

Yc = The dependent variable

a = Y-intercept

b = The slope of the trend line

X = Year-2007/08 (with regard to the data used in the study)

The normal equations on fitting the trend equation are:

$Y = Na + b\Sigma X$

$\Sigma XY = a\Sigma X + b\Sigma X^2$ Since $\Sigma X = 0$ $a = \frac{X}{N}$, $b = \frac{X^4}{X^2}$

With the help of the trend equation, future values of the following variables for coming five years have been predicted:

- Total Deposits
- Loan and Advances
- Net Worth
- Net Profit

4.3.1 Trend Analysis of Total Deposits

The trend value of total deposit of Nabil, NIBL and HBL is calculated under this section. An effort has been made to forecast for next five years from FY 2012/13 to FY 2016/17 on the basis past data of total deposit of Nabil, NIBL and HBL from FY 2007/08 to 2011/12.

Table 4.28

Least Square Trend Equation and its Determinant of Total Deposits

Bank	**a**	**b**	**Yc=a + bX**
Nabil	44065	5857	44065+5857X
NIBL	47679	4856	47679+4856X
HBL	38558	3801	38558+3801X

See: Appendix 2.1

Table 4.27 depicts that the total deposit in Nabil, NIBL and HBL showed increasing trend. On the average, total deposit in Nabil, NIBL and HBL increased by Rs 5857, 4856 and 3801 million per year in the past period respectively. Therefore, trend equation of the total deposit in Nabil, NIBL and HBL are:

Yc= 44065+5857X;

Yc= 47679+4856X and

Yc= 38558+3801X respectively.

On the basis of the trend equation, the forecasted value of the total deposit in Nabil, NIBL, and HBL for FY 2016/17 will Rs 85060, 81669 and 65168 million respectively. Between three banks, the average deposit and rate of the increment in total deposits seem higher in

Nabil bank. In other words, total deposit in Nabil will increase in higher rate for forecasted periods if the past trend continues.

4.3.2 Trend Analysis of Loans and Advances

An effort has been made to forecast the amount of loan & advances of Nabil, NIBL and HBL for the next 5 years from FY 2012/13 to FY 2016/17.

Table 4.29

Least Square Trend Equation and its Determinant of Loans and Advance

Bank	**a**	**b**	**Yc=a + bX**
Nabil	32173	5093	32173+5093X
NIBL	37258	3414	37258+3414X
HBL	27761	3771	27761+3771X

See: Appendix 2.2

Table 4.28 highlights that loans and advances of all banks revealed increasing trend throughout the study period. On the average, loans and advances in Nabil, NIBL & HBL increased by Rs. 5093, 3414 and 3771 million respectively per year in the past period. Therefore, trend equation of loans and advances in Nabil, NIBL & HBL are:

Yc=32173 + 5093X;

Yc=37258 + 3414X and

Yc=27761 +3771X respectively.

On the basis of above trend equation, the forecasted value of the loan and advances for FY 2016/17 are Rs. 67821, 61152 and 54157 respectively. Between two banks, average Loans and advances and rate of the increase both seem higher in Nabil bank. In other words, Loans and Advances will increase with higher rate in Nabil bank forecasted periods if the past trend continues.

4.3.3 Trend Analysis of Net Worth

An effort has been made to forecast the amount of net worth of Nabil, NIBL and HBL for the next 5 years from FY 2012/13 to FY 2016/17.

Table 4.30

Least Square Trend Equation and its Determinant of Net Worth

Bank	a	b	Yc=a + bX
Nabil	3884	746	3884+746X
NIBL	4478	798	4478+798X
HBL	3540	511	3540+511X

See: Appendix 2.3

In above table 4.28, average rate of increase in the amount of net worth in Nabil, NIBL & HBL were Rs 476, 798 and 511 million respectively per year. Hence, the trend equations of net worth is, Yc=3884+746X; Yc=4478+798X and Yc=3540+511X respectively. From the trend above equation, the forecasted value of the net worth for FY 2016/17 is Rs. 9108, 10063 and 7119 million respectively. On observing the past trend, both average and rate of increase of net worth seems higher in NIBL. Therefore, net worth of NIBL will increase of net worth seems higher speed for forecasted periods if past trend continues.

4.3.4 Trend Analysis of Net Profit

Under this topic, the trend values of net profit for 5 years from FY 2007/08 to FY 2011/12 is calculated and forecasted for next five years from FY 2012/13 to FY 2016/17.

Table 4.31

Least Square Trend Equation and its Determinant of Net Profit

Bank	a	b	Yc=a + bX
Nabil	1190	221	1190+221X
NIBL	1016	96	1016+96X
HBL	750	79	750+79X

See: Appendix 2.4

Table 4.30 explores that net profit of all banks showed increasing trend. Therefore, trend equations of net profit are, Yc=1190 + 221X; Yc=1016 + 96X and Yc=750 + 79X respectively. From the trend above equation, the forecasted value of the deposits for FY

2016/17 is Rs. 2734, 1689 and 1300 million respectively. Between three banks, average of the net profit appeared higher in Nabil bank It means net profit will increase in higher rate in Nabil bank for forecasted periods if the past trend continues.

4.4 Major Findings

Major findings of this study are summarized below:

- HBL has better current ratio, quick ratio, cash and bank balance to current asset ratio, cash and bank balance to deposits (except fixed deposit) ratio, cash and bank balance to total deposit ratio and NRB balance to current and saving deposit ratio, than Nabil and NIBL bank. It clearly shows that HBL has better liquidity position than Nabil and NIBL.
- NRB to fixed deposit ratio is better and effective in Nabil than NIBL and HBL.
- If we look CV analysis of loans and advances to total deposit ratio in HBL, there is more uniform in utilization if its resources than Nabil and NIBl.
- Nabil has better loans and advances to saving deposit ratio than NIBL and HBL.
- NIBL has better utilizaiotn of loans and advances to fixed deposits than Nabil and HBL.
- From the analysis of return of asset and return on net-worth, HBL has better than Nabil and NIBL. It indicates that HBL has been efficiently utilizing the owners' investment comparatively better than Nabil and NIBL.
- HBL has better debt-equity ratio and debt-assets ratio than Nabil and NIBL.
- Net-worth to total deposits ratio and net-worth to total assets ratio are higher in NIBL than Nabil and HBL.
- Loans loss coverage ratio, loan loss provision to total income ratio and loan loss provision to total deposit ratio are higher in Nabil than NIBL and HBL.
- Accrued interest to total interest income ratio is higher in NIBL than Nabil and HBL.
- Earning per share, price-earning ratio and market value per share to book value per share are higher in NIBL than Nabil and HBL. Higher ratios indicate that NIBL shareholders' can get higher amount on every share held.

- Correlation analysis between total deposit and loans and advance in Nabil, NIBL and HBL is positively correlated at significant level, where rxy>6PE(r).
- Correlation analysis between total deposit and net profit is positively correlated at significant level in Nabil and insignificant in NIBL and HBL.
- Correlation analysis between loans and advances to net profit is positively correlated at significant level in Nabil and NIBL but insignificant in HBL.
- Correlation analysis between earning per share and market value per share is positively correlated at significant level in Nabil and HBL but insignificant in NIBL.
- The trend analysis of total deposits, loans and advances and net profit are higher in Nabil than NIBL and HBL whereas the trend analysis of net worth is higher in NIBL than Nabil and HBL.

CHAPTER V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONDS

5.1 Summary

Banks play an important role in the economic growth of a country. Banking, when properly organized, aids and facilitates the growth of trade and industry. The issue of development always rests upon the mobilization of resources. In the modern economy, banks are to be considered not as dealers in money but as the leaders of development. "Banks are not just the storehouse of the country's wealth but are the reservoirs of resources necessary for economic development. Bank renders valuable services to trade and industry. The banks help in the uniform development of the different regions in the country. The problem of the study on the issues related to the comparative strength & weakness of NABIL Bank Ltd, NIBL & HBL Bank Ltd. Thus, this study is strived to find the answer of the following question:

- What is the comparative position of the three banks in term of liquidity, profitability, turnover, leverage and capital adequacy?
- Is there any difference in financial performance between these three banks?
- What is the relation between the major financial indicators and the future trend of them in the three banks?
- How sound the operational result in relation to their profitability?
- What is the overall financial status of NABIL Bank, NIBL & HBL Bank running their business?

More specifically, the following are the objective of the study:

- To determine the liquidity, profitability, leverage, efficiency of capital adequacy position of NABIL Bank, NIBL & HBL Bank.
- To analyze the comparative financial position of these three banks.
- To examine the trend of financial performance of three banks.
- To explore the relationship of financial performance of three commercial banks.

It has identified the problem and set objectives to solve problems about financial performance of sampled commercial bank i.e. NABIL Bank Limited, Nepal Investment Bank Limited & Himalayan bank Limited. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to undertake this study more precisely.

The study aims to analyze and compare the financial performance of NABIL Bank, NIBL & HBL Bank. For the purpose it needs to review of literatures on the concerned area. There are several studies which have been already done from which the researches can make clear ideas and concepts. What is other opinion and concepts? What is the outcome of others researches? What has done and written? These all and other related questions are reviewed in this chapter, which is the guideline and inputs of the study. This chapter has been organized into three headings i.e. conceptual framework, review of related articles and review of different masters' theses.

Research methodology has been described in third chapter, which is a way to solve the problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and method of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concerned banks, financial statement, etc. and authorized web site of three sampled banks and NRB.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done. Ratio analysis includes liquidity, turnover, profitability, solvency, capital adequacy, asset quality & other indicators. Other indicators consist of EPS, PE ratio and MPS. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation and trend analysis have been applied to fulfill the objectives of this study. The analysis has been done mainly through secondary.

The major findings of the study are also included in the final section of the presentation and analysis chapter.

Financial performance as part of the financial management is the main indicators of the success or failure of the firm (i.e. Banks) so, the financial performance analysis can be considered as the heart of financial decision. The growth and development of the firm is directly influenced by the financial policies of the firm. There are different persons / institutions that are affected by the financial decision of the firm, stakeholder such as owners, managers, creditors, tax authorities etc are directly interrelated in the final information analysis of the bank's position.

Therefore, the study has been conducted to evaluate the financial performance of NABIL Bank Limited, Nepal Investment Bank Limited (NIBL) and Himalayan Bank Limited (HBL) and to find out their strength and weakness. The main objective of the study is an analysis of financial performance of the private sectors commercial banks which are fully managed and ownership of Nepalese entrepreneur. To fulfill this objective and other specific objectives as described in Chapter one, an appropriate research methodology has been adopted which includes financial tools- ratio analysis and statistical tools-mean, S.D, C.V, correlation coefficient, trend analysis have been used. The major study consists of liquidity, turnover, profitability, capital structure, capital adequacy and assets quality position. Under these main ratios, their mean, coefficient of variation are analyzed. In order to test the relationship between various components of financial indicates Karl Person's correlation coefficient 'r' is calculated and analyzed.

The necessary data are derived from the balance sheets and profit and loss accounts of NABIL, NIBL and HBL for the period of five years from FY 2007/08 to FY 2011/12. Chapter-V includes the summary of major findings, conclusions and recommendations.

5.2 Conclusions

After analyzing the data in chapter four, the conclusion is that the financial performance of such types of commercial bank is improved year by year. In other words, all private

sector banks which are under Nepalese Management are being run efficiently and doing well.

In commercial banks, the liquidity portion affects external and internal factors such as saving for investment situation, internal banks requirement, the lending policies, management capability, prevailing interest rate etc. Liquidity and profitability trend move opposite direction as they have negative correlation. To meet the liquidity needs, the banks need cash reserves, which are not earning assets. Profit on the other hand derived from loans and advance. So from the point of view of profitability the three banks are at the satisfactory level but they are poor liquidity position especially current and quick ratios, which are below the prescribe standard. In summary, financial performance of sample banks are seemed satisfactory. In comparison, liquidity position of HBL is better than Nabil and Nibl. Similarly, profitability and other indicators (EPS, P/E ratio and MVPS to BVPS) and capital adequacy ratio are better than in NIBL as compared to Nabil & HBL whereas assets quality ratio, turnover position and capital structure ratio are better in Nabil than NIBL and HBL. In totality, NABIL bank is better as compared to NIBL & HBL because NABIL is less risky than two banks and it is successful to attract the investor and have strong management. In other word NABIL bank investing in less risky sector.

5.3 Recommendations

The private financial institutions can survive if they earn better net profit. With an objective to maximize the economic profit banks compete in the industry. It is applicable to both domestically run and joint venture banks. Their profit depends on how more customers they can attract in a competitive way. Both types of banks can increase their clients if they have good management team, efficient technology, and good public relations. In the light of above facts and figures, the objective of present study is to find out to what extent these banks have succeeded in realizing the stated objectives. Such in depth study will provide the basis for evaluating financial success or failure and also

suggest suitable measures to improve their operating financial performance of NABIL, NIBL and HBL are listed below:

- These three banks could not maintain the conventional standard of liquidity and quick ratios. It indicates the poor liquidity position in these banks especially in NABIL and NIBL. It may create the problem of working capital if they need to pay the short-term obligation at demand. With the delay in payment of liabilities of banks may lose their goodwill and may have the problem in winning the confidence of current depositors and short term lenders. So, the three banks are recommended to maintain the adequate net working capital.

- Government Securities such as Treasury bills, Development bonds, saving certificates etc. are risk free investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this study, it has found that tree sampled banks have made some amount of fund in Government securities. But NABIL, NIBL & HBL are recommended to invest more funds in Government securities instead of keeping them idle.

- From the above analysis, NIBL is maintaining more amount as money at call and short notice than HBL & NABIL. So, NIBL is recommended to decrease its amount to call by increasing loan and advances. Similarly, it is also recommended to these three banks to hold its amount in form of cash and cash equivalent items only to extent of requirement. Through it is difficult to find exactly the suitable liquidity ratio; estimation can be done on the basis of past experience, nature of depositors, situation of financial market and nature of competition.

- The bank must collect more funds from current deposits, compared to other interest bearing deposits. The banks must located and explore new technique and facilities for collection. There should be continuous flow of financial information among various groups of employees. The goal and objective of banks should be carefully communicated to lower level of management.

- All the three banks have maintained NRB Balance total deposit ratio remarkable higher than standard prescribed by NRB. The fund tied in NRB balance cannot yield a good return. So these banks are suggested to lower this ratio and invest the surplus fund in other current assets such as loans and advances, bill purchase discount & money at call and short notice. The banks have employed a considerably greater portion of debt in their capitals. Therefore they should be aware of possible risk that may arise due to slackness in the business activities. In this regard NIBL & HBL should adopt suitable measures so as to check the risk factors.

- Turnover of fund rose from outsiders appeared less satisfactory in NIBL than NABIL & HBL. So NIBL has to allocate the deposits in Income generating sectors. It will be better for these three banks to open the branches in other cities & rural areas in order to find the more profitable opportunities.

- Capital adequacy position of HBL seems less satisfactory than that of two banks. So HBL needs to raise its net worth. It will be better for the banks to distribute the stock dividend rather than the cash dividend.

- A systematic approach of financial performance analysis should be made annually. This would considerably contribute to increase the financial strength of banks. The banks should have debt analyze of their financial strength and weakness. It should try to come out its weakness by using its strength aspect. The financial performance of these sampled banks is at the satisfactory level. The best is yet to come.

- Relation between the major components of income generating assets i.e. performing assets and net profit are highly positive in these three sampled banks but relation between income generating assets and major sources of fund i.e. total deposits is poor in HBL, due to newly bank as compared to these two banks. HBL is recommended to invest its fund in the secured and profitable sector, which generates high profit.

- Political instability directly affects the economic sector such as hotels & tourism, manufacturing & trading sector. Bank loan & advances is decreasing in this sector. So, banks should give priority to these sectors as well as banks should create new investing sector to mobilize deposit.

- Different systematic, modern & statistical tools should be used for the upcoming thesis in order to find out the actual financial performance of concern bank as clearly as previously. A sampled must be taken more than three banks to gain the knowledge and comparative analyze of sampled banks.

Formatted: Left, Indent: Left: 0.5", Space After: 10 pt, Line spacing: Multiple 1.15 li, No bullets or numbering, Adjust space between Latin and Asian text, Adjust space between Asian text and numbers

Formatted: Indent: Left: 0.5", No bullets or numbering

BIBLIOGRAPHY

Agrawal G.R (2002). *Dynamics of Business Environment in Nepal*, M.K. Publisher and Distributors, Kathmandu.

Agrawal, R.D (1989). *Financial Accounting*, Tata McGraw Hill Publishing CompanyLtd., New Delhi.

American Institute of Banking, (1972). *Principles of Bank Co-operative*. USA.

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

Dahal, B. and Dahal, S. (2000). *A Hand Book to Banking*, Asmita Books and Stationery Pvt Ltd., Kathmandu.

Dangol, R.M (2065). *Accounting for Financial Analysis and Planning*, Taleju Prakashan, Kathmandu.

Fago, G.S. and Gyawali, A. (2003). *Management Accounting*, Buddha Academic Publishers & Distributors Pvt Ltd., Kathmandu.

Gautam (2010). *Comparative Study on Financial Performance of Standard Chartered Bank Limited and Nepal Bangladesh Bank Limited*, An unpublished Master Degree Thesis, Tribhuwan University, Kathmandu.

Gupta, D.P. (1984). *The banking system: its role in export development*, the financing of export from development countries, Internaitonal Trade Center, UNCT, D/GATT Geneva.

Hampton, J.J (1998). *Financial Decision Making*, Prentic Hall of India Pvt Ltd., New Delhi.

Jain, S.P and Narang K.L (1989). *Financial Management Accounting*, Kalyani Publishers, Calcutta.

James C. Van Horne, John M. Wachowicz, JR. (2009). *Fundamentals of Financial Management*, Eleventh Edition.

K.C (2011). *Comparative Financial Performance Analysis of Everest Bank Limited and Bank of Kathmandu*, An unpublished Master Degree Thesis, Tribhuwan University, Kathmandu.

Kuikel (2011). *Financial Performance of Leading Commercial Banks in Nepal*, An unpublished Master Degree Thesis, Tribhuwan University, Kathmandu.

Manandhar (2010). *Financial Performance Analysis of Nepal Bangladesh Bank Limited*, An unpublished Master Degree Thesis, Tribhuwan University, Kathmandu.

Rabindra Bhattarai (2010). *Capital Structure Management, Theory and Practice*, Dhaulagiri Books & Stationery, Kathmandu.

Sharpe, W.F., Alexender, G.J. and Bailey, J.V. (1998). *Investment.*, Pentice Hall of India Pvt. Ltd., New Delhi.

Singh, S.P. and Singh, S. (1983). *Financial Analysis for Credit Management in Bank.* Vikas Publishing House Ltd., New Delhi.

Tiwari (2012). *Financial Performance Analysis as Tools for Profit Planning*, An unpublished Master Degree Thesis, Tribhuwan University, Kathmandu.

Vanhorn, J.C (1999). *Fundamentals Management and Policy*, Prentice Hall of India Pvt Ltd., New Delhi.

Western, J.F Besley, S. and Bringham (1996). *Essential Managerial Finance*, The Dryden Press Harcount Brace College Publishers.

Wolff, K.H. & Pant, P.R. (2007). *A Hand Book For Social Science Research and Thesis Writing*, Buddha Academic Enterprises, Kathmandu.

Publications and Journal

Annual Reports of Himalyan Bank Limited (2006-2012.

Annual Reports of Investment Bank (2006-2012).

Annual Reports of Nabil Bank (2006-2012).

Banking and Financial Statistics (NRB 2012).

Monetary Policy (2011/12)., Nepal Rastra Bank, Kathmandu.

Websites

www.google.com

www.himalayanbank.com

www.nabilbank.com

www.nepalstock.com
www.nibl.com.np
www.nrb.org.np
www.sharesansar.com