A COMPARATIVE STUDY ON PROFITABILITY POSITION OF SELECTED COMMERCIAL BANKS OF NEPAL

A Thesis

Submitted

By

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Certificate of Authorship

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as a part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of this thesis itself has been acknowledged. I certify that all information sources and literature used are indicated in the reference selection of this thesis.

……………………….

Ram Kishor Yadav

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RECOMMENDATION LETTER

It is certified that thesis entitled **A Comparative Study on Profitability Position of Commercial Banks of Nepal (With Reference ADBL, NIBL and NSBL Bank**s**)** submitted by **Mr. Ram Kishor Yadav** is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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APPROVAL- SHEET

We, the undersigned, have examined the thesis entitled **A Comparative Study on Profitability Position of Commercial Banks of Nepal (With Reference ADBL, NIBL and NSBL Bank**s**)** presented by **Mr. Ram Kishor Yadav**, a candidate for the degree of **Master of Business Studies** (MBS) semester, and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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This study entitled **A Comparative Study on Profitability Position of Commercial Banks of Nepal (With Reference ADBL, NIBL and NSBL Bank**s**)** has been conducted to satisfy the partial requirements for the degree of Master of Business Studies, Tribhuvan University.

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ABBREVIATIONS

ADBL	:	Agricultural Development Bank Limited
ATM	:	Automated Teller Machine
AGM	:	Annual General Meeting
ABBS	:	Any Branches Banking Service
ADB	:	Asian Development Bank
BEP	:	Break Even Point
BLB	:	Branch less Banking
BAFIA	:	Bank and Financial Institution Act
BOK	:	Bank of Kathmandu Limited
CAPM	:	Capital Assets Pricing Model
CC	:	Cash Credit
CAR	:	Capital Adequacy Ratio
CRR	:	Cash Reserve Ratio
CPI	:	Consumer Price Index
CS	:	Common Stock
CV	:	Coefficient of Variation
DTOR	:	Debtor Turnover Ratio
EPS	:	Earning Per Share
EBL	:	Everest Bank Limited
Excl	:	Excluding
i.e	:	that is
FY	:	Fiscal Year
FIs	:	Financial Institutions
F&D	:	Fixed Deposit
HBL	:	Himalayan Bank Limited
Incl	:	Including
IBC	:	Inward Bill Collection
JVBs	:	Joint Venture Banks
LC	:	Letter of Credit
M/c	:	Money at call
MPS	:	Market Price Per share
NABL	:	Nepal Arab Bank Limited
NPA	:	Non-performing Assets
NBBL	:	Nepal Bangladesh Bank Limited
NPL	:	Non-performing Loan

NIM	:	Net Interest Margin
NBL	:	Nepal Bank Ltd.
NEPSE	:	Nepal Stock Exchange
NIBL	:	Nepal Investment Bank Limited
NSBL	:	Nepal SBI Bank Limited
NSBIBL	:	Nepal SBI Bank Limited
NRB	:	Nepal Rastra Bank
OTC	:	Over the Counter
OBC	:	Outward Bill Collection
OD	:	Overdraft
Pe	:	Probable error
ROA	:	Return on Asset
ROE	:	Return on Equity
SBI	:	State Bank of India
SCBNL	:	Standard Chartered Bank Nepal Limited
SD	:	Standard Deviation
SE	:	Stock Exchange
SEBON	:	Security Exchange Board of Nepal
SML	:	Security Market Line
TT	:	Telegraphic Transfer
US	:	United States

ABSTRACT

Profit maximization is one of the most important objectives of banking management because one goal of bank management is to maximize the owner's wealth. The variation of profit between banks over the years, within a country, leads to believe that internal factors play a major role in determining profits. This paper investigated the determinants of company specific factors (size of company, profitability ratio, liquidity ratio, leverage ratio, capital adequacy ratio, capital, fixed assets and growth rate) on profit represents by ROA and ROE. Profit is dependent variable while size of company, leverage, liquidity, volume of capital, fixed assets and growth rate are independent variables. The sample in this study includes three of the selected banks for six fiscal years (2070/072-2075/076). Secondary data obtained from the annual reports of selected banks, relevant articles, books and magazines are analyzed. The results of the paper show that factors such as size of company, profitability, liquidity, leverage, capital, fixed assets and growth rate are the main factors affecting the profit of banks, where the fixed assets shows the positively relationship with profit, while company size, liquidity, capital and growth rate shows the negatively relationship with profit.

Keywords: Banks and financial institutions, profit, deposits, loan & advance correlations, trend analysis, returns on assets, return on equity, size of company, profitability ratio, liquidity ratio, turnover ratios, leverage ratio, capital adequacy ratios, fixed assets and growth rate.

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Banking sectors is one of the dynamic industries in Nepal. They are the backbone of development and helps in economic growth of the nation. Banking and its importance are of great value in this era. Bank provides opportunity for people to participate in the development process by issuing shares and accepting deposits. Development in the field of agriculture, tourism, trade and commerce is possible with the help of banking sectors and it is way of making investment and creating employment opportunities. Banking sectors play the role of intermediaries between the deficits and surplus of financial resources.

Banking industries emerges with the history of ancient goldsmiths' practicesing of storing the people's valuables. The word bank is derived from the Italian word 'banco' where goldsmiths used to make their transactions. In simple words, bank is a financial institution that undertakes the banking activity i.e. it accepts deposits and then lends the same to earn certain profit. Nowadays, bank is used broadly more than deposit and lending activities.

According to Cambridge English Dictionary, Bank is "An organization where people and businesses can invest or borrow money, change it to foreign money etc or a building where these services are offered."

According to Crowther, "A bank collects money from those who have it to spare or who are saving it out of their incomes and lend this money to those who require it."

According to US law, "Any institution offering deposit subject to withdrawal on demand and making loans of commercial of business nature is a bank."

The history of banking activities is as old as our civilization. There was existence of collecting and safeguarding money as deposits and lending activities. In our country, before the establishment of Nepal Bank Limited (NBL), monetary activities are into practices at the period of Rana rule. Prime Minister Ranodip Singh establishes tejarathadda for lending gold and valuables to the government staff and the outsiders. People also used to lend money from merchants with high interest rate. Systematically, the development of banking sectors is via the establishment of Nepal Bank Limited (NBL) since 1994 B.S with authorized capital of Rs. 10 million and paid up capital of Rs.842 thousand. At that time, ownership of NBL was controlled by private shareholders. It is the first commercial bank operating in Nepal. After NBL, Rastriya Banijya Bank come into practice and many more commercial banks and financial Institutions (FIs) are mushrooming in the country with various schemes and facilities. All the commercial banks are regulated and controlled by the central bank of Nepal i.e. Nepal Rastra Bank (NRB) which was established in 26 April, 1956 with authorized capital of Rs.10 million and paid up capital of Rs.2.5 million. (Source: ADBL- Business Assistant Guide Book-2071).

In our country apart from commercial banks, Joint Venture Banks (JVBs) are in practice. Within a short period of time, three banks are established with the participation of foreign banks in a joint venture form. The first joint venture bank in Nepal is Nepal Arab Bank Ltd, (NABIL) with Rs.100 million as authorized capital, Rs.50 million as issued capital and Rs. 30 million as paid up capital established on12 July 1984.

The second joint venture bank is Nepal Indosuez Bank Ltd, currently known as Nepal Investment Bank Ltd (NIBL) with the joint venture of France bank was registered on 21 Jan, 1986 and it commenced its operations from 27 Feb, 1986 with 120 million authorized capitals, Rs.60 million issued capital and Rs.30 million as paid up capital.

Then the number of banks grew simultaneously with the open and liberal economy policy. Numbers of banking sectors are operating inside the country with various attractive schemes and services. According to Bank and Financial Act, 2063, Banks are classified into A, B; C and D class on the basis of minimum paid up capital and provides the suitable license to the banks or financial institution. The numbers of Banks and Financial institutions in Nepal are listed as:

Central Bank (1)

A class Commercial Bank (27)

B class Development Bank (24)

C class Finance Companies (23)

D class Micro credit Development Bank (92)

Especially Commercial banks are profit motive in nature and at the same time they have to render reliable services to the customers. They have to perform various functions of providing loans, accepting deposit and perform agency functions. By observing the present context of banking sectors in our country, we can say that commercials banks are running with various attractive schemes and numbers of facilities. Bank provides opportunity to people to participate in the development process of the country via issuing shares which will be owned by them, accepting deposit from them and mobilizing and investing those accumulated resources in the field of agriculture, trade, commerce, industry, tourism and various projects. It is clear that a good banking system is essential for economic development of the country.

1.2 Statement of the problem& research questions

Banks today are under great pressure to meet the objectives of their stockholders, employees, depositors and borrowing customers, while somehow keeping government regulators satisfied that the bank's policies, loans, investment are sound. In order to exist in the market, commercial banks have to maintain certain level of profit. They must make profit out of the responsibilities assigned. So the manager should take the decision very carefully to tackle with the situations. People expect better, quicker, easier and special facilities from banks. The open and liberal economic policy towards the banking sector of Nepal initiated many private and joint venture Banks to operate inside the country which creates the sharp competition among each other. Profitability of the bank is also affected by this competition. Various factors creates problem to profitability position of the commercial banks. The monetary policy of the government, strong competition between the banks, strikes and political situation of the country directly or indirectly hampers the profitability of the bank.

Banking has become highly complex and sophisticated. Some notable changes are taking place in the banking environment. These changes bring risks and opportunities which directly effects the operation of banking activities. Therefore coming future is going to be more exciting and challenging then today.

Although Commercial banks are making satisfactory profit; they have low volume loans, advances in relation to deposit. They are found to be poor deposit mobilization;

they are not able to utilize the funds in efficient way in income generating purpose. The poor liquidity position is another evil of the commercial banks. This study aims to find out the areas of difference between the selected banks in terms of deposit collection, resource mobilization, liquidity and others.

This study has tried to explore the following research questions:

1. What is the profitability position of selected banks?
2. How have the selected banks utilized their accumulated deposits and loan & advance?
3. What is the relationship of loan & advance and deposit?

1.3 Purpose of the Study

1. To examine the profitability position of selected banks.
2. To evaluate selected bank's accumulated deposits and loans & advances.
3. To identify the relation of loan& advance and deposit.

1.4 Significance of the Study

This research is based on profitability position of commercial banks with reference to ADBL, NIBL and NSBL so; it evaluates the profitability ratios of the bank using various tools which may be guidelines for the future researchers of listed banks. Various profit related factors are evaluated in this study which helps to show the main causes of profitability position. This study has academic as well as practical significance. The findings are also helpful for those who are connected to these banks specially management, shareholders, general public (depositors, prospective customer, investors), and policy formulators.

1.5 Limitations of the Study

1. The accuracy of the study is based on secondary data and various published documents of listed banks only.
2. This study concentrates only in the profitability measurement of ADBL, NIBL and NSBL among the 27 commercial banks.
3. This study is not applicable to all banks since it is concerned to listed three banks.
4. This study is only based on profit, so few measurement tools are applied.

5. This study covers the data of 6 years only from 070/071- 075/076.

1.6 Chapter plan

This study is organized into five chapters. They are:-

Chapter One: - Introduction

This chapter deals with the general background information of subject matter of research undertaking to provide general idea of its history. Likewise it also included statement of the problem, objective of the study, and significance of the study, limitation of the study and chapter plan.

Chapter Two: - Literature Review

This chapter includes the review of books, articles, journal, reports, theses, researches and other relevant materials related to topics. This chapter provides guidelines to the coming researcher

Chapter Three: - Methodology

This chapter describes about the methodology used in this study It includes research design, population and sample, sources of data, data collection procedure, data processing procedure and data analyzing tools and techniques. It also comprises the research design employed along with the various financial and statistical analysis are interpreted in this chapter

Chapter Four: - Results

This chapter attempts to analyzed and evaluate the secondary data of listed banks with the help of different tools and techniques. Chapter four is the main part of this study. It presents the data and information collected from secondary sources. Chapter four comprise of presentation and analysis of data and major findings. The data collected after processing have been presented using figure and tables and results of statistical analysis are interpreted in this chapter.

Chapter Five: - Conclusions

This chapter deals with discussion and conclusion of the study and implication is given to concerned organization for its welfare. Appendix, references, bibliography, preface is incorporated at the end of the study.

CHAPTER 2

LITERATURE REVIEW

2.1 Conceptual review

This study deals with the literature relevant to this study. Under this chapter, concept of commercial bank and its function, concept of profitability, review of previous studies, articles and theses are presented.

2.1.1 Concept of commercial bank

Commercial banks are the components of banking sector of Nepalese finance industry. The role and importance of commercial banks are high above .It is an institution which accepts deposits, makes business loans, and offers related Services. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the Federal Reserve System. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses. A commercial bank is a type of financial intermediary and a type of bank. Commercial banking is also known as business banking. The current regulation of NRB prescribes that all new commercial banks are to be established in Kathmandu at national level should have minimum paid up capital Rs. 1 billion. Some commercial banks are established under joint venture while some are fully domestic bank. According to the latest data, 27 commercial banks are operating inside the country.

American Institute of Banking had defined commercial banks as a corporation which accepts demand deposits subject to repeated and short term loans to business enterprises, regardless of the scope of its other services (American Institute of Banking, 1972:356).

A Commercial Bank means bank which deals in exchanging currency, accepting deposits, giving loans and commercial transaction (Ministry of Law & Justice, 2031: 4).

2.1.2 Functions of commercial bank

1. Commercial bank accepts deposits from different people and organizations. Bank allows for opening three types of accounts to accept deposit from customers i.e. current, saving and fixed deposit account.
2. Commercial bank provides different loans to peoples, organizations and business houses.
3. Commercial bank provides letter of credit and guarantee facilities, which boost up international trade.
4. Commercial bank provides locker facilities to customers for safekeeping of valuable documents and precious articles.
5. Commercial bank provides various card services like debit cards, credit cards, ATM card that avoids risk in carrying money.
6. Commercial bank provide services like clearing of cheques and performs various agencies functions like discounting bills of exchange transfer fund, pay house rent, telephone bills etc.
7. Commercial bank provides easy payment and withdrawal facility to its customers. It brings bank money in circulation in the form of cheques and drafts.

2.1.3 Concept of profitability

Profit is the primary measure of every business firm. Profit is a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Any profit that is gained goes to the business owner, who may or may not decide to spend it on the business. The term ‘profitability’ denotes to the ability of a business to earn a profit.

The term ‘profitability’ is composed of two words ‘profit’ and ‘ability’. There are two main concepts with regard to the word profit - economic and accounting. According to Adam Smith, the father of economics, "Profit is the sum remaining after the payment of all wages in economics includes payments to officers of corporations, to proprietors, to partners and to farmers as well as to what we today term labor and rent on the unimproved value of land, as the return to capital. Under the mathematics of capital of accountancy, the final 'accounting ' profit of such corporations includes two elements, a return representing economic rent on the value of land and a return on capital. However, there is not even a faint idea as to what part of ‘accounting’ profit is representing by each of these two economic elements. For this reason, there is the confusing reality that 'accounting' or the 'businessman's profit is not 'economic' profit. Accounting profit is a mathematical residue, which results from the successive subtraction of many, and varied items of expense from gross income.

According to business dictionary, profit is “the surplus remaining after total cost are deducted from total revenue and the basic on which tax is computed and dividend is paid. It is the best know measure of success in an enterprise.”

According to the dictionary of Merriam-Webster, "profit is the advantage or benefit that is gained from doing something."

2.2 Review of previous works

Review of previous research helps the researcher to perform the research work satisfactorily. The main reason of this review is to use the similar concept investigate by the past researcher in a new way. Various journal, thesis, radicals and similar topic related articles will be considered to make this research effective. Review of literature provides the guidelines for this research.

2.2.1 Review of journal and articles

In the book “financial management” I.M. Pandey (1997) had defined as “The finance statement provides a summarized view of the financial operation of the firm. Therefore, something can be learnt about a firm and careful examination of the financial statements as invaluable documents or performance reports. Thus, the analysis of financial statement is an important aid to financial analysis or ratio analysis is main tool of financial statement analysis.

B.N. Ahuja (1998), “financial performance analysis is a study or relationship among the various financial factor in business a disclosed by a single set of statement and a study of the trend of these fact as shown in a series of statements. By establishing a strategic relationship between the item of a balance sheet and income statements and other operative data, the financial analysis unveils the meaning and signification of such items.” According to R.W. Metcalf and P.H. Tatar (1996), “financial performance analysis is a process of evaluating the relationship between components parts of a financial statement to obtain a better understanding of a firm’s position and performance.” Similarly, Khan and Jain have defined that (1990) “The ratio analysis is defined as the systematic use of ratio to interpret the financial performance so that the strength and weakness of firm as well as its historical performance and current financial condition can be determined."

Elisa Menicucci and Guido Paolucci (2016), in their research paper, the determinants of bank profitability : empirical evidence from European banking sector, investigate the relationship between bank specific characteristics and profitability in European banking sector to find the role of internal factors in achieving high profitability. The study has found that all the determinant variables included in the model have statistically significant impacts on European banks profitability. Regression analysis is done to observe the position of banks over the period of 2009-2013. Regression findings reveal that size and capital ratio are significant company level determinants of bank profitability in Europe while higher loan loss provisions result in lower profitability levels findings also suggest that bank with higher deposits and loan ratio tend to be more profitable but the effects on profitability are statistically insignificant in some cases.

According to the African journal of business management published by Suvita Jha and Xiaofeng Hui, June 2012, in their journal, a comparison of financial performance of commercial banks: A case study of Nepal concluded that the same bank had different ranks under the different financial ratios. The ROA of public sector banks were higher than those of joint venture banks and domestic public banks due to having utmost total assets. The values determined for the financial ratios reveal that joint venture and domestic public banks are also not so strong in Nepal to manage the possible large scale shocks to their balance sheet. Furthermore, it can be concluded from the multiple regression analysis that the capital adequacy ratio, interest expenses to total loan and net interest margin were significant but had a negative effect on ROA while non-performing loan and credit to deposit ratio did not have any considerable effect on ROA. The capital adequacy ratio positively influenced the return on equity but the non-performing loan, credit to deposit ratio, interest expenses to total loan and net interest margin had no significant effect on ROE.

In the research journal of finance and accounting," comparative analysis of financial performance of commercial banks in Tanzania" written by Zawadi Ally(2006-2012), analyzed the financial performance of commercial banking sector un Tanzania for the period of 7 years from 2006 to 2012. The financial ratios were employed to measure the addition analysis of variance (ANOVA) was used to test the significance differences of profitability. The study found that overall band financial performance increased considerably in the first two years of the analysis. A significant change on trend is noticed at the onset of the global financial crisis from 2008 to 2009. However Tanzania banking sector remained stable: banks are adequately capitalized and profitable and remained in a sound position. The study found that there is no significant difference of profitability among peer banks groups in terms of ROA; however a significance differences among banks group is existed in term of ROE and NIM.

Mukesh Chaudry, Arjun Charath and Ravindra Kamath (1995), in their joint abstract “determinants of banking profitability “investigates that determinant of profitability of U.S commercial banks in the 1970s and 1980s. It is established that banks depending on their size may need to exercise greater control over a defined set of variables in order to maximize profits and minimize costs. Further the study provides some direct evidence of economies of scale/scope in certain aspects of the bank’s loan and investment portfolios.

The research project, “A study on the deposit and lending of commercial banks in Kerala: a comparative study with cooperative banks by Thomas, VP (2013), critically analyzed the performance efficiency of commercial banks against co-operative banks in Kerala for a period of 10 years(1997-2006). He has taken the parameter as total deposits, Term deposit, saving deposit, total advances, loans, cash credit, overdraft, credit deposit ratio, profitability and customer satisfaction. He has found that commercial banks are far exceeded with cooperative banks in terms of deposit and advances but the credit deposit ratio shows that cooperative are far exceeded to commercial banks. He has also shown that the profitability performance of commercial banks was superior to that of cooperative banks. Under his study period, commercial banks were trending downward but cooperative banks were in upward trend. At last he has shown that the customer satisfaction of commercial banks is better than that of co-operative banks.

Baye and Jansen (1996), through their Books Money, Banking and Financial markets have tried to analyze a bank's profitability under an economic approach. They State "To maximize profit, Bank should attract the interest rate paid on deposit”.

In the abstract “Financial performance Analysis: The case of Bank of Abyssinia versus other private commercial banks in Ethiopia (2010)” by Lemma, Nigussie Zergaw shows the financial performance of the commercial banks. Both the trend and comparative financial performance analysis approaches were used. Five years data from 2005-2009 were taken for analysis purpose. This paper tried to assess whether the private commercial banks are financially sound or not. The objective of the study is to evaluate the financial performance of Banks of Abyssinia by analyzing its past five yrs performance trend and comparing the financial performance of the bank with other private commercial banks operating in Ethiopia. Financial ratios were considered to measure the credit quality, liquidity, efficiency and profitability as well as sustainability of the private commercial banks. In both the financial performance analysis approaches i.e. the trend and comparative analysis, bank of Abyssinia’s financial performance showed that weak performance has been reported continuously in all the financial ratios (profitability, liquidity, risk and solvency efficiency and credit quality) taken for analyzing the financial performance.

According to Asian journal of finance and accounting by Biwesh Neupane in his abstract, Efficiency and productivity of commercial banks in Nepal (2013), investigated the change in efficiency and productivity of banking industry during the period of 2007/08 to 2011/2012. He analyzes the effects of various indicators of the twenty two commercial banks in Nepal. Malmquist Index is used to measure the efficiency and productivity whereas to bit regression model is used to analyze the determinants of efficiency .The results shows that the productivity change of commercial banks in Nepal has improved over the sample period and that the increase in productivity change in Nepalese Commercial banks is due to the technological progress. It concludes that profitable banks with lower leverage and higher capital adequacy ratio are found to be more efficient and bank loans seems to be more highly valued than alternative bank outputs such as investment and securities.

In the academic journal published by Xuezhi Qin and Dickson Pastory (2012), commercial banks profitability position, examined commercial banks profitability in

Tanzania for the period of ten years (2000-2009). The study used National Microfinance bank, National Bank of Commerce and CRDB as the case study. The study employed the profitability measures of commercial banks and the evidence of performance in terms of profitability was based on return on average assets. The paper utilized secondary data from National Bank of commerce, CRDB and National Microfinance bank in Tanzania for 10 yrs and the hypothesis was tested to know whether there is a significant difference in terms of profitability by using ANOVA test. Finally regression model was run to see the effects of capital adequacy, liquidity and asset quality on the profitability of commercial banks. The findings revealed that there is no significant difference on profitability among the commercial banks, in context of regression model. It has been noted that liquidity and asset quality has positive impact in profitability with exception to the level of nonperforming loans which has a negative influence on profitability. Also capital adequacy has shown negative impact on profitability. The study confirmed the profitability of commercial banks to stable and meeting the regulatory requirement of the bank of Tanzania. Evaluate The Profitability On Commercial Bank Comparative Study Of Indian And Jordanian Banks (2013). Profitability position of commercial banks in India- A Comparative Study (2018) by Kavita S. Vadrale and Dr. (Mrs) V.P Katti. This study attempts to analyze to the profitability performance of selected public and private sector banks during 2001 to 2015. Determinants of commercial bank profitability of Malaysia (2019) by Anis Sabrina Iskandar. This study investigated the determinants of commercial banks' profitability by selecting capital adequacy, credit risk, management efficiency and liquidity risk as the main drivers toward profitability of ROA and ROE. The main motive behind this study is to acknowledge the reasons of Malaysian banking in having different rates of profitability despite sharing similar loan growth in the country. A regression analysis was performed using panel dataset comprising eight commercial banks from 2011 to 2017.

Adolphus J Toby (2007), CAMEL analysis, Prudential Regulation and Banking System Soundness in Nigeria, the IPU Journal of Bank Management, Vol. VI, issue 3, pages 43-60. This paper examined selected financial indicators and their prudential implications for banking system soundness in Nigeria. For each of the hypothesized functional relationship, the Spearman's rank correlation coefficient and the corresponding Freund-Williams significance test at the 5% level were calculated.

Under regimes of rising proportion of non- performing loans in the distressed banks, increasing bank liquidity and falling profitability, the paper fund the selected capital adequacy ratios to be significantly correlated with solvency. The cash reserve ratio correlates negatively and significantly with the proportion of non -performing loans. It was also fund the cash and bank balances ratio correlates positively and significantly with the return on total assets. While the ratio of loans-to-deposits correlates negatively and significantly with bank solvency. Incremental capital requirements should be graduated in line with selected bank solvency and profitability projections. An optimal loan-to-deposit ratio must have the objectives of increasing assets quality, long-run corporate growth, and facilitation of the monetary transmission mechanism.

2.2.2 Review of Previous Theses

A thesis conduct by Shakya, Suman (2010) in “financial performance of Nepal SBI bank limited and Everest Bank Limited.” analyzed different ratio of NSBL and EBL for the period of five years till fiscal year 2008. Here, in some cases the liquidity position of EBL is slightly stronger where as in some cases the ratio of NSBIBL is higher. It concludes that liquidity position of these two banks is sound. NBBL has better utilization of resource in income generating activity than EBL. They are on decreasing trends while interest earned to total assets and return or net worth ratio of EBL 1s better than NSBIBL. It seems overall profitability position of EBL is better than NSBIBL and both banks are highly leveraged.”

Maharjan, Milan Man, (2004) in his study, Profitability of joint venture banks (1992-2003) selected Nabil, SCBNL, HBL, NSBI, EBL and BOK. His whole study focused on analyzing profitability position of selected banks. From the study, he has found that SCBNL has better position in terms of return on working capital fund, total deposits, net worth, total risk assets and net risk assets than the others which indicates that SCBNL has mobilized collected fund properly. Nabil has not highest ratio in return on total assets and return on total deposit in 2003 and HBL & NIC has also satisfactory position in these return but NBBL, BOK and NSBI has lowest and highest variance, so they have to improve comparison to others. In terms of interest income to total assets of SCBNL has lowest and NBBL has the highest. Mr. Maharjan had concluded that profitability position of SCBNL is very strong of all in average for studied period. The critical profitability ratios are very high and far from the average of industry and in other hand Nabil, HBL, NIB have more or less same profitability ratios which are satisfactory from industries point of view in the other hand NBBL, EBL, BOK and NSBI have lower liquidity ratio.

A thesis conducted by Oli, Jhalak Bdr. (2007) entitled, “A Comparative Study of financial performance of HBL, NSBIBL and NBBL” concludes that the liquidity position of two JVBs i.e. NSBIBL and NBBL are always above than non-standard and HBL is always below than normal standard. Total debt with respect to shareholders fund and total assets are slightly higher for HBL than NSBIBL and NBBL. The researcher has found from the analysis that NBBL has been successfully utilized their total deposits in terms of extending loan and advances for profit generating purpose on compared to NSBIBL and HBL. But NSBIBL is also better than HBL. It has concluded that net profit to total assets ratio in case of HBL is found better performance by utilizing overall resources but the generated profit is found lower for the overall resources in three JVBs.”

Manandhar, (2003). Analysis of risk and return on common stock investment of commercial banks in Nepal with special reference to five listed commercial banks in Nepal. An unpublished MBS thesis submitted to central department of management, T.U. Kathmandu .The main objective of the study is to examine risk and return of common stock in Nepalese stock market, the study is focused on the common stock of commercial banks.

In her findings “Banking industry is the biggest one in F/Y 2001/2002, A.D., in terms of market capitalization and turnover expected return of the common stock of BOKL is maximum (i.e. 1.1267) due to effect of unrealistic annual return and capital structure of NIBL is found minimum. In the context of industries, expected return on banking sector (i.e. 67.39) is highest and other sector is the least (0.65 percent). Expect NIBL, other banks other banks common stocks are more volatile (aggressive with market stocks). All banks in the study are said to be underpriced. Capital structure of BOKL is most risky and capital structure is least risky. Stocks have greater volatility risk than other investment, which take a random and unpredictable path. Stock market is risky in the short term and it is necessary to prepare the investors for it. One of the most important things to consider when choosing investment strength is the balance between risks and return that you are comfortable with Investors should diversify their fund to reduce risk with the help of optimal portfolio concept. It is better to say something that is going up and sell something that is going down. Investor’s attitude, perception and risk handling capacity also play essential role is rational investment decision.

“A comparative study on Investment policy of Nabil and Nepal SBI bank Ltd.” a thesis by Baidya, Nabin Kumar (2011), found that the liquidity position of Nabil Bank is comparatively lower than SBI bank but it has the highest investment in government securities to current assets ratio. Loan and advances to total deposit ratio of Nabil bank are greater than that of Nepal SBI bank which shows the position of Nabil bank is higher in comparison to Nepal SBI Bank. In case of Nepal SBI bank, position of liquidity and risk ratio is better. It is also recommended that depositor’s money must be utilized as loan and advances to get success in this competitive banking environment. He forced not to neglect the deposit collected in the listed commercial banks.

A thesis conducted by Joshi, Keshav Raj (1982-1987) entitled, “a study on financial performance of commercial banks”, evaluated the financial performance of commercial banks. He has concluded that commercial banks had maintained a sound liquidity position. These banks had followed conservative credit policy so their investment on loans and advances was very low, though main source of income was interest from the loan and advances. The debt equity ratios of these banks was very high which a challenge for their long term solvency .These banks had low profit margin but satisfactory return on net worth. Among these banks Nepal Bank Ltd’s profitability position was best of all because only that bank had declared dividends in the study period. The researcher had recommended to these banks on adopting sound cash forecasting and budgetary policy and following liberal policy in regard to loans and advance.

Prajapati, Lalita (2008), in her study, “A comparative financial performance analysis of Nepalese Commercial Banks” she has selected BOK, NABIL, NIC, and Siddhartha Bank. She has found that NIC and SCBNL has higher price earnings ratio than others. Likewise management efficiency ratio of NABIL and BOK is higher than NIC and SCBNL. She has found Siddhartha has more capital adequacy ratio than its requirement. She recommended Siddhartha to keep optimal level of capital adequacy ratio. She further recommended, the bank management should be aware of all factors that CAMEL, which will certainly help the managers to take a right decision at the right time.

Chand, D (2006), financial performance analysis of Nabil Bank Limited in the framework of CAMEL, has conducted a study on financial performance analysis of CAMELS with the objectives to analyze the financial condition of NABIL Bank Ltd. It has covered five years of data starting from 2000/2001 to 2004/2005. The analysis revealed that the bank is running with adequate capital and the capital fund of bank is sound and sufficient to meet the banking operation as per NRB standard. The bank has placed efficient credit management and recovery efforts of good quality loans are increasing. Further, it seems that amount default associated in loans will decrease in future. The management decisions related to operation and investment have assisted in controlling control recovery of bad debt. The management has able to control the interest spread and cost effective source of funds. This has helped the bank in increasing the market strength. The bank has able to match the risk sensitive assets to risk sensitive liabilities in long term maturity bucket and therefore interest rate changes has no effect to them.

Chhetri, Sheila (2002), in her study “profitability position of NABIL Bank Ltd” concluded that profitability position of Nabil bank is not so satisfactory. She had compared Nabil Bank with Standard Chartered Bank to find out the position of the bank. She has shown the clear financial picture of these banks and weaknesses and inefficiency too. NABIL bank is recommended to increase its Cash and Bank balance as well as Money at call for improving its liquidity position and this bank should utilize its Risky Assets, Shareholder’s fund and Total Assets more efficiently to generate more profit margins.

The thesis “profitability of joint venture foreign banks (Nepal Arab Bank Ltd, Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd) prepared by Shrestha, Sanjeeb(2000)applied ratio analysis tools, income and expenses analysis and trend analysis. Four years data have been computed in his study. He found the position of Nabil Bank is good than that of NBBL and HBL in regarding to quick ratio, cash and bank balance to total deposit ratio and current ratio. He also found that NBBL is most successful in mobilizing its deposit into loan and advances. Deposit to loan and advances ratio of three banks is in increasing trend. The average annual deposit collection of NABIL is higher and least in NBBL. NABIL is suggested to improve its liquidity position. HBL required improving the liquidity position as well as raising cash and bank balances. NBBL has to reduce its Current Ratio. All three banks are advised to raise interest income in relation to interest expenses. He also recommends the bank to establish their branches in remote areas than in urban areas.

Thapa, Govinda bahadur (1994), expressed his views in his research paper “Financial System of Nepal” that the commercial banks including foreign joint ventures bank seem to be doing pretty well in mobilizing deposits. Likewise, loan &advances of these banks are also increasing. But compared to high credit needs particularly by newly emerging industries, the banks still seem to lack adequate funds. Out of all commercial banks (excluding recently opened regional commercial banks); Nepal Bank Ltd and Rastriya Banijya Bank Ltd are operating with a nominal profit. Because of non-recovery of accrued interest, the margin between interest income and interest expenses is declining. The foreign banks have been functioning in an efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders. He concludes that by its very nature of the public sector, the domestic banks couldn’t compete with the private sector banks, so only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

Mr. Adhikari (2008) in his thesis" A comparative study of financial performance of NSBIBL and EBL" concluded that EBL is found superior regarding the liquidity, quality assets they possessed and capital adequacy overall capital structure of NSBIBL appears more levered than that on EBL. But NSBIBL is found superior in terms of profitability and turnover comparatively interest remained more dominant in the total income and expenses of NSBIBL than that of EBL.

In the thesis, “profitability analysis of Laxmi Bank and Siddhartha Bank Ltd” by Neupane, Dipika (2010), evaluate and analyze the financial soundness and profitability of sample organization. Under sample study she has taken Laxmi Bank and Siddhartha Bank. She had considered ratio analysis, trend analysis and correlation coefficient to achieve the objective of the study. She had found that the overall profitability of Siddhartha bank is higher with respect to Laxmi Bank. She suggests for the better utilization of assets and interest margin to Laxmi Bank. She also recommend both the banks to develop an innovative approach to bank marketing for its wellbeing and sustainability in the market and also accept higher dividend strategy should be adopted for the better growth of shareholder's worth.

A thesis conducted by Bhandari, Mukunda (2010), "A comparative financial performance analysis of Himalayan Bank Ltd and Everest Bank Ltd" shows the financial performance of the related banks in his study. He has concluded that in terms of loans and advances to fixed deposit ratio HBL is higher than that of EBL which means that HBL is utilizing its collected resources in the form of fixed deposits much more efficiently. It 1s also found that the capital structure position in terms of total debt to shareholders equity ratio of EBL is higher than that of HBL. In order to achieve the objectives of the study he has used the financial tools as ratio analysis and statistical tools as mean, coefficient of variation, t-test, least square line trend in the study. The turnover of the commercial banks is the main factor of income generating activity. From his analysis of turnover of HBL and EBL it is found that HBL has better turnover than EBL in terms of loan and advances to fixed deposit ratio and investment by total deposit ratio. So, HBL has better utilization of resources in income generating activities than EBL. It is also recommended that EBL should invest its deposits in profit generating sectors. The profitability of EBL is in best position as the bank is incurring higher profit.

Bhatta, (1996). Assessment of the performance of listed companies in Nepal an Unpublished MBS thesis submitted to Thakur Ram Multiple Campus, T.U. Birgunj, is related to this study to some extent. Bhatta's study is performance of listed companies is based on 10 listed companies' data from 1990 to 1995. One of the major objectives that concern with this research topic is "to analyze the performance of listed companies in terms of risk and return i.e. expected rate or return and company specific risk, required rate of return and internal rate of return, systematic risk and diversification of risk through portfolio context. Bhatta addressed the following findings in risk return behavior from the analysis of different stock.

A highly significant positive relationship has been addressed between risk and return character of the company. Investor expects higher returns from those stocks, which associates higher risk. Nepalese capital market is not efficient one, so the stock price does not contain all the information relating to market and company itself. Neither investor analyzes the overall relevant information shows high priced stocks such as BBC, NIB, NIC has higher beta than others. These companies required higher returns to satisfy the investors for their risk premiums.

Investors in Nepal have not yet practice to invest in portfolio of securities. Portfolio shows that risk can be totally minimized if correlation is perfectly negative. In this situation, the risk can totally be diversified but when there is perfectly positive correlation between the return of the two securities, the risk in un-diversifiable. The analysis shows some has negative correlation and some has positive. Negative correlation between security return is preferred for diversification of risk.

On the basis of findings Bhatta concluded: “an analysis of risk and return shows that many companies have higher unsystematic or specific risk. There is a need of expert institution, which will provide consultancy services to the investors to maximize their wealth through rational investment decision.

Lastly, Bhatta found the following points to improve market efficiency:

1. Develop institutions to consult investors for risk minimization.
2. Establish an information channel in NEPSE.
3. Make proper amendment of Trading Roles.

To some extent Bhatt focused in the analysis of risk and return in common stock investment. But due to so many other aspects of analysis investor cannot easily assess the result. Indeed, study did not focus the viewpoint of investor rather in concentrates the companies and stock market. However, this study also explores some dimension for further research in this subject.

Another study under taken by Singh, S.K. (1988), a comparative evaluation of financial performance of Nepal Arab Bank Ltd and Nepal Grindlays Banks Ltd., on a brief study in resource utilization by Nepalese commercial banks had concluded that banks were found inefficient in deposit utilization during seven years under this study. Bank’s branch expansion in rural sector was unsatisfactory. There was higher degree of positive correlation between expansion and collection of scattered saving and extension of credit by banks as well. Likewise, there was higher degree of positive correlation between deposit collection and extension of credit by bank and there was a positive correlation between interest rate and deposit collection. The researcher is silent about the lending diversification for proper utilization of deposit as well as to minimize the risk.

The previous research will help the researcher to perform the research work satisfactory. The main reason of this review is to use the similar concept investigated by the past researcher. Various journals, thesis, radicals and similar topic related articles will consider for making this research effective. Review of literature will provide the guidelines for this research.

2.3 Research gap

This study “a comparative study on profitability position of ADBL, NIBL, and NSBL of Nepal” presents the profitability position of listed commercial banks. Among the 27 commercial banks which are listed in previous chapter, three banks are taken to observe the profitability trends which are as follows:

1. Agriculture Development Bank Limited
2. Nepal Investment bank limited
3. Nepal SBI Bank Limited

Among of them ADBL is government bank, next NIBL is domestic private bank and left one NSBL is joint venture bank which makes this research study quite interesting. This research shows the position of commercial banks in the present context by using various tools and techniques. This study evaluates the data of six year of listed banks. Also the research is able to provide the information to interested ones and the effort is appreciable.

CHAPTER 3

METHODOLOGY

Research methodology is the combination of two words research and methodology. Research means to search again to find out something new and more about a phenomenon. It is systematic and organized effort to inquire about a specific problem that needs an answer. This process of gathering, recording, analyzing, and interpreting data with the purpose of finding solution to the problem is called research. Methodology is a systematic rules and procedure upon which research is based. It is the science of method of rules of the game. Research Methodology is the systematic way to solve the research problem with the certain objectives. The purpose of this study is to evaluate the profitability position of commercial banks with reference to ADBL, NIBL and NSBL.

Research methodology adopted in this study includes research design, population and sample, sources of data, data collection procedure and data analysis tools and techniques.

3.1 Research design

Research design is a detailed outline of how an investigation takes place. A research design includes how data is to be collected, what tools and techniques are utilized, how the tools and techniques are used and analyzing data collected. Some financial (profitability ratios, liquidity ratios, activity ratios, leverage ratios, capital adequacy ratios) and statistical tools (mean/average, correlation, rend analysis) are applied to make the data effective and to evaluate the profitability position of the listed banks.

To achieve the objective of the study, descriptive as well as analytical research study has been used. The descriptive research design had been adopted for fact finding and searching adequate information. It is a type of survey which is generally conducted to assess the opinions, behaviors and characteristics of a given population and to describe the situation and event occurring at present. Since this study is done for evaluation of profitability position of ADBL, NIBL and NSBL.

3.2 Population and sample

The population of this study is comprised of 27 commercial banks of Nepal, which are currently in operation which may be government, domestic or joint venture bank. Due to this, the researcher has taken these three as a research study. The selected three banks are taken as sample study in this research. Using convenient sampling method Agricultural Development Bank Limited, Nepal Investment Bank Limited and Nepal SBI Bank Limited are considered.

3.3 Sources of data

The study basically focuses on the secondary data. The secondary data are taken from annual report, auditor's reports, balance sheet, profit and loss account, respective website, unpublished / published thesis, financial performance of banks, newspaper, journal, magazines etc.

3.4 Data collection procedure

This research is based on various data which are published by banks, their financial performance reports, articles, journals, references, annual reports and respective websites will be considered for the needed observation. Supplementary information is collected from different institution and authorities like NRB, Nepal Stock Exchange and Ministry of finance. Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources for needed observation. Some review materials are mainly collected from central library, TU Kirtipur.

3.5 Data processing procedure

Firstly data were extracted from the annual reports of the bank and put them in a sheet. Then data were entered into the spreadsheet to work out the financial ratios and prepare necessary figures, according to the need and requirement of this study. For this purpose, gathered data have been processed using computer programs like Microsoft Excel, Microsoft Word.

3.6 Data analysis tools and techniques

Under this, various profitability measurement tools and techniques are applied to gain the fact result. The data which are collected and arranged in a systematic form are analyzed and presented through financial and statistical tools via ratio analysis and Karl Pearson's correlation coefficient.

3.6.1 Financial tools

A powerful and most widely used tool of financial tools is ratio analysis. Ratios can be calculated between any two items of financial statements. A financial ratio is the relationship between two accounting figures, expressed mathematically or the term ratio refers to the numerical or quantitative relationship between two items/variables. Ratio helps to summarize the large quantities of financial data to make qualitative judgments so ratio is regarded as the best indicator to any business to know the performance. There are numerous ratios to analyze and interpret the financial performance of the enterprise or firm. However, for our purpose, only important and relevant ratios are evaluated. Some of the important ratios for evaluating the company's performance are:

1) Profitability ratio

A company should earn profit to survive and grow over a long period. It is a fact that sufficient profit must be earned to sustain the operations of the business, to 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. Profitability ratios are the highlight of the business activity so any business organization should maximize their profitability performance. To meet the objective of the study, following calculation are done regarding profitability performance.

i. Total Interest Earned to Total outside Assets Ratio = $\frac{\text{Total Outside Assets}}{\text{Net Profit}}$

ii. Return on Risky Assets Ratio = $\frac{\text{Net Profit}}{\text{Total Risky Assets}}$

iii. Return on Shareholder's fund Ratio = $\frac{\text{Net Profit}}{\text{Shareholder's Fund}}$

iv. Return on Total Assets Ratio = $\frac{\text{Net Profit}}{\text{Total Assets}}$

2) Liquidity ratio

Liquidity ratios are used to judge the firm's ability to meet short-term obligation. It is the comparison between short-term obligation and the short-term resources available to meet these obligations. These ratios are calculated to find the ability of banks to meet their short-term obligation, which are likely to mature in the short period. The following ratios are developed and used for the purpose of our study to find the liquidity positions of the listed three commercial banks.

i. Cash and Bank Balance (excluding money at call) to current Deposit Ratio $= \frac{\text{Cash and Bank Balance (exc. M/C)}}{\text{Total Current Deposits}}$

ii. Cash and Bank Balance (including money at call) to current Deposit Ratio (excluding fixed deposit) = $\frac{\text{Cash and Bank Balance (inc.M/C)}}{\text{Current Deposits (exc Fixed deposit)}}$

iii. Cash and Bank Balance (including money at call) to Total Deposit Ratio $= \frac{\text{Cash and Bank Balance (inc.M/C)}}{\text{Total Deposits}}$

iv. Fixed Deposit to Total Deposit = $\frac{\text{Fixed Deposits}}{\text{Total Deposits}}$

v. Saving Deposit to Total Deposit = $\frac{\text{Saving Deposit}}{\text{Total Deposits}}$

vi. NRB Balance to Total Deposit = $\frac{\text{NRB Balance}}{\text{Total Deposits}}$

3) Turnover ratios (activity ratios /utilization ratios)

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. Investments are made in order to produce profitable sales. Unlike other manufacturing concerns, the bank produces loans, advance and other innovation. So it sells the same. High ratio depicts the managerial efficiency in utilizing the resources.

They show the sound profitability position off the bank. Low ratio is the result of insufficient utilization of resources. However, too high ratio is also not good enough has it may be due to the insufficient liquidity. The formula to calculate Turnover ratios is:

i. Loans and advance (Including Bills P&D) to Total Deposit Ratio

$$= \frac{\text{Loans and advances(inc Bills P \& D)}}{\text{Total Deposits}}$$

ii. Investments to Total Deposit Ratio = $\frac{\text{Investment}}{\text{Total Deposits}}$

iii. Total outside Assets to Total Deposit Ratio = $\frac{\text{Total outside Assets}}{\text{Total Deposits}}$

iv. Loans and Advances (Including Bills P&D) to Total Assets Ratio

$$= \frac{\text{Loans and Advances (inc Bills P \& D)}}{\text{Total Assets}}$$

v. Total Income Generating Assets to Total Assets Ratio

$$= \frac{\text{Total Income generating Assets}}{\text{Total Assets}}$$

vi. Total Income Generating Assets to Total Debt Ratio

$$= \frac{\text{Total Income generating Assets}}{\text{Total debt}}$$

4) Leverage ratio (capital structure ratios)

Leverage or capital structure ratios are used to judge the long-term financial position of the firm. Debt is more risky from 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. The formula to measure leverage ratio is:

i. Long term debt to Shareholder’s Fund Ratio = $\frac{\text{Long term debt}}{\text{Shareholder r s fund}}$

ii. Total debt to Shareholder’s Fund Ratio = $\frac{\text{Total Debt}}{\text{Shareholder r s fund}}$

iii. Total debt to Total Assets Ratio = $\frac{\text{Total Debt}}{\text{Total assets}}$

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 adequate or there is the not need or 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. The formula to measure capital adequacy of the banks is:

i. Shareholder's fund to Total Deposit Ratio = $\frac{\text{Shareholders fund}}{\text{Total deposit}}$

ii. Shareholder's fund to Total Risky Assets Ratio = $\frac{\text{Shareholders fund}}{\text{Total Risky Assets}}$

iii. Shareholder's fund to Total Assets Ratio = $\frac{\text{Shareholders fund}}{\text{Total Assets}}$

3.6.2 Statistical tools

Statistical tools performs very important role in business activity. Each and every performance should be calculated in business world to know the exact profit/loss. Here are some mathematical tools which are widely in practice.

1) Means

The statistical mean refers to the average that is used to derive the central tendency of the data in question it is determined by adding all the data points in a population and then dividing the total by the number of points. The resulting number is known as the mean or average. 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, and then arithmetic mean usually denoted by X is given by X1, X2, X30... XN. X=X1, X2, X3....., X = Xn /n

Where, n = number of observation.

2) Correlation

The popularly known method of correlation is Karl Pearson's coefficient of correlation which is applied in this study. Correlation coefficient using direct formula is written as,

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{\left(n\sum x^2 - \left(\sum x\right)^2\right)}\sqrt{\left(n\sum y^2 - \left(\sum y\right)^2\right)}}$$

Where,

n=Number of pairs of x and y observed

x=Value of first variable (loans and advances)

y=Value of second variable (Total Deposits)

r= Pearson coefficient of correlation

3) Trend Analysis

The trend analysis is comparative analysis of organizations financial ratios over time. This is arrived by preparing relevant ratios of the firm for a series of years (three or more) to study the comparative performance. The different performance ratios related to the previous year is compared with that of the current year to draw such conclusion. The trend of loan and advances and total deposit of three Listed commercial banks are present in this study with the help of figure and analyses them in this study.

CHAPTER 4

RESULTS

4.1 Data presentation and analysis

This chapter deals with the presentation and analysis of relevant and available data of ADBL, NIBL and NSBL banks in Nepal in order to fulfill the objective of this study. The data have been analyzed according to the research methodology as prescribed in chapter three to gain the best result.

4.1.1 Financial Analysis

This study is done to analyze the financial performance of ADBL, NIBL and NSBL. By calculation and interpretation of various financial ratios which are as follows:

4.1.1.1 Profitability Ratios.

Profitability ratios are very helpful to measure the overall efficiency of operation of financial institutions. Here, profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets. Higher ratio shows the higher efficiency of the bank. The profitability ratios are as follow

4.1.1.1.1 Total interest earned to total outside assets ratio

This ratio is calculated by dividing the amount of total interest income by the total outside assets of the banks. Outside asset includes total investment and loans and advances (including bills P&D) which is shown in the table below:

Table No. 4. 1

Total interest earned to total outside assets ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	Total Int. Earned	**Total Outside Assets**	**Ratio (%)**	**Total Int. Earned**	**Total Outside Assets**	**Ratio (%)**	**Total Int. Earned**	**Total Outside Assets**	**Ratio (%)**
070/071	4137	41728	9.91	2183	48519	4.50	1004	40277	2.49
071/072	4121	50265	8.20	2168	52075	4.16	999	50606	1.97
072/073	4719	58880	8.01	30.91	57835	5.34	1624	54694	2.97
073/074	4622	70530	6.55	2996	67403	4.44	1745	53002	3.29
074/075	5645	81979	6.89	2979	87682	3.40	2047	49299	4.15
075/076	6181	93730	6.59	3921	114688	3.42	2416	66267	3.65
Average ratio			7.69			4.21			3.09

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

Table no.4.1 shows the ratio of total interest earned to total outside assets of ADBL, NIBL and NSBL respectively. The ratio for ADBL is in decreasing trend. The highest ratio calculated is 9.91% for F.Y 070/071 and lowest ratio is 6.55% for the fiscal year073/074. For NIBL the highest ratio is 5.34% for F.Y 072/073 and lowest atF.Y.074/075 is 3.40%. The ratio of NIBL seems to be in also decreasing trend. Similarly NSBL has the highest ratio in F.Y 074/075 which is 4.15% and lowest ratio in fiscal year 071/072 which equals to 1.97% .The ratio of NSBL is in decreasing trend for fiscal year 071/072 and in increasing trend after that period but again fluctuating in 075/076. The overall ratio of ADBL is greater in comparison to NIBL and NSBL.

By looking at the average ratio of above three banks, ADBL has highest average ratio i.e.7.69% and earned more percentage of total interest against total outside assets than NIBL and NSBL which implies that it is more successful in generating interest income by mobilizing the assets.

4.1.1.1.2 Return on risky assets ratio

Risky assets are an asset whose future return is uncertain. A risky asset includes loan and advances of the company. Net profit is the gain of the company. Return on risky assets is calculated by dividing the amount of net profit by the amount of risky assets which is shown in table no 2.

Table No. 4.2

Return on risky assets ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	Net Profit	**Risky Assets**	**Ratio (%)**	**Net Profit**	**Risky Assets**	**Ratio (%)**	**Net Profit**	**Risky Assets**	**Ratio (%)**
070/071	2365	34460	6.86	1177	41096	2.86	464	21366	2.17
071/072	1840	39427	4.67	1039	41637	2.50	480	26142	1.84
072/073	2289	49686	4.60	1915	46400	4.13	771	28788	2.68
073/074	1521	57186	2.66	1940	52020	3.73	923	35280	2.62
074/075	3603	68587	5.25	1962	66219	2.96	1065	39979	2.66
075/076	2577	79752	3.23	2551	85461	2.99	1332	46976	2.84
Average ratio			4.55			3.20			2.47

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

Table No. 4.2 shows the return on risky assets of ADBL is in decreasing trend up to073/074 and again increases from 074/075. The highest ratio for ADBL is 6.86 % (F.Y 070/071) and the lowest is 2.66% (074/075). NIBL has the highest ratio in (072/073 (4.13%) and the lowest ratio in F.Y 071/072 (2.50%). The ratio seems to being decreasing trend up to 071/072 and in increasing trend. Again the ratio of NIBL is in decreasing trend from the year 073/074. NSBL has the highest ratio in 075/076(2.84%) and lowest in F.Y 071/072 (1.84%).

Above analysis shows the better profitability position of ADBL in relation to risky assets with compare to NIBL and NSBL. Overall profitability of NIBL and NSBL bank’s is decreasing due to increment of risky assets.

4.1.1.1.3 Return on shareholder's fund ratio

Return on Shareholder's Fund Ratio is calculated by dividing the Net profit by Shareholder's fund of the related commercial banks as shown below in Table No.3

Table No. 4. 3

Return on shareholder's fund ratio

Rs. "in millions"

FY	ADBL			NIBL			NSBL		
	Net Profit	**Shareholders fund**	**Ratio (%)**	**Net Profit**	**Shareholders fund**	**Ratio (%)**	**Net Profit**	**Shareholders fund**	**Ratio (%)**
070/071	2365	12463	18.98	1177	5160	22.81	464	2870	16.17
071/072	1840	13173	13.97	1039	6050	17.17	480	3197	15.01
072/073	2289	14223	16.09	1915	7021	27.28	771	3799	20.29
073/074	1521	13034	11.67	1940	7925	24.48	923	4536	20.35
074/075	3603	16224	22.21	1962	9807	20.01	1065	5646	18.86
075/076	2577	17565	14.67	2551	16288	15.66	1332	6920	19.25
Average ratio			16.27			21.24			18.32

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

The table no.4.3 presented above is in decreasing trend for ADBL up to fiscal year073/074. The highest ratio is 22.21% in F.Y 074/075 and lowest is at 073/074 (11.67%). For NIBL the highest ratio 1s 27.28'% (072/073) and lowest is 15.66 for F.Y (075/076) .NSBL has the highest ratio in 073/074 (20.35%) and lowest in the fiscal year071/072 (15.01%).

Above analysis shows that the ratios of shareholders fund of NIBL is more than that of ADBL and NSBL.

4.1.1.1.4 Return on total assets ratio

Return on Total assets ratio is calculated by dividing Net profit by Total Assets. Net profit is generated from P/L account and total assets from the balance sheet of the related banks. Total assets is the sum of cash balance, NRB balance, investment, bills P&D, fixed asset, non-banking assets etc which is presented in the following table.

Table No. 4.4

Return on total assets ratio

Rs. "in millions"

FY	ADBL			NIBL			NSBL		
	Net Profit	**Total Assets**	**Ratio (%)**	**Net Profit**	**Total Assets**	**Ratio (%)**	**Net Profit**	**Total Assets**	**Ratio (%)**
070/071	2365	59241	3.99	1177	58357	2.02	464	46088	1.01
071/072	1840	68640	2.68	1039	65756	1.58	480	58060	0.83
072/073	2289	77097	2.97	1915	73152	2.62	771	64796	1.19
073/074	1521	88520	1.72	1940	86174	2.25	923	61073	1.51
074/075	3603	100929	3.57	1962	104345	1.88	1065	59277	1.80
075/076	2577	112710	2.29	2551	129783	1.97	1332	78515	1.70
Average ratio			2.87			1.89			1.34

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

The table no.4.4 presented above shows that the ratio of total assets varies during the various fiscal years. For ADBL, the highest ratio is 3.99 % for F.Y 070/071 and lowest at 073/074 (1.72%). NIBL has the highest ratio for F.Y 072/073 (2.62%) and lowest for the F.Y 071/072 (1.58%).similarly NSBL has highest ratio for F.Y 074/075(1.80%) and lowest for the F.Y 071/072 (0.83%). The ratio of the banks is declining in the years due to heavy increment in total assets and less increment in Net profit.

The average ratio of the above table shows that the profitability in relation to return to total assets of ADBL is better than that of NIBL and NSBL. .

4.1.1.2 Liquidity Ratio

The liquidity ratio measures the level of risk associated with the liquid assets i.e. cash, bank balance, etc that are kept in the bank for the purpose of satisfying the depositor’s demand for cash. Higher the ratio, lower the liquidity risks. Under this heading following ratios are calculated:

4.1.1.2.1 Cash and bank balance (excluding money at call) to current deposit ratio

Cash and bank balance is the sum amount of cash balance, cash in NRB and cash in financial institutions ignoring money at call amount. The deposited money which the consumer can withdraw as desired on demand is current deposit of the bank. It is calculated by dividing the amount of cash and bank balance (excluding money at call) by the amount of current deposit.

Table No. 4. 5

Cash and bank balance (excluding money at call) to current deposit ratio

Rs. "in millions"

FY	ADBL			NIBL			NSBL		
	C/B bal (ex.m/c)	Current deposit	Ratio (%)	C/B bal (ex.m/c)	Current deposit	Ratio (%)	C/B bal (ex.m/c)	Current deposit	Ratio (%)
070/071	4809	2929	164.19	8140	4043	201.34	4878	4260	114.51
071/072	6206	4258	145.75	11804	6611	178.55	5508	3778	145.79
072/073	9461	7757	121.97	13252	5582	237.41	7713	5037	153.13
073/074	8865	8580	103.32	16745	10324	162.19	6655	4115	161.73
074/075	11429	10269	111.30	14315	11743	121.90	84365	4818	175.09
075/076	10454	9568	109.26	13026	13871	93.91	10390	5531	187.85
Average ratio			125.97			165.88			156.35

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

Cash and bank balance to current deposit of ADBL is in decreasing trend. The highest figure is for fiscal year 070/071 (164.19) and the lowest ratio observe is for the fiscal year 073/074 (103.32). For NIBL the ratio is highest at the fiscal year 072/073(237.41) and the lowest ratio is for the fiscal year 075/076 (93.91). NSBL has the highest ratio for the fiscal year 075/076 (187.85) and lowest ratio is 114.51 for the fiscal year 070/071.

From the above table no.4.5 we come to know that the ratio for NIBL is higher than that of ADBL and NSBL. ADBL, NIBL and NSBL have maintained 125.97, 165.88 and 156.35 respectively of current deposit as cash and bank balance (excluding money at call). The highest average ratio of NIBL (165.88) is more than that of ADBL and NSBL. ADBL has the lowest ratio i.e. 125.97 and NSBL has 156.35 averages.

4.1.1.2.2 Cash and bank balance (including money at call) to deposit ratio (excluding fixed deposit)

Cash and bank balance is the sum amount of cash balance, cash balance in NRB and cash in financial institutions including money at call amount. Here deposit amount is received after subtracting the amount of fixed deposit. It is calculated by dividing the amount of cash and bank balance (including money at call) by the amount of deposit excluding fixed deposit

Table No. 4.6

Cash and bank balance (including money at call) to deposit ratio (excluding fixed deposit)

Rs. "in millions"

FY	ADBL			NIBL			NSBL		
	C/B bal (inc.m/c)	Deposit (ex. FC)	Ratio (%)	C/B bal (inc.m/c)	Deposit (ex. FC)	Ratio (%)	C/B bal (inc.m/c)	Deposit (ex. FC)	Ratio (%)
070/071	4836	21018	23.01	8290	31760	26.10	4878	14402	33.87
071/072	6206	25124	24.70	12009	36953	32.50	5687	17129	33.20
072/073	9593	32091	29.89	13519	46444	29.12	7852	20741	37.86
073/074	9000	38739	23.23	16977	55812	30.42	6655	25924	25.67
074/075	11571	44902	25.77	14315	69402	20.63	8436	32499	25.96
075/076	10605	51825	20.46	13175	82142	16.04	10390	42194	24.62
Average ratio			24.51			25.80			30.20

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

The above table no.4.6 depicts the ratio of ADBL, NIBL and NSBL is in increasing and decreasing trend for the fiscal years. The ratio of ADBL is highest in F.Y 072/073(29.89%) and lowest in 075/076 (20.46%).For NIBL, the highest in 071/072(32.50%) and lowest in 075/076 (16.04%). For NSBL, the highest ratio is in 072/073(37.86%) and lowest in 075/076 (24.62%). The average ratio of NSBL (30.20) is highest than that of ADBL (24.51%) and NIBL (30.20%).

It is found that NSBL is holding more cash and bank balance (including money at call) to total deposits (excluding fixed deposit) than ADBL and NIBL which imply the better liquidity position of the NSBL.

4.1.1.2.3 Cash and bank balance (including money at call) to total deposit ratio

Cash and bank balance is the sum amount of cash balance, cash in NRB and cash in financial institutions including money at call amount. Total deposit shows the amount of current deposit, margin, and fixed deposit, saving deposit and other deposit too. It is calculated by dividing the amount of cash and bank balance (including money at call) by the amount of total deposit.

Table No. 4.7

Cash and bank balance (including money at call) to total deposit ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	C/B bal (inc.m/c)	**Deposit**	**Ratio (%)**	**C/B bal (inc.m/c)**	**Deposit**	**Ratio (%)**	**C/B bal (inc.m/c)**	**Deposit**	**Ratio (%)**
070/071	4836	34395	14.06	8290	50138	16.53	4878	42415	11.50
071/072	6206	43235	14.35	12009	57011	21.06	5687	53337	10.66
072/073	9593	54478	17.61	13519	62429	21.66	7852	58920	13.33
073/074	9000	65898	13.66	16977	73831	22.99	6655	54493	12.21
074/075	11571	77035	15.02	14315	90631	15.79	8436	51628	16.34
075/076	10605	87263	12.15	13175	108627	12.13	10390	65214	15.93
Average ratio			14.48			18.36			13.33

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

From the above table no. 4.7, the highest ratio for ADBL is for the F.Y 072/073(17.61%) a lowest is for the F.Y 075/076 (12.15%). For NIBL, the highest for the year 073/074 (22.99%) and lowest is for the fiscal year 075/76 (12.13%). Similarly for NSBL, the highest ratio is for the fiscal year 074/075 (16.34%) and lowest is for the fiscal year 071/072 (10.66%). The average ratio calculated above shows that NIBL has the highest value compare to ADBL and NSBL.

NIBL is holding more cash and bank balance against total deposits amount than that of ADBL and NSBL which shows the better liquidity position of NIBL.

4.1.1.2.4 Fixed deposit to total deposit ratio

Fixed deposit is long term deposit. The accumulated deposit can be mobilized by the bank in various sectors such as loan and advances, investment etc. Higher the fixed deposit, lower the current deposit (short term deposit). Fixed deposit to total deposit ratio is calculated by dividing the proportion of fixed deposit with the proportion of total deposit.

Table No. 4.8

Fixed deposit to total deposit ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	Fixed deposit	**Total deposit**	**Ratio (%)**	**Fixed deposit**	**Total deposit**	**Ratio (%)**	**Fixed deposit**	**Total deposit**	**Ratio (%)**
070/071	13377	34395	38.89	18378	50138	36.65	28014	42415	66.05
071/072	18111	43235	41.89	20057	57011	35.18	36209	53337	67.89
072/073	22387	54478	41.09	15985	652429	25.61	38179	58920	64.80
073/074	26160	65898	39.70	18019	73831	24.41	28569	54493	52.43
074/075	32134	77035	41.71	21229	90631	23.42	19129	51628	37.05
075/076	35438	87263	40.61	26485	108627	24.38	23019	65214	35.30
Average ratio			40.65			28.28			53.92

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

Table no. 4.8 shows the ratio of ADBL is declining in 073/074. The highest ratio for ADBL is 41.89% in F.Y 071/072 and lowest in F.Y 070/071 (38.86%). For NIBL the highest ratio is for F.Y 070/071 (36.65%) and lowest at F.Y 074/075 (23.42%). And for NSBL the highest ratio at the fiscal year 071/072(67.89%) and lowest for F.Y 075/076(35.30%). The average ratio is highest for NSBL (53.92%) bank with respect to ADBL and NIBL.

It is known that NSBL is in better liquidity position than ADBL and NIBL relating to fixed deposit to total deposits.

4.1.1.2.5 Saving deposit to total deposit ratio

Saving deposit is the short term deposit and in this deposit banks are paid certain percentage interest. This ratio measures the efficiency and effectiveness of the bank. This ratio is calculated by dividing the amount of saving deposit by the total deposit amount.

Table No. 4.9

Saving deposit to total deposit ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	Saving deposit	**Total deposit**	**Ratio (%)**	**Saving deposit**	**Total deposit**	**Ratio (%)**	**Saving deposit**	**Total deposit**	**Ratio (%)**
070/071	17269	34395	50.21	13490	50138	26.91	8079	42415	19.05
071/072	19964	43235	46.18	17276	57011	30.30	10345	53337	19.40
072/073	23340	54478	42.84	19932	652429	39.93	12887	58920	21.87
073/074	28829	65898	43.75	25015	73831	33.88	16611	54493	30.48
074/075	33713	77035	43.76	31733	90631	35.01	21485	51628	41.62
075/076	37534	87263	43.01	39423	108627	36.29	26832	65214	41.14
Average ratio			44.96			32.39			28.93

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

Table no.4.9 shows that the ratio is decreasing for ADBL and increasing for NIBL and NSBL banks. The highest ratio for ADBL is for the F.Y 070/071 (50.21%) and lowest for 072/073 (42.84%). For NIBL, the highest is for the F.Y 075/076 (36.29%) and lowest for F.Y 070/071 (26.91%). For NSBL, the highest ratio is for F.Y 074/075(41.62%) and lowest is for F.Y 070/071(19.05%). The average ratio for ADBL 1s 44.96%, NIBL is 32.39% and NSBL is 28.93% respectively.

Above calculation shows that the position of NSBL is better than ADBL and NIBL because lower the ratio better the liquidity position. The ratio of saving to total deposit is lower of NSBL in average.

4.1.1.2.6 NRB balance to total deposit ratio

Commercial bank deposit certain percentage of their deposit amount in Nepal Rasta Bank because NRB is the bank of the bank and NRB controls inflation rate of the money in the market and this ratio measure the capacity performance of the bank. This ratio is calculated by dividing NRB Balance with the amount of total deposit.

Table No. 4.10

NRB balance to total deposit ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	NRB Balance	**Total deposit**	**Ratio (%)**	**NRB Balance**	**Total deposit**	**Ratio (%)**	**NRB Balance**	**Total deposit**	**Ratio (%)**
070/071	2553	34395	7.42	4009	50138	7.80	2331	42415	5.50
071/072	3280	43235	7.59	8503	57011	14.91	3270	53337	6.13
072/073	6182	54478	11.35	8753	652429	14.02	4957	58920	8.41
073/074	4172	65898	6.33	12653	73831	17.14	3891	54493	7.14
074/075	5919	77035	7.68	8993	90631	9.92	4662	51628	9.03
075/076	7325	87263	8.39	7767	108627	7.15	6428	65214	9.86
Average ratio			8.13			11.82			7.68

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

The above table no. 4.10 shows that the ratio of ADBL is in increasing up to 072/073and decreasing trend from 072/073. Variation of decrement and increment occurs for NIBL and NSBL. The highest ratio for ADBL is for F.Y 072/073 (11.35%) and lowest for the F.Y 073/074 (6.33%). The highest ratio for NIBL is for the F.Y073/074 (17.14%) and lowest for the F.Y 075/076 (7.15%). For NSBL, the highest ratio is for F.Y 075/076 (9.86%) and lowest for the F.Y 070/071 (5.50%). The average ratio for ADBL, NIBL and NSBL is 8.13%, 11.82% and 7.68% respectively. The highest ratio for NIBL is more than that of ADBL and NSBL which shows the better liquidity position of NIBL.

4.1.1.3 Turnover Ratios

Turnover ratio measures the efficiency of the bank to manage its asset in profitable and satisfactory sector. This indicates the ability of the bank to utilize their available resources.

4. 1.1.3.1 Loans and advance (including bills purchase) to total deposit ratio

This ratio helps to identify the level of loans and advance the banks has provided with comparison to the deposit they have collected. This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances. Loan and advances are outside assets which yield profit to the bank. Increment of loan and advances is the main target of all commercial banks. So, higher the ratios better the mobilization of the fund. Here amount of loan and advance includes bills purchased and discounted amount and the deposit includes current deposit ,fixed deposit, saving deposit, margin, interest bearing deposit and other deposit. It is calculated as the amount of loan and advances by the amount of total deposit.

Table No. 4.11

Loans and advances (including bills purchase) to total deposit ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	Loan & adv (inc. bill P & D)	**Total deposit**	**Ratio (%)**	**Loan & adv (inc. bill P & D)**	**Total deposit**	**Ratio (%)**	**Loan & adv (inc. bill P & D)**	**Total deposit**	**Ratio (%)**
070/071	34460	34395	100.19	41096	50138	81.97	21366	42415	50.37
071/072	39427	43235	91.19	41637	57011	73.03	26142	53337	49.01
072/073	49686	54478	91.20	46400	652429	74.32	28788	58920	48.86
073/074	571865	65898	86.78	52020	73831	70.46	35280	54493	64.74
074/075	68578	77035	89.02	66219	90631	73.06	39979	51628	77.44
075/076	79752	87263	91.39	85461	108627	78.67	46976	65214	72.03
Average ratio			91.63			75.25			60.41

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

The above table no.4.11 shows that the decreasing and fluctuating rate for ADBL. The highest ratio of ADBL is for the fiscal year 070/071(100.19) and lowest for the F.Y 073/074 (86.78%). For NIBL, the highest ratio is for the fiscal year 070/071 (81.97%) and the lowest is for the year 073/074 (70.46%). For NSBL, the highest ratio is for the fiscal year 074/075 (77.44%) and the lowest for the year 072/073 (48.86%). The average ratio of ADBL, NIBL and NSBL are respectively 91.63, 75.25 and 60.41.

Since ADBL has the highest average ratio, it is more successful in deposit utilization as income generating assets i.e. loans and advances. Higher the loan and advances to total deposit higher utilization of deposit.

4.1.1.3.2 Investment to total deposit ratio

A commercial bank mobilizes its deposit by investing its fund in different securities issued by government and other financial or non-financial companies. This ratio measures the extent to which the banks are able to mobilize their deposit on ‘investment in various securities. It is calculated by dividing amount of investment by amount of total deposits. Where, total investment includes investment on government securities, investment on debenture and bonds, shares in subsidiary companies, shares in other companies and other investments. Investment to total deposit ratio is calculated in the following table.

Table No. 4.12

Investment on total deposit ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	Investment	**Total deposit**	**Ratio (%)**	**Investment**	**Total deposit**	**Ratio (%)**	**Investment**	**Total deposit**	**Ratio (%)**
070/071	7267	34395	21.13	7423	50138	14.81	18911	42415	44.59
071/072	10838	43235	25.07	10438	57011	18.31	24463	53337	45.87
072/073	9195	54478	16.88	11435	652429	18.32	25906	58920	43.97
073/074	13344	65898	20.25	15384	73831	20.84	17722	54493	32.52
074/075	13501	77035	17.53	21463	90631	23.68	9320	51628	18.05
075/076	13979	87263	16.02	29227	108627	26.91	19291	65214	29.58
Average ratio			19.48			20.48			35.76

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

Above table no.4.12 shows the fluctuating trend for ADBL and NSBL. The ratio is in increasing trend for NIBL. The highest ratio for ADBL is for the F.Y 071/072(25.07%) and lowest for the year 075/076 (16.02%). For NIBL, the highest ratio is for the year 075/076 (26.91%) and the lowest ratio for the year 070/071 (14.81%). For NSBL, the highest ratio is for the fiscal year 071/072 (45.87%) and the lowest is for the year 074/075 (18.05%). From the above calculation, the average ratio of NSBL is highest than that of ADBL and NIBL.

From the above analysis it is determine that NSBL is utilizing its deposits more on investment activities.

4.1.1.3.3 Total outside assets to total deposit ratio

Outside assets includes loans and advances and amount of investment. This ratio is generated by dividing the amount of total outside assets with total deposits which is shown in the following table.

Table No. 4.13

Total outside assets to total deposit ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	Total outside assets	**Total deposit**	**Ratio (%)**	**Total outside assets**	**Total deposit**	**Ratio (%)**	**Total outside assets**	**Total deposit**	**Ratio (%)**
070/071	41728	34395	121.32	48519	50138	96.77	40277	42415	94.96
071/072	50265	43235	116.26	52075	57011	91.34	50606	53337	94.88
072/073	58880	54478	108.08	57835	652429	92.64	54694	58920	92.83
073/074	70530	65898	107.03	67403	73831	91.29	53002	54493	97.26
074/075	81979	77035	106.42	87682	90631	96.75	49299	51628	95.49
075/076	93730	87263	107.41	114688	108627	105.58	66267	65214	101.61
Average ratio			111.09			95.73			96.17

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

The table no.4.13 shows that the ratio is highest in 070/071 (121.32%) and lowest in074/075 (106.42%). For NIBL, the highest ratio is for the fiscal year 075/076(105.58%) and lowest for the year 073/074(91.29%). And for NSBL, the highest ratio calculated is for the F.Y 075/076 (101.61%) and lowest is for the year 072/073(92.83%). The average ratio for ADBL, NIBL and NSBL are 111.09, 95.73 and 96.17 respectively.

ADBL has the highest ratio with compare to NIBL and NSBL banks so ADBL is more efficient in deposit utilization. NIBL and NSBL are also improving position.

4.1.1.3.4 Loan and advances (including bills purchased) to total assets ratio

The amount of loan and advances includes bills purchased and the total assets includes the amount of cash balance, NRB balance, money at call, fixed assets, non banking assets and other assets. Loan and advances (including bills purchased) to total assets is calculated by dividing loan and advance amount by total assets amount as shown in the table below:

Table No. 4.14

Loan and advances (including bills purchased) to total assets ratio

Rs. "in millions"

FY	ADBL			NIBL			NSBL		
	Loans and adv. (inc. bill Purchased)	Total assets	Ratio (%)	Loans and adv. (inc. bill Purchased)	Total assets	Ratio (%)	Loans and adv. (inc. bill Purchased)	Total assets	Ratio (%)
070/071	34460	59241	58.178	41096	58357	70.42	21366	46088	46.36
071/072	39427	68640	57.44	41637	65756	63.32	26142	58060	45.03
072/073	49686	77097	64.45	46400	73152	63.43	28788	64796	44.43
073/074	57186	88520	64.60	52020	86174	60.37	35280	61073	57.77
074/075	68578	100929	67.95	66219	104345	63.46	39979	59277	67.44
075/076	79752	112710	70.76	85461	129783	65.85	46976	78515	59.83
Average ratio			63.90			64.48			53.48

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

Above table no.4.14 shows the fluctuating trend of three banks in the various fiscal years. The highest ratio of ADBL for the fiscal year 075/076 (70.76%) and lowest is 57.44% in the F.Y 071/072. The highest ratio for NIBL is for the F.Y 070/071(70.42%) and lowest for the year 073/074 (60.37%). For NSBL, the highest ratio is 70.42% in F.Y 070/071 and lowest ratio is 60.36% in 073/074. The average ratio of NIBL (64.48%) is highest among the three banks.

The proportion of loans and advances to total assets of NIBL is higher than ADBL and NSBL. So NIBL is efficient in assets management. Loan and advances is the main income generating component of total assets.

4.1.1.3.5 Total income generating assets to total assets ratio

Total income generating assets includes loans and advances, investment, money at call or short notice. It is calculated by dividing the amount of total income generating assets by total assets amount. It is presented in the following table.

Table No. 4.15

Total income generating assets to total assets ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	Total income generating assets	**Total assets**	**Ratio (%)**	**Total income generating assets**	**Total assets**	**Ratio (%)**	**Total income generating assets**	**Total assets**	**Ratio (%)**
070/071	41755	59241	70.48	48669	58357	83.40	40277	46088	87.39
071/072	50265	68640	73.23	52281	65756	79.51	50784	58060	87.47
072/073	59012	77097	76.54	58103	73152	79.43	54833	64796	84.62
073/074	70665	88520	79.83	67636	86174	78.49	53002	61073	86.78
074/075	82222	100929	81.47	87682	104345	84.03	49299	59277	83.17
075/076	93882	112710	83.30	114837	129783	88.48	66267	78515	84.40
Average ratio			77.48			82.22			85.64

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

The above table no.4.15 exhibits the trend of ADBL is in increasing way. The trend of NIBL and NSBL are fluctuating during the years. The highest ratio of ADBL is for the fiscal year 075/076 (83.30%) and lowest for the year 070/071 (70.48%). For NIBL, the highest ratio is for the fiscal year 075/076 (88.48%) and the lowest is for the year 073/074 (78.49%). And for NSBL, the highest ratio is for the fiscal year (071/072 (87.47%) and the lowest is for the year 074/075 (83.17%). The average for ADBL, NIBL and NSBL are 77.48%, 82.22% and 85.64% respectively.

From the above calculation it can be say that NSBL is successful in mobilizing more total income generating assets out of the total assets than ADBL and NIBL.

4.1.1.3.6 Total income generating assets to total debt ratio

Income generating assets includes loans and advances, investment, money at call or short notice amount whereas Total debt denotes to the outsiders total fund. Total debt is the difference of total capital and liabilities minus shareholder's fund amount. Total income generating assets to total debt ratio is the proportion of Income generating assets to total debt amount. This ratio for the listed three commercial banks is shown below:

Table No. 4.16

Total income generating assets to total debt ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	Total income generating assets	**Total debt**	**Ratio (%)**	**Total income generating assets**	**Total debt**	**Ratio (%)**	**Total income generating assets**	**Total debt**	**Ratio (%)**
070/071	41755	48374	86.32	48669	53197	91.49	40277	43219	93.19
071/072	50265	56184	89.47	52281	59706	87.56	50784	54863	92.57
072/073	59012	63925	92.31	58103	66132	87.86	54833	60997	89.89
073/074	70665	74297	95.11	67636	78248	86.44	53002	56537	93.75
074/075	82222	87895	93.55	87682	94538	92.75	49299	53631	91.92
075/076	93882	96486	97.30	104837	113495	92.37	66267	71595	92.56
Average ratio			92.34			89.75			92.31

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

Table no. 4.16 shows the fluctuating trend of the listed three banks. The highest ratio of ADBL is for the fiscal year 075/076 (97.30%) and lowest ratio is for the year 070/071(86.32%). The highest ratio of NIBL is for the fiscal year 074/075 (92.75%) and lowest ratio is for the year 073/074 (86.44%). For NSBL, the highest ratio is for the fiscal year 073/074 (93.75%) and the lowest ratio is for the fiscal year 072/073 (89.89%).

The average ratio of ADBL and NSBL are approximately equals to 92.34% and 92.31% which is comparatively higher than that of NIBL (89.75%). ADBL and NSBL have utilized their debt efficiently in income generating purpose. The average ratios of all three banks are satisfactory with relation to total income generating assets to total debt.

4.1.1.4 Leverage Ratios

The relationship between insider's fund and outsider's firms are evaluated under the leverage ratio in to evaluate the long term solvency of the bank. Under this heading following ratios are calculated:

4.1.1.4.1 Long term debt to shareholder's fund ratio

The amount of long term debt consists of fixed deposit and loan and advances of the given banks. Shareholder's fund consists of the value of Net worth of the concerned bank of the related year. It is calculated by dividing long term debt upon shareholder's fund.

Table No. 4.17

Long term debt to shareholder's fund ratio

Rs. "in millions"

FY	ADBL			NIBL			NSBL		
	Long term debt	**Shareholder's fund**	**Ratio (%)**	**Long term debt**	**Shareholder's fund**	**Ratio (%)**	**Long term debt**	**Shareholder's fund**	**Ratio (%)**
070/071	47837	12463	3.84	59474	5160	11.53	49379	2870	17.21
071/072	57538	13173	4.37	61694	6050	10.20	62351	3197	19.50
072/073	72072	14223	5.07	62385	7021	8.89	66967	3799	17.63
073/074	83346	13034	6.39	70039	7925	8.84	63849	4536	14.08
074/075	100112	16224	6.17	87448	9807	8.92	59109	5646	10.47
075/076	115190	17565	6.56	111946	16288	6.87	69995	6920	10.11
Average ratio			5.4			9.21			14.83

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

The table no.4.17 shows that in fiscal year 075/076 (6.56%) the ratio is higher and in the year 070/071 (3.84%) the ratio is lower. For NIBL, the highest ratio is for the fiscal year 070/071 (11.53%) and the lowest ratio is for the fiscal year 075/076(6.87%). For NSBL the highest ratio is for the fiscal year 071/072 (19.50%) and the lowest ratio is for the fiscal year 075/076 (10.11%).

Above table shows that the highest average ratio is of NSBL (14.83%) and lowest is for ADBL (5.4%).

4.1.1.4.2 Total debt to shareholder's fund ratio

Total debt is generated by deducting total liabilities and shareholder's fund. Shareholder's fund is the book net worth of the commercial banks. Total debt to shareholder's fund is calculated by dividing the total debt upon shareholder's fund which is presented in the following table no. 4.18.

Table No. 4.18

Total debt to shareholder's fund ratio

Rs. "in millions"

FY	ADBL			NIBL			NSBL		
	Total debt	**Shareholder's fund**	**Ratio (%)**	**Total debt**	**Shareholder's fund**	**Ratio (%)**	**Total debt**	**Shareholder's fund**	**Ratio (%)**
070/071	48374	12463	3.88	53197	5160	10.31	43219	2870	15.06
071/072	56184	13173	4.27	59706	6050	9.87	54863	3197	17.16
072/073	63925	14223	4.49	66132	7021	9.42	60997	3799	16.06
073/074	74297	13034	5.70	78248	7925	9.87	56537	4536	12.46
074/075	87895	16224	5.42	94538	9807	9.64	53631	5646	9.50
075/076	96486	17565	4.49	113495	16288	6.97	71595	6920	10.35
Average ratio			4.88			9.35			13.43

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

The above table no.4.18 depicts the fluctuating trend of ADBL, NIBL and NSBL banks. The highest ratio for ADBL is for the fiscal year 073/074 (5.70%) and the lowest ratio is for the fiscal year 070/071(3.88%). For NIBL, the highest ratio is for the fiscal year 070/071 (10.31%) and the lowest for the year 075/076 (6.97%). Similarly for NSBL, the highest ratio is for the fiscal year 071/072 (17.16%) and the lowest ratio is for the fiscal year 074/075 (9.50%).

The average ratio for ADBL, NIBL and NSBL are 4.88%, 9.35% and 13.43% respectively. Total debt to shareholder fund is maximum for NSBL and minimum for ADBL.

4.1.1.4.3 Total debt to total assets ratio

Total debt to total assets ratio is calculated by dividing total debt upon total assets which is shown in the following table:

Table No. 4.19

Total debt to total assets ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	Total debt	**Total assets**	**Ratio (%)**	**Total debt**	**Total assets**	**Ratio (%)**	**Total debt**	**Total assets**	**Ratio (%)**
070/071	48374	59241	81.66	53197	58357	91.16	43219	46088	9.78
071/072	56184	68640	81.85	59706	65756	90.80	54863	58060	94.49
072/073	63925	77097	82.92	66132	73152	90.40	60997	64796	94.11
073/074	74297	88520	83.93	78248	86174	90.80	56537	61073	92.57
074/075	87895	100929	87.09	94538	104345	90.60	53631	59277	90.48
075/076	96486	112710	85.61	113495	129783	87.45	71595	78515	91.19
Average ratio			83.84			90.34			92.77

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

Above table no.4.19 shows the ratios of total debt to total assets for the various fiscal years of ADBL, NIBL and NSBL. It shows that the trend is fluctuating for ADBL and NSBL. The trend is decreasing for NIBL. The highest ratio for ADBL is for the fiscal year 074/075 (87.09%) and lowest ratio is for the fiscal year 070/071 (81.66%). For NIBL, the highest ratio is for the year 070/071 (91.16%) and the lowest for the period of 075/076 (87.45%). For NSBL, the highest ratio is for the period of 071/072(94.49%) and lowest is for the period of 074/075 (90.48%).

The average ratio of ADBL is 83.84%, NIBL is 90.34 % and NSBL is 92.77% respectively. The ratio is highest for NSBL and lowest for ADBL from the above table.

4.1.1.5 Capital Adequacy Ratios

Following ratios are considered under this capital adequacy ratios:

4.1.1.5.1 Shareholder’s fund to total deposit ratio

Shareholder’s fund to Total deposit ratio is calculated by dividing the shareholder’s fund upon total deposit. Total deposit is the summation of all deposit like current, saving, fixed deposit, margin and others.

Table No. 4.20

Shareholder's fund to total deposit ratio

Rs. "in millions"

FY	ADBL			NIBL			NSBL		
	Shareholder's fund	**Total deposit**	**Ratio (%)**	**Shareholder's fund**	**Total deposit**	**Ratio (%)**	**Shareholder's fund**	**Total deposit**	**Ratio (%)**
070/071	12463	34395	36.23	5160	50138	10.29	2870	42415	6.77
071/072	13173	43235	30.47	6050	57011	10.61	3197	53337	5.99
072/073	14223	54478	26.11	7021	652429	11.25	3799	58920	6.45
073/074	13034	65898	19.78	7925	73831	10.73	4536	54493	8.32
074/075	16224	77035	21.06	9807	90631	14.99	5646	51628	10.94
075/076	17565	87263	20.13	16288	108627	11.44	6920	65214	10.61
Average ratio			25.63						8.18

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

Table No. 4.20 shows that the fluctuating trend of shareholder’s fund to total deposit of ADBL, NIBL and NSBL banks. The highest ratio for ADBL bank is for the fiscal year 070/071 (36.23%) and lowest at 73/074 (19.78%). For NIBL, the ratio is highest at 075/076 (14.99%) and lowest at the year 070/071 (10.29%). For NSBL, the ratio is highest at 074/075 (10.94%) and lowest at the year 071/072 (5.99%).

The average ratio calculated for the above three banks are 25.63%, 11.44% and 8.18% respectively. The highest average ratio is of ADBL and the lowest one is of NSBL.

4.1.1.5.2 Shareholder's fund to total risky assets ratio

Shareholder fund is the net book worth value of the concerned banks. Risky assets are the loan and advances of the company. This ratio is calculated by dividing the shareholder's fund by total risky assets which is shown in the following table.

Table No. 4.21

Shareholder's fund to total risky assets ratio

Rs. "in millions"

FY	ADBL			NIBL			NSBL		
	Shareholder's fund	**Total Risky Assets**	**Ratio (%)**	**Shareholder's fund**	**Total Risky Assets**	**Ratio (%)**	**Shareholder's fund**	**Total Risky Assets**	**Ratio (%)**
070/071	12463	34460	36.17	5160	41096	12.56	2870	21366	13.43
071/072	13173	39427	33.41	6050	41637	14.53	3197	26142	12.23
072/073	14223	49686	28.63	7021	46400	15.13	3799	28788	13.20
073/074	13034	57186	22.79	7925	52020	15.23	4536	35280	12.86
074/075	16224	68587	23.66	9807	66219	14.81	5646	39979	14.12
075/076	17565	79752	22.02	16288	85461	19.06	6920	46976	14.73
Average ratio			27.78			15.22			13.43

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

The above table no. 4.21 exhibits that the ratio of shareholder's funds to total risky assets in a fluctuating trend of the banks. The highest ratio for ADBL is at 070/071 (36.17%) and lowest at 075/076 (22.02%). The highest ratio for NIBL is at 075/076 (19.06%) and lowest at 070/071 (12.56%). For NSBL, the highest at 075/076(14.73%) and lowest at F.Y 071/072 (12.23%).

The average ratio for ADBL, NIBL and NSBL banks are respectively 27.78%, 15.22% and 13.43%. The highest average ratio is of ADBL and lowest for NSBL banks.

4.1.1.5.3 Shareholder’s fund to total assets ratio

This ratio is calculated by dividing the shareholder’s fund upon total assets which is presented by the help of following table.

Table No. 4.22

Shareholder's fund to total assets ratio

Rs. "in millions"

FY	**ADBL**			**NIBL**			**NSBL**		
	Shareholder's fund	**Total Assets**	**Ratio (%)**	**Shareholder's fund**	**Total Assets**	**Ratio (%)**	**Shareholder's fund**	**Total Assets**	**Ratio (%)**
070/071	12463	59241	21.04	5160	58357	8.84	2870	46088	6.23
071/072	13173	68640	19.19	6050	65756	9.20	3197	58060	5.51
072/073	14223	77097	18.45	7021	73152	7.60	3799	64796	5.86
073/074	13034	88520	14.72	7925	86174	9.20	4536	61073	7.43
074/075	16224	100929	16.07	9807	104345	9.40	5646	59277	9.52
075/076	17565	112710	15.58	16288	129783	12.55	6920	78515	8.81
Average ratio			17.51				9.47		7.23

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

The above table no. 4.22 presents the ratio of shareholder’s fund to total assets of ADBL, NIBL and NSBL in a fluctuating trend. The highest ratio for ADBL is at the F.Y 070/071 (21.04%) and lowest at the year 073/074 (14.72%). For NIBL, the highest ratio is at 075/076 (12.55%) and lowest is at 072/03 (7.60%). Similarly for NSBL, the highest ratio is at the fiscal year 074/075(9.52%) and lowest ratio at the year 071/072 (5.51%).

The average ratio for ADBL is 17.51%, NIBL is 9.47% and for NSBL is 7.23 % respectively. The highest average is for ADBL and lowest for NSBL which is calculated in the above table.

4.1.2 Statistical Analysis

Relationship between deposit and loan and advances

Deposit and loan and advances are the life blood of any commercial banks. The existence of commercial banks depends upon the total deposit collected and total amount granted as loan and advances. The relationship between deposit and loan and advances should be optimum to gain profit. Correlation coefficient measures the degree of relationship between two variables deposit and loan and advances. Value of loan &advances (X) and value of deposit (Y) is calculated in this study using Karl Pearson coefficient. The main reason of finding out correlation (r) between these variables is to justify whether deposits are significantly used as loan and advances or not.

4.1.2.1 Deposit Utilization of ADBL

Table No. 4.23

Deposit Utilization of ADBL

Rs. "in millions"

FY	Loan and Advances	Total deposit	Deposit utilization rate (%)
070/071	34460	34395	100.19
071/072	39427	43235	91.19
072/073	49686	54478	91.20
073/074	57186	65898	86.78
074/075	68578	77035	89.02
075/076	79752	87263	91.39
Average ratio			91.63

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

Table no. 4.23 shows, the deposit utilization of ADBL seems higher at the F.Y 070/071 which is 100.19%.The ratio is in decreasing trend after that year. Again the ratio is increasing from the FY 074/075 which shows the positive sign. The lowest ratio is at the fiscal year (073/074 which is 86.78%. The average ratio for ADBL is 91.63%.

4.1.2.1.1 Correlation coefficient of ADBL

The significance relationship between above two variables (total deposits and loan &advances) can be tested by using Karl Pearson's correlation coefficient formula. This is described in a statistical tool and calculated in appendix.

Table No. 4.24

Correlation Coefficient of ADBL

Rs. "in millions"

FY	**X**	**X^2**	**Y**	**Y^2**	**XY**
070/071	34460	1187491600	34395	1183016025	1185251700
071/072	39427	1554488329	43235	1869265225	1704626345
072/073	49686	2468698596	54478	2967852484	2706793908
073/074	57186	3270238596	65898	4342546404	3768443028
074/075	68578	4702942084	77035	5934391225	5282906230
075/076	79752	6360381504	87263	7614831169	6959398776
N = 6	$\sum X$ = 329089	$\sum X^2$ = 19544240709	$\sum Y$ = 362304	$\sum Y^2$ = 23911902532	$\sum XY$ = 21607419987

From Appendix

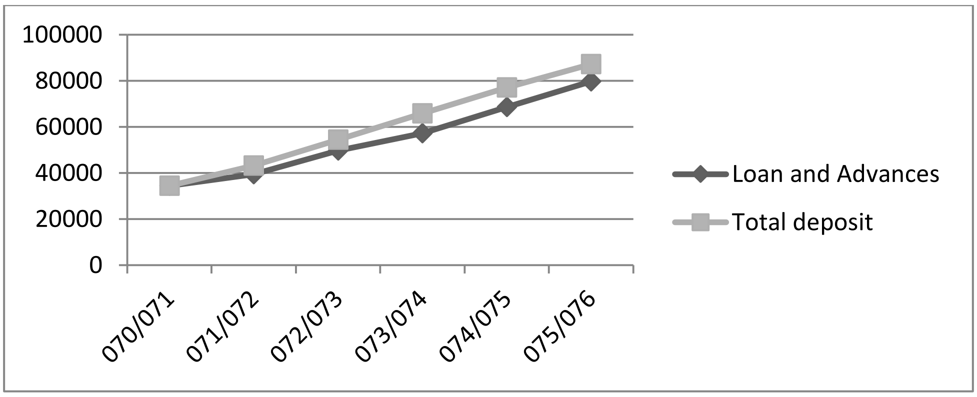
R=0.99

P_e= 0.006

Since r is greater than 0.5 and more than six times of probable error, it is considered significant. There is highly positive correlation between loan and advances and total deposit of ADBL.

4.1.2.1.2 Trend of loan and advances and total deposit of ADBL

Figure No. 4.1



4.1.2.2 Deposit Utilization of NIBL

Table No. 4.25

Deposit Utilization of NIBL

Rs. "in millions"

FY	Loan and Advances	Total deposit	Deposit utilization rate (%)
070/071	41096	50138	81.97
071/072	41637	57011	73.03
072/073	46400	62429	74.32
073/074	52020	73831	70.46
074/075	66219	90631	73.06
075/076	85461	108627	78.67
Average ratio			75.25

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

From table no.4.25, the deposit utilization rate is 81.97 % which is the highest rate in070/071 .After that, the utilization rate of NIBL is in decreasing trend. Looking at the average ratio 75.25%, we can say that the utilization rate is in satisfactory position. After the fiscal year 073/074 the rate of deposit utilization is in increasing order. The average utilization ratio is 75.25% for NIBL.

4.1.2.2.1 Correlation coefficient of NIBL

Table No. 4.26

Correlation Coefficient of NIBL

Rs. "in millions"

FY	X	X^2	Y	Y^2	XY
070/071	41096	1688881216	50138	2513819044	2060471248
071/072	41637	1733639769	57011	3250254121	2373767007
072/073	46400	2152960000	62429	3897380041	2896705600
073/074	52020	2706080400	73831	5451016561	3840688620
074/075	66219	4384955961	90631	8213978161	6001494189
075/076	85461	7303582521	108627	11799825129	9283372047
N = 6	$\sum X$ = 332833	$\sum X^2$ = 19970099867	$\sum Y$ = 442667	$\sum Y^2$ = 35126273057	$\sum XY$ = 26456498711

From Appendix

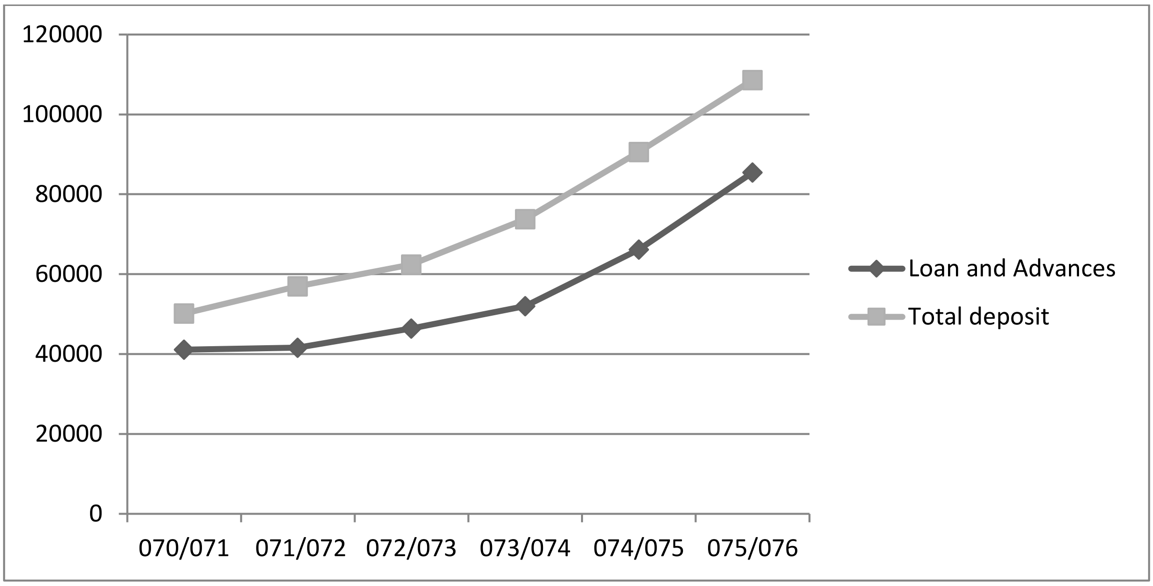
R=0.99

P_e= 0.006

Since r is greater than 0.5 and more than six times of probable error, it is considered significant. There is highly positive correlation between loan and advances and total deposit of NIBL.

4.1.2.2.2 Trend of loan and advances and total deposit of NIBL

Figure No. 4.2



4.1.2.3 Deposit Utilization of NSBL

Table No. 4.27

Deposit Utilization of NSBL

Rs. "in millions"

FY	Loan and Advances	Total deposit	Deposit utilization rate (%)
070/071	21366	42415	50.37
071/072	26142	53337	49.04
072/073	28788	58920	48.86
073/074	35280	54493	64.74
074/075	39979	51628	77.44
075/076	46976	65214	72.03
Average ratio			60.41

(Source: www.adbl.com/www.nibl.com/www.nsbl.com)

In the above table no.4.27 the utilization rate is 50.37 % at the fiscal year 070/071.After that fiscal year the rate is in decreasing order up to 072/073. The rate is in increasing order up to 074/075 but declining rate in 075/076. Considering the average utilization rate 60.41% of NSBL, we can say that the deposit is accumulated satisfactorily.

4.1.2.3.1 Correlation Coefficient of NSBL

Table No. 4.28

Correlation Coefficient of NSBL

Rs. "in millions"

FY	**X**	**X^2**	**Y**	**Y^2**	**XY**
070/071	21366	456505956	42415	1799032225	906238890
071/072	26142	683404164	53337	2844835569	1394335854
072/073	28788	828748944	58920	3471566400	1696188960
073/074	35280	1244678400	54493	2969487049	1922513040
074/075	39979	1598320441	51628	2665450384	2064035812
075/076	46976	2206744576	65214	4252865796	3063492864
N = 6	$\sum X$ = 198531	$\sum X^2$ = 7018402481	$\sum Y$ = 326007	$\sum Y^2$ = 18003237423	$\sum XY$ = 11046805420

From Appendix III

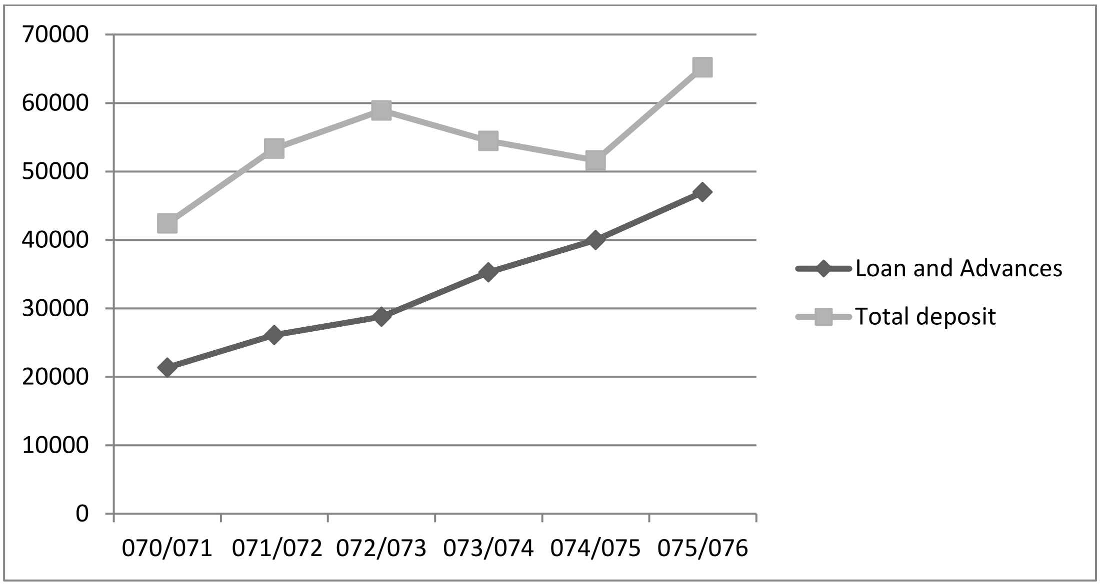
R=0.72 SF

P_e= 0.132

Since r is more than 0.5 and more than five times of probable error, it is considered significant. There is positive correlation between loan and advances and total deposit of NSBL.

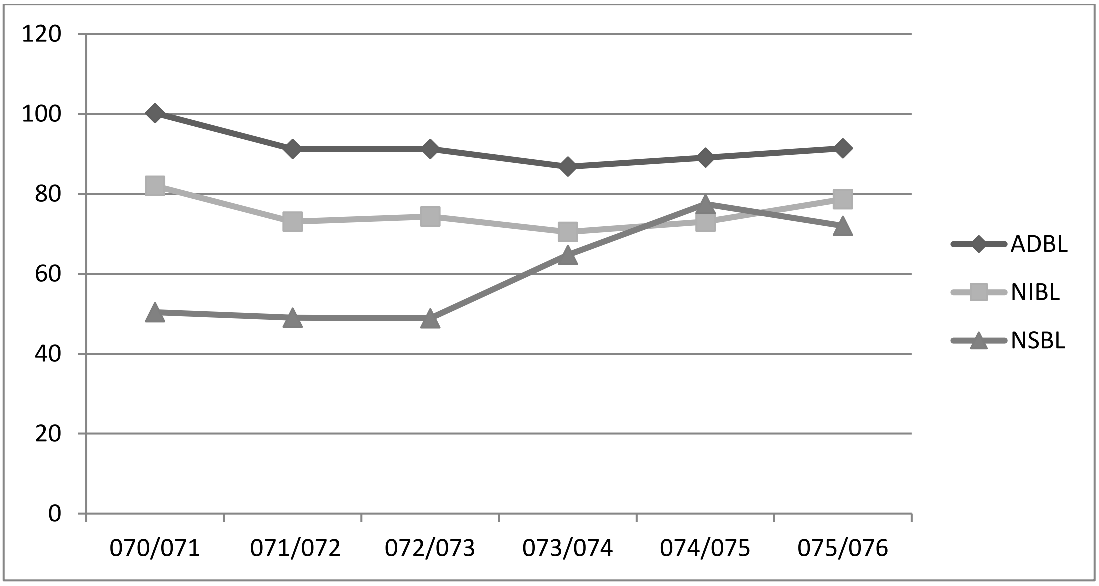
4.1.2.3.2 Trend of loan and advances and total deposit of NSBL

Figure No. 4.3



4.1.2.4 Trend of Deposit Utilization Rate of ADBL, NIBL and NSBL

Figure No. 4.4



Looking the above trend of deposit utilization of ADBL, NIBL and NSBL, we can say that the ADBL has maximum rate of deposit utilization. Its utilization rate is in fluctuating order but maximum utilization rate seems to be in the fiscal year 070/071.The trend of deposit utilization is increasing in this present period for ADBL.NIBL is in the second rank among the selected banks which is utilizing its deposit in a better way. The trend for NIBL also seems to be in fluctuating order and the present trend of deposit utilization is increasing for NIBL.NSBL is utilizing its deposit in fluctuating rate in the present fiscal year. The trend of deposit utilization is somehow increasing for NSBL with compare to the past three year's period.

4.2 Major Findings

1. Total interest earned to total outside assets of ADBL is in decreasing trend but NIBL and NSBL are in fluctuating trend. The average ratio of ADBL is higher i.e. 7.69% than NIBL (4.21%) and NSBL (3.09%).
2. Return on risky assets, return on shareholder's fund and return on total assets ratio of all the three banks are in fluctuating order. The overall ratios show the better profitability position of ADBL.
3. Cash and bank balance (ex. m/c) to current deposit ratio, cash and bank balance (inc. m/c) to deposit ratio (ex. fixed deposit), cash and bank balance (inc. M/c) to total deposit ratios of three banks are in fluctuating trend.
4. Fixed deposit to Total deposit ratio of ADBL, NIBL and NSBL are in fluctuating trend but the average of NSBL is higher i.e. 53.92%
5. Saving deposit to Total deposit ratio for ADBL is in fluctuating trend and for NIBL and NSBL it is in increasing trend.
6. NRB balance to total deposit ratio of ADBL, NIBL and NSBL are in fluctuating trend. The average ratio of NIBL is more than ADBL and NSBL which shows the better liquidity position of NIBL.
7. Investment to total deposit ratio of ADBL and NSBL are in fluctuating trend but NIBL is in increasing trend whereas the average ratio of NSBL is greater (35.76%) than ADBL (19.48%) and NIBL (20.48%).
8. The averages of overall leverage ratios are greater for NSBL with compare to ADBL and NIBL. We find that NSBL capital structure position is more risky than other banks.
9. The overall capital adequacy ratios of all the three banks are in fluctuating trend. The average ratio of ADBL is higher so it is finding that the capital adequacy position of ADBL is better than NIBL and NSBL.
10. The average deposit utilization rate of ADBL (91.63%) is higher than NIBL (75.25%) and NSBL (60.41%). Total deposits accumulated are mobilized by

all the three banks successfully. But we find that ADBL is utilizing its deposit more successfully in loan and advances than NIBL and NSBL.

11. Total deposit and loan and advances of ADBL (r=0.99), NIBL (0.99) and NSBL (0.72), that shows the positive correlation between total deposit and loan and advances.

CHAPTER 5

CONCLUSION

This is the final chapter of this research study which includes discussion, conclusions and implications. Summary is the short revision of the whole text. The conclusion involves the analysis of data presented in the previous chapter and some suggestions and recommendations are provided to the concerned authority based on the result for improving the present situation.

5.1 Discussion

A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities. The history of modern financial system of Nepal begun in 1937 with the establishment of the Nepal Bank Ltd. (NBL) then after banking started booming in Nepal. In this current period, there are all together 27commercial banks, 24 developments Bank, 23 finance companies and 92 micro credit development banks operating under regulation of NRB. NRB being central bank of Nepal directs, supervise, controls and guides Banks and financial institution.

Banks and Finance companies are facing huge competition. Commercial Banks are competing on the basis of various attractive products with attractive rates. Bank deposit consists of money placed into banking institutions for safekeeping. Various deposit products like call deposit, saving deposit, fixed deposit are introduced in the market to attract customers. Similarly various loan products like auto loan, home loan, are introduced with attractive rates. Banks are trying to mobilize its fund so it can gain profits. Deposit Mobilization is to utilize its funds in suitable area and right sector. Deposit mobilization is the core part of banking. Banks mobilize its deposits in suitable and profitable banking activities. Banks cannot achieve its goals until and unless it mobilizes its deposits in right sectors and by performing different activities. Commercial banks need to keep optimum relation among deposit collection procedure, investment policy and loan policy. The idle money collected by the commercial banks as deposits should be properly utilized either by granting loan to the needy parties or by making investment in the productive sector to earn more profit.

Every organization is profit motive in nature. Profit is the main indicator of any business activities. In order to maintain the profit, commercial banks are operating there services almost widely in the country. Profit of these banks is only possible if the accumulated deposits are utilized in the better field i.e. loan and advances, investment etc.

Banks, which deal with commercial activities, are known as commercial banks. These financial institutes help to integrate every financial activity of the community. The main objective of a commercial bank is to play a vital role in the development of good trade. Commercial banks are mechanisms of mobilizing funds in returnable resources. They offer financial support to all types of business through providing various types of loans and other financial services. Commercial banks aid the economic development of the nation. Commercial banks pool together the savings of the community and use the funds productively through prudent investments. The commercial act 2031 defines commercial banks as ‘a bank which deals in exchanging currency, accepting deposits, giving loans and is involved in commercial activities.’

A descriptive and analytical research design is followed in this research study. The population of this study comprises of twenty seven commercial banks operating inside the country. Among them, following three “A” class commercial banks are taken into consideration as sample study.

1. Agriculture Development Bank Limited

ADBL is the government owned bank of Nepal established in 1967 A.D under bank and financial institution act. Various services like VISA, debit, ABBS, ATM, locker facilities and many more facilities like providing loan and accept deposit facilities especially for the rural areas development is supported by this bank. Providing service from the branch office of all districts is effectively operating.

2. Nepal Investment Bank Limited

NIBL is previously known as Nepal Indosuez Bank in its establishment period 1986 A.D. For the establishment of this bank, Banque Indosuez sharing 50%, Rastriya Banijya Bank sharing 15%, National Insurance Corporation sharing 15% and public sharing 20% share. Later on the share is sold to the Nepali investors. So it is Nepali leading bank. It also provide various facilities like ATM, ABBS, VISA card, Debit card, branchless banking, locker facilities and many more.

3. Nepal SBI Bank Limited

NSBL is a subsidiary of state bank of India having 55% of ownership, Employee provident fund holds 15% equity and general public holds 30% share. It is the first Indo Nepal joint venture bank operating in Nepal by providing various facilities like SMS banking, internet banking, mobile banking, ATM/ Debit card facilities etc. The commitment of the bank is “first in customer satisfaction”. It accepts deposits and provides loans facilities regarding the situation and demand of customers.

To find the profitability position of the listed banks, financial analysis is done in the study. Financial ratio analysis identifies the financial strength and weakness of three listed banks. It helps to measure the banks liquidity, leverage, activity and profitability ratio in rational way. It is the most widely used tool. Various ratios have been calculated to find the economic and financial position of the banks. Statistical tool is also applied in the study with the help of Karl Pearson correlation coefficient which shows the significant relationship between loan and advances and total deposit. Trend of deposit and loan and advances are presented through the help of figures. This study shows the statement of different 6 years period from 2070/2071 to 2075/2076.Secondary data are collected and arranged in a systematic way to find the objective of the study. Secondary data are observed quietly from the financial statement, annual reports to get the fact data. Financial ratios have been calculated, analyzed and interpreted in this study to evaluate the performance of ADBL, NIBL and NSBL.

5.2 Conclusions

Banking sector plays an effective intermediate role for the economic contribution of the country. There is no doubt that banking field is the fast growing business inside the country. In this present context each and every people are linked with banking transaction so we can say that banks have cross their boundaries. NRB regulates the rules of commercial banks which is tough and challenging task in this scenario due to their competitive behavior.

In order to obtain profit, commercials banks are establish in uncountable numbers. For banking sector increasing the number of banks is not a solution of the problem but tackles with the situation and provides service to the customer at a needed hour is better for its development. Better strategy and policy is the guide to successful business. From the direct interaction with the staff member and manager of the listed banks we come to know that they are launching various schemes and facilities in the coming future to increase the participation of people in banking activities.

On the basis of analysis and interpretation of ADBL, NIBL and NSBL presented in the previous chapter, the following conclusions are derived:

Total interest earned to total outside assets ratio of ADBL is higher than NIBL and NSBL banks. It shows that ADBL has maintained more high interest earning assets as well as outside assets. return on risky assets ratio of ADBL is higher than NIBL and NSBL which shows that ADBL is more profitable than other banks. The average Return on shareholder’s fund of NIBL is higher than ADBL and NSBL which means faster growth in shareholder’s fund of NIBL. Return on total assets ratio of ADBL is higher which reveals the better profitability position of ADBL. Observing the above profitability ratios, ADBL is comparatively better than NIBL and NSBL.

Cash and bank balance (excluding money at call) to current deposit ratio and cash and bank balance (including money at call) to Total deposit ratio of NIBL is higher than ADBL and NSBL which shows the better liquidity management of NIBL. Cash and bank balance (including money at call) to deposit (excluding fixed deposit) ratio and Fixed deposit to Total deposit ratio of NSBL is higher and saving deposit to total deposit ratio of NSBL is lower which shows that the better liquidity position for NSBL. The average ratio of NRB balance to total deposit of NIBL is higher than that of ADBL and NSBL which shows the better liquidity of NIBL. Above results show that NIBL is comparatively better than ADBL and NSBL with relation to liquidity performance.

Loans and advances (including bills purchase) to Total deposit ratio, Total outside assets to total deposit ratio and total income generating assets to total debt ratio of ADBL is higher than NIBL and NSBL which means that ADBL efficiently utilizes its total deposit in loan and advances, outside assets and income generating assets out of total debt. The average of Investment to Total deposit and Total income generating assets to total assets ratio of NSBL is higher than ADBL and NIBL which shows that NSBL is successful in utilizing total deposit in the field of investment and income generating assets out of total assets. The averages of Loans and Advances(including bills purchased) to Total assets ratio of NIBL is higher which shows that NIBL's better utilization of loans and advances out of total assets. Above explanation shows that ADBL is comparatively better than NIBL and NSBL in terms of turnover ratios.

The average of Long term to Shareholder's fund, Total debt to shareholder's fund and Total debt to total assets ratio of NSBL is comparatively higher than that of ADBL and NIBL which shows NSBL capital structure position is in more risky than the other banks. On the other hand NSBL is utilizing its outside funds for the sake of shareholders.

The average of all Shareholder's fund to total deposit, Shareholder's fund to total risky assets and Shareholder's fund to total assets ratio of ADBL is higher than NIBL and NSBL. It can be concluded that the capital adequacy position of ADBL is better than NIBL and NSBL banks.

The deposit utilization rate of ADBL, NIBL and NSBL are seems to be in fluctuating trend. The average deposit utilization rate for ADBL is 91.63%, for NIBL is 75.25% and for NSBL is 60.41% respectively. It is concluded that all the three banks are successful in mobilizing the deposit accumulated as loan and advances but ADBL is more successful among them. The relationship between resource mobilization and utilization is significant. ADBL, NIBL and NSBL are utilizing its resources in loan and advances, investment on government bills and securities and in priority sectors too.

Looking at the overall ratios ADBL is comparatively better than NIBL and NSBL.

5.3 Implications

1. Though the average profitability ratios of ADBL is higher than other banks, Total interest earned and Net profit of ADBL is in fluctuating trend so it should increase profit and Interest income. NIBL is maintaining its Net profit and Total interest income. NSBL bank's profit and interest income seems to

be in increasing order but the amount with respect to ADBL and NIBL is very low. It is recommended to increase the transaction.

2. In case of deposit ratios, fixed deposit to total deposit ratio of NIBL is very low so it is suggested to the bank to increase the ratio. Saving to total deposit of NSBL is excellent than other so ADBL and NIBL should decrease this ratio. NRB balance to total deposit of NIBL is very good so it should be kept in consideration by ADBL and NSBL.
3. ADBL is utilizing its total deposit as loan and advances successfully i.e. 91.63%. NIBL and NSBL are also utilizing their resources but not as much as ADBL. So it is recommended utilizing the deposit in proper way.
4. The all average capital adequacy ratios of NIBL and NSBL are in declining trend so it is recommended to raise their amount of shareholder's fund for maintaining proper capital adequacy position.
5. Commercial banks should mobilize their deposits funds as much as in productive sectors to maintain their profitability positions.
6. NRB balance to total deposit ratio should be increased by ADBL and NSBL for their capacity and better performance.
7. It is recommended to ADBL and NIBL to increase the cash and bank balance as well as money at call for better liquidity position.
8. The high margin rate followed by commercial banks is one of the major problems for customers. They hesitate to borrow loans from the banks so it is recommended to commercial banks to provide loans and interest in fair rate. To maximize profit, bank should attract the interest rate paid on deposit.

5.3.1. Implication for further studies.

This study contains numerical secondary data to analyze quantitative factors to know whether or not it effects on profit of selected banks of Nepal.

The suggestion for further research can be presented in following research areas:

1. Future research should focus on both internal and external factors that would provide better insights for both management and regulatory bodies.
2. Future research include whether they allocate resources and manage risks efficiently hence factors affecting profit of selected banks and their implications in risk management practices.

3. This result is basically based on the profit of selected Nepalese banks. Thus the future study may include other financial and non-financial sector such as, development bank, finance companies, hotel and other service industries such as Manufacturing industries, Microfinance, hydro-power companies that are listed in NEPSE.
4. This study is based only on secondary data and does not include the preference of different stakeholders.

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Annual Reports

Annual report of ADBL (070/071-075/76)

Annual report of NIBL (070/071-075/76)

Annual report of NSBL (070/071-075/76)

Appendix I

Calculation for Correlation Coefficient of ADBL

We have, n = 6

$\sum X = 329089$

$\sum X^2 = 19544240709$

$\sum Y = 362304$

$\sum Y^2 = 23911902532$

$\sum XY = 21607419987$

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{\left(n\sum x^2 - \left(\sum x\right)^2\right)}\sqrt{\left(n\sum y^2 - \left(\sum y\right)^2\right)}}$$

$$= \frac{6 \times 21607419987 - 329089 \times 362304}{\sqrt{\left(6 \times 19544240709 - (329089)\right)^2}\sqrt{\left(6 \times 23911902532 - (362304)\right)^2}}$$

$$= \frac{129644519922 - 119230261056}{\sqrt{117265444254 - 108299569921}\sqrt{143471415192 - 131264188416}}$$

$$= \frac{10414258866}{\sqrt{8965874333} \times \sqrt{12207226776}}$$

$$= \frac{10414258866}{94688.30 \times 110486.32}$$

$$= \frac{10414258866}{10461761810}$$

$$= 0.99$$

Calculation of Probable Error (P_e) for ADBL

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

$$= 0.6745 \bullet \times \frac{1 - (0.99)^2}{\sqrt{6}}$$

$$= 0.6745 \bullet \times \frac{0.0199}{2.45}$$

= 0.006

Appendix II

Calculation for Correlation Coefficient of NIBL

We have, n = 6

$\sum X = 332833$

$\sum X^2 = 19970099867$

$\sum Y = 442667$

$\sum Y^2 = 35126273057$

$\sum XY = 26456498711$

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{\left(n\sum x^2 - \left(\sum x\right)^2\right)}\sqrt{\left(n\sum y^2 - \left(\sum y\right)^2\right)}}$$

$$= \frac{6 \times 26456498711 - 332833 \times 442667}{\sqrt{\left(6 \times 19970099867 - (332833)\right)^2}\sqrt{\left(6 \times 35126273057 - (442667)\right)^2}}$$

$$= \frac{158738992266 - 147334185611}{\sqrt{119820599202 - 110777805889}\sqrt{210757638342 - 195954072889}}$$

$$= \frac{11404806655}{\sqrt{9042793313} \times \sqrt{1480355453}}$$

$$= \frac{11404806655}{95094 \times 121670}$$

$$= \frac{11404806655}{11570086980}$$

$= 0.99$ Approx

Calculation of Probable Error (P_e) for NIBL

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

$$= 0.6745 \times \frac{1 - (0.99)^2}{\sqrt{6}}$$

$$= 0.6745 \times \frac{0.0199}{2.45}$$

= 0.006

Appendix III

Calculation for Correlation Coefficient of NSBL

We have, n = 6

$\sum X = 198531$

$\sum X^2 = 7018402481$

$\sum Y = 326007$

$\sum Y^2 = 18003237423$

$\sum XY = 11046805420$

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{\left(n\sum x^2 - \left(\sum x\right)^2\right)}\sqrt{\left(n\sum y^2 - \left(\sum y\right)^2\right)}}$$

$$= \frac{6 \times 11046805420 - 198531 \times 326007}{\sqrt{\left(6 \times 7018402481 - (198531)\right)^2}\sqrt{\left(6 \times 18003237423 - (326007)\right)^2}}$$

$$= \frac{66280832520 - 64722495717}{\sqrt{42110414886 - 39414557961}\sqrt{108019424538 - 106280564049}}$$

$$= \frac{155833780}{\sqrt{2695856920} \times \sqrt{1738860500}}$$

$$= \frac{1558337803}{51922 \times 41700}$$

$$= \frac{1558337803}{2165147400}$$

$= 0.72$ Approx

Calculation of Probable Error (P_e) for NSBL

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

$$= 0.6745 \times \frac{1 - (0.72)^2}{\sqrt{6}}$$

$$= 0.6745 \times \frac{0.48}{2.45}$$

= 0.132

Appendix IV

Lists of commercial banks

1. Nepal Bank Limited
2. Rastriya Banijya Bank Limited
3. Agriculture Development Bank Limited
4. Nabil Bank Limited
5. Nepal Investment Bank Limited
6. Standard Chartered Bank Nepal Limited
7. Himalayan Bank Limited
8. Nepal SBI Bank
9. Nepal Bangladesh Bank Limited
10. Everest Bank Limited
11. Bank of Kathmandu
12. Nepal Credit and Commerce Bank Limited
13. Kumari Bank Limited
14. Laxmi Bank Limited
15. Siddhartha Bank Limited
16. Global IME Bank Limited
17. Citizens Bank International Limited
18. Prime Commercial Bank Limited
19. Sunrise Bank Limited
20. NMB Bank Nepal Limited
21. NIC Asia Bank Limited
22. Machhapuchchhre Bank Limited
23. Mega Bank Nepal Limited
24. Civil Bank Limited
25. Century Bank Limited
26. Sanima Bank Limited
27. Prabhu Bank Limited

Source: www.nrb.org.np

A COMPARATIVE STUDY ON PROFITABILITY POSITION OF SELECTED COMMERCIAL BANKS OF NEPAL

A Thesis Proposal

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1. Background of study

Banks and financial institutions are backbone of the economy of the country everywhere, in Nepal and all over the world. Banking and its importance are of great value in this era. Banking provides opportunities for people to participate in the development process by issuing shares, debentures, bonds and accepting deposits. Development in the field of agriculture, tourism, trade and commerce is possible with the help of banking sectors and it is way of making investment and creating employment opportunities. Banking sector plays the vital role of intermediaries between the deficits and surplus of financial resources.

Profitability is one of the major criteria for evaluating the performance of a bank. A business cannot breathe well without profit. It may consider as a mirror of the operating of a company. In word of Lord Keynes “profit is the engine that drives the business enterprises”. A business needs profit not only for its existence but also for the expansion and diversification. “A profit is the barometer of the success of the business. It is indeed, a magic eye that mirrors all aspects of entire business operations including the quality of output. “Profits are the soul of the business without which it is lifeless. In fact, profit are useful intermediate become towards whish a firm’s capital should be directed. M.E. Murphy has rightly remarked that “Business cannot exist without profit, as an economy cannot exist without sound business. Profits must be something for all to be proud of; they should be suspected.”

In accounting, profit is defined as “excess of revenues over related cost applicable to transaction a group of transactions or to the transactions of operating period.”
In words of R.L. Smith “the term ‘profit’ carries a variety of meanings not only technical sense but in interpretative sense as well.”

Commercial banks in Nepal have gone into significant changes after the liberalisation of the banking system. The reforms removed barriers to entry of commercial bank and supported the improvement of institutional framework and more efficiently the performance of commercial banks with this it has affected the profitability of commercial banks and increased banking competition. Profitability of commercial bank is pro foundation for product innovation, diversification and efficiency of commercial banks (Hempell 2002)

The first commercial bank of Nepal is Nepal Bank Limited which is established in 1994 B.S. After NBL Rastra Banajya Bank Limited come into practice and after that many more commercial banks (ADBL-2024B.S, Nepal Investment bank-2042 B.S., Nepal SBI etc.) and financial institutions mushrooming in the country with various scheme and facilities. All the Nepalese commercial banks are regulated and controlled by the central bank of Nepal (Nepal Rastra Bank). According to the Bank and Financial Institutions Act, 2073 all Nepalese bank and financial institutions are classified into four categories (A, B, C, and D).

Generally, the commercial banks are profit motive in the nature and they have to render reliable service to the customers. They have to perform various functions. The parameter is used to study to measure the profitability are given below.

1. Return on Assets(ROA)= Net profit/Total assets
2. Return on Equity(ROE)= Net profit/Total shareholder's equity
3. Total Interest Earned to Total Outside Assets Ratio= Total interest earned/Total outside assets
4. Return On Risky Assets Ratio= Net profit/Total Risky Assets
   And etc.

2. Statement of the problem and research questions

In order to exist in the market, commercial banks have to maintain certain level of profit. They must make profit out of the responsibilities assigned. So the manager should take decision very carefully to tackle with the situations. An analysis of the profitability reveals how the profit position stands as a result of total transactions made during a year. Such analysis is particularly interesting to suppliers of funds who can evaluate their investment and take decision accordingly. On the other hand, profit ratios are equally beneficial to management because these ratios reflect the efficiency of the enterprise as whole. And the question that mentions here is how evaluating the profitability effect in commercial banks. Various factors create problem to profitability position of the commercial banks. The monetary policy of the government, strong competition between the banks, strikes and political situation of the country directly or indirectly hampers the profitability of the banks.

This study will explore following research questions:-

1. What is the profitability position of selected bank?
2. How have the selected banks utilized their accumulated deposits & loan and advance?
3. What is the relationship of loan & advance and deposit?

3. Objectives of the study

1. To examine the profitability position of selected bank.
2. To evaluate selected banks accumulated deposits & loan and advance.
3. To identify the relationship of loan & advance and deposit.

4. Significance of the Study

The word profitability may define as the ability of a given investment to earn a return from its use. The state of profitability is a variable thing like temperature and humidity of a day. The definition of profitability by an accountant and or analyst can even be linked to temperature reading and study of humidity by meteorologist. The wealth of a day is recorded so that prospects can be forecasted. Profitability has been considered, to a great extent, as one of the main criteria to judge the extent to which management has been successful in maximizing its profit of minimizing it loses, if any.

This research will be based on profitability position of commercial banks with reference to ADBL, NIBL, and NSBL so, it evaluate the profitability rations of the bank using various tools which may be guide for the future researcher of listed banks. Various profit related factors will be evaluated in these studies which will help to show the main causes of profitability position. This study will have academic as well as practical significance. The finding will also helpful for those who are connected to these banks.

5. Limitation of the Study

1. The accuracy of the study will be based on the data and the various published documents of selected banks only.
2. The data will be used from the secondary sources.
3. This study will concentrate only in the profitability measurement of ADBL, NIBL, and NSBL among 27 Nepalese commercial banks.

4. This study will be not applicable to all banks since it is concerned to selected three banks.
5. This study is only based on profit, so few measurement tools will be applied.

6. Review of literature

Commercial banks profitability position: The case of Tanzania (2012). The study examines commercial banks profitability in Tanzania for the period of ten years (2000-2009). The study used National Microfinance Bank (NMB), National Bank of Commerce (NBC) and CRDB as the case study. The study employed the profitability measures of commercial banks, and the evidence of performance in term of profitability was established based on return on average asset, net interest income to average bearing assets and non-interest expenses to average assets. The paper utilized panel secondary data from National Bank of Commerce, CRDB and National Microfinance Bank in Tanzania for the period of ten years, and the hypothesis was tested to know whether there is a significant difference in term of profitability by using ANOVA test. Finally the regression model was run to see the effects of capital adequacy, liquidity and asset quality on the profitability of commercial bank. The findings revealed that there is no significant difference on profitability among the commercial banks, in the context of regression model it has been noted that liquidity and asset quality has positive Impact in profitability with exception to the level of nonperforming loans which has negative impact on profitability. The study confirms the profitability of commercial banks to stable and meeting The Regulatory Requirement of the Bank of Tanzania (BOT). Liquidity Management and Commercial Banks' Profitability in Nigeria. Evaluate The Profitability On Commercial Bank Comparative Study Of Indian And Jordanian Banks (2013). Profitability Position of Commercial Banks in India- A Comparative Study (2018).

The previous research will help the researcher to perform the research work satisfactory. The main reason of this review is to use the similar concept investigate by the past researcher. Various journals, thesis, radicals and similar topic related articles will consider making this research effective. Review of literature will provide the guidelines for this research.

7. Research methodology

Research methodology is the systematic way to solve the research problem with the certain objectives. The purpose of study will to evaluate the profitability position of commercial banks with reference to ADBL, NIBL, and NSBL.

Research methodology adopted in this study includes research design, population and sample, source of data, data collection procedure and analysis tools and techniques.

7.1 Research design

Research design is the conceptual structure within which research is conducted. It contributes the blueprint for collection, measurement and qualities will be present to make the data effective. This study will follow the descriptive research design.

7.2 Population and sample

The population of this study will comprise the 28 commercial banks which are currently in operation which may be government, domestic or joint venture bank. The selected banks will be taken as sample study in this research. Under sample study ADBL, NIBL, and NSBL will be considered.

7.3 Sources of data

The sources of data will be secondary only.

7.4 Data collection and processing procedure

This research is based on various data which are published by banks, their financial performance reports, articles, journals, references, annual reports and respective websites will be considered for the needed observation.

7.5 Data analysis tools and techniques

Under this various profitability measurement tools and techniques will be applied to gain the fact result.

1. Financial Tools
   Liquidity Ratios
   Profitability Ratios
   Other Ratio
2. Statistical Tools
   Mean

Correlation

Trend Analysis

8. Chapter plan

This study will be organized into five chapters. They are:-

Chapter one: - Introduction

This chapter deals with the general background focus of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and chapter plan.

Chapter two: - Review of literature

This chapter includes the review of books, articles, journal, reports, theses, researches and other relevant materials related to topics.

Chapter three: - Research methodology

It includes research design, source of data, population and sample, data collection, processing and analyzing tools and techniques.

Chapter four: - Data presentation and analysis

This chapter attempts to analyzed and evaluate the both primary and secondary data of listed banks with the help of different tools and techniques.

Chapter five: - Conclusions

This chapter deals with discussion and conclusion of the study and implications will be given to concerned organization for its welfare.

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