FINANCIAL PERFORMANCE ANALYSIS OF COMMERCIAL BANKS IN NEPAL

(With Reference to Everest Bank Limited, Nabil Bank Limited, Nepal SBI Bank Limited, Machhapuchhre bank Limited and Nepal Bank Ltd)

A Thesis

Submitted

By

Rachana Acharya

Central Department of Management

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CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as 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 the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

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Rachana Acharya

February, 2020

APPROVAL SHEET

We, the undersigned, have examined the thesis entitled FINANCIAL PERFORMANCE ANALYSIS OF COMMERCIAL BANKS IN NEPAL (With Reference to Everest Bank Limited, Nabil Bank Limited, Nepal SBI Bank Limited, Machhapuchhre bank Limited and Nepal Bank Ltd) presented by Rachana Acharya candidate for the degree of Master of Business Studies (MBS) and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

....
Dr. Balram Chapagain
Thesis Supervisor

....
Internal Supervisor

....
External Supervisor

....
Prof. Dr. Sanjay K. Shrestha
Chairperson, Research Committee

....
Prof. Dr. Ramji Gautam
Head of the Department

RECOMMENDATION LETTER

It is certified that thesis entitled FINANCIAL PERFORMANCE ANALYSIS OF COMMERCIAL BANKS IN NEPAL (With Reference to Everest Bank Limited, Nabil Bank Limited, Nepal SBI Bank Limited, Machhapuchhre bank Limited and Nepal Bank Ltd) submitted by Rachana Acharya is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the 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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Dr. Balram Chapagain
Central Department of Management
Tribhuvan University, Kirtipur
Kathmandu, Nepal

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ABBREVIATIONS

AU	Assets Utilization
CAR	Capital Adequacy Ratio
CDR	Credit Deposit Ratio
EBL	Everst Bank Limited
FY	Fiscal Year
GDP	Gross Domestic Product
LOA	Loan and Advance
LR	Liquidity ratio
MBL	Machhapuchhre Bank Limited
MBS	Master of Business Studies
MOF	Ministry of Finance
NABIL	Nabil Bank Limited
NBL	Nepal Bank Limited
NEPSE	Nepal Stock Exchange
NIM	Net Interest Marign
NPL	Non Performing Loan
NPLR	Nonperforming loan ratio
NSBI	Nepal SBI Bank Limited
SPSS	Social Sciences Computer software
VIF	Variance inflation factor

ABSTRACTS

The objective of this study was to identify the relationship between profitability with capital adequacy ratio and credit deposit ratio and non performing loan of sample commercial banks in Nepal based on their financial characteristics and identify the determinants of performance exposed by the financial ratios, which were based on financial ratios. Out of twenty seven commercial banks, five commercial banks for the period 2011/12 to 2017/18 were financially analyzed. In addition is used to estimate the impact of capital adequacy ratio, credit deposit ratio non-performing loan ratio, interest expenses to total loan, net interest margin ratio and credit to deposit ratio on the financial profitability namely return on assets and return on equity of these banks. The results show that public sector banks are significantly less efficient than their counterpart are; however domestic private banks are equally efficient to foreign-owned banks. Furthermore, the estimation results reveal that return on assets was significantly influenced by capital adequacy ratio, interest expenses to total loan and net interest margin, while capital adequacy ratio had considerable effect on return on equity. 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. Integrated and speedy developed of the country is possible only when competitive banking service reach every nooks and corners of the country. Today number of commercial bank are concentrated in only few places because lack of development of infrastructure in remote places. Government must give attention toward remote places. Bank plays vital role in the economic development of nations.

CHAPTER I
INTRODUCTION

1.1 Background of the Study

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. Management of the firm can undertake it or by parties outside the firm. The focus of the financial analysis is on the key figure contained in the financial statement and significant relationship existed. Management of the firm is generally interested in every aspect of the financial analysis; they are responsible for the overall efficient and effective utilization of the available resources and financial position of the firm. The vertical and horizontal analysis could be done for the financial analysis. The vertical analysis consists of financial Balance sheet, profit and loss Account of a certain period time only, which is known as static analysis. Likewise, the horizontal analysis consists of a series of statement relating to the number of years are reviewed and analyzed. It is also known as dynamic analysis that measures the change of the position or trend of the business over the number of years (Thapa, 2017).

To evaluate the financial performance of a firm, the analyst needs a certain parameters of the company by which the quantitative relationship and its position come out. The most widely and effective used tool of the financial analysis is the ratio analysis. The financial ratio is the measurement of relationship between two accounting figures, expressed in mathematical way or the numerical relationship between two variables expressed as (i) percentage or, (ii) fraction or (iii) in proportion of numbers. Ratio analysis is the systematic use of financial information of the firm’s strength and weakness as its historical performance, and current financial condition can be determined. After calculating various ratios, we need to compare with the certain standard and draw out the conclusion of the result. The comparison classified by

Weston and Brigham into six types viz , (i)Liquidity ratios (ii) leverage ratios, (iii) Activity ratios (iv)profitability ratios and (v) Growth ratios . In this study the following ratios are analyzed profitability ratio, liquidity ratio, efficiency ratio, capital structure ratio and investment ratio. The details of the ratios will be discussed in detail in the next chapter (Khadka, 2012).

1.1.1 Profile of the Studied Banks

a) Everest Bank Limited (EBL)

Everest Bank Limited was established in 1994. The Bank has been one of the leading banks of the country. It has clients from all segments of the society. With more than 9,00,000 clients from all walks of life, the Bank has helped to develop the nation corporately, agriculturally & industrially (www.everestbank.com).

Punjab National Bank is a joint venture partner (holding 20% equity) of EBL. PNB is the largest nationalized bank in India having presence virtually in all important centers. Owing to its performance during the year 2012-13, the Bank has earned many laurels & accolades in recognition to its service and overall performance. Recently, PNB was awarded with IDRBT Banking Technology Excellence Award under Customer Management and Intelligence Initiatives. The Bank also bagged "Golden Peacock Business Excellence Award 2013" by Institute of Directors. Similarly, the Bank was recognized as 'Best Public Sector Bank' by CNBC TV 18. The bank has now more than 6,635 branches and 8622 ATMs spread all across the India. As a joint-venture partner, Punjab National Bank has been providing top management support to Everest Bank Limited under Technical Service Agreement. Everest Bank Limited provides customer-friendly services through its wide network connected through ABBS system, which helps customers for operational transactions from any branches. The bank has 80 branches, 113 ATM counters and 7 extension counters. It has 28 revenue collection across the country. EBL has been a very efficient and accessible bank for its customers, anytime, anywhere (www.everestbank.com).

Capital Structure of Everest Bank Limited

Authorized Capital	12,00,00,00,000
Paid Up Capital	8,47,26,00,000

Sources: Annual Report of Everest Bank Limited

b) Nabil Bank Limited

Nabil bank limited was incorporated since July 1984. It was established with objectives of providing international standard modern banking services. It aims to provide its services to various sector of the society. It is nation's first private sector bank (www.nabilbank.com).

Nabil bank has introduced many innovative products and marketing concepts in the banking sector of Nepal. Nabil is a milestone in the banking history of Nepal. It started an era of modern banking with customer satisfaction. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. The bank is fully equipped with modern technology which includes international standard banking software. This software supports the E-channels and E-transactions. The bank has 62 branches and 113 ATM counters (www.nabilbank.com). Nabil is moving forward with a mission to be first choice provider of complete financial solutions for all its stakeholders, Customers, Shareholders, Regulators, Communities and Staff. Nabil is determined in delivering excellence to its stakeholders in an array of avenues, not just one parameter like profitability or market share. It is reflected in its brand promise "Your Bank at your service".

Capital Structure of Nabil Bank Limited

Authorized Capital	12,00,00,00,000
Paid Up Capital	10,09,32,66,400

Sources: Annual Report of Nabil Bank Limited

c) Nepal SBI Bank Limited

SBI was established in July 1993. SBI has emerged as one of the leading banks of Nepal. The bank has 840 skilled and dedicated Nepalese employees working in 69 branches, 7 extension counters, 3 Regional Offices and Corporate Office. SBI has branches in 36 districts in Nepal. SBI is providing its value added services to its customers through its wide network of 107 ATMs. It also provides internet banking, mobile wallet, SMS banking, IRCTC Ticket Online Booking facility to its valuable customers (www.nsbibank.com). SBI is one of the fastest growing Commercial Banks of Nepal with more than 6.22 lakhs satisfied deposit customers and over 4.80 lakhs ATM/Debit cardholders. The Bank enjoys leading position in the country in terms of penetration of technology products, Mobile Banking, Internet Banking and Card Services. The Bank is moving ahead in the Nepalese Banking Industry with significant growth in Net Profit with very nominal NPA (www.nsbibank.com).

Nepal SBI Bank Ltd is a subsidiary bank of State Bank of India having 55 percent of ownership. State bank of India is the largest commercial bank of India in terms of assets, deposits, profits, branches, customers and employees (www.nsbibank.com).

Capital Structure of Nepal SBI Bank Limited

Authorized Capital	12,00,00,00,000
Paid Up Capital	8,95,62,05,540

Sources: Annual Report of Nepal SBI Bank Limited

d) Machhapuchhre bank Limited

Machhapuchhre bank Limited started its banking operations from Pokhara since year 2000, but the bank was registered in 1998 as the first regional commercial bank from the western region of Nepal. The bank is delivering the best of services in combination with latest art technologies and efficient international practices to its customer. The bank is the pioneer in introducing the latest technology in the banking industry in the country. It is the first bank to introduce Centralized Banking Software, Globus Banking System. The bank provides modern banking facilities such as any Branch Banking, Internet banking, Mobile Banking, Safe Deposit Locker Facilities, Utility Bill Payment (telephone & mobile), ATM(Visa debit cards) to its valued customers. Along with that, the bank is providing 365 days banking and Evening Counter Services through many of its offices (www.mblbank.com).

The bank has been promoted by highly renowned Non-Residential Nepalese, prominent businessman and industrialists with a vision and dedication to provide the best financial products and services in the most efficient and professional manner.

The bank has paid up capital over 8.05 billion rupees, 74 branch offices, 4 Extension Counters, 19 branchless banking units and 88 ATMs spread all over the country. It is one of the full-fledged national level commercial bank operating in Nepal (www.mblbank.com).

Capital Structure of Machhapuchhre Bank Limited

Authorized Capital	12,00,00,00,000
Paid Up Capital	8,45,84,77,650

Sources: Annual Report of Machhapuchhre Bank Limited

e) Nepal Bank Ltd

Nepal bank Limited was the first bank of Nepal. His Majesty King Tribhuwan inaugurated Nepal bank Ltd on Kartik 30, 1994 B.S. It was the beginning of formal banking in Nepal. Until then all monetary transactions were carried out by private dealers and trading center. The bank's objective is to render service to the people whether rich or poor and to contribute to the nation's development (www.nbl.com).

In that era, very few understood this new concept of formal banking.In the absence of any bank in Nepal the economic progress of the country was hampered and causing inconvenience to the people. Therefore, with the objectives of fulfilling that need and providing service to the people and for the betterment of the country, Nepal bank was started (www.nbl.com).

From the very beginning, Nepal Bank Limited was a joint venture between the government and private sector. Out of 2500 shares of Rs.100 face value, 40% was subscribed by the government and the balanced i.e. 60% as offered to the private sector. There were only 10 shareholders when the bank first started. But now it has 136 branches across the nation.

Nepal Bank Limited, the first bank of Nepal was established in November 15, 1937A.D.(Kartik, 30, 1994). It was formed under the principle of Joint Venture (Joint venture between government and general public). Nepal Bank Ltd's authorized capital was Rs.10 million and issued capital Rs. 25 million of which paid-up capital was Rs.

842 thousand with 10 shareholders. The bank has been providing banking through its 136 branch offices in the different geographical locations of the country (www.nbl.com)

Capital Structure of Nepal Bank Limited

Authorized Capital	12,00,00,00,000
Paid Up Capital	9,81,11,48,000

Sources: Annual Report of Nepal Bank Limited

1.2 Statement of the Problem and Research Questions

Commercial banks are the most important savings, mobilization and financial resource allocation institutions. Consequently, these roles make them an important phenomenon in economic growth and development. This credit creation process exposes the banks to high credit risk which leads to loss. Therefore, without understanding determinants of lending behavior good bank performance or profit would be unthinkable.

i. What is the status of profitability on Nepalese commercial banks?
ii. What is the impact of CAR, CD ratio and AU on Profitability of selected commercial banks in Nepal?
iii. What is the relationship between CAR, CD ratio, AU and profitability?

1.3 Purpose of the Study

The specific objectives of the study are as follows.

i. To identify the status of profitability of Nepalese commercial banks in Nepal.
ii. To examine the impact of CAR, CD ratio and AU on Profitability of selected commercial banks in Nepal.
iii. To examine the relationship between CAR, CD ratio, AU and profitability.

1.4 Significance of the Study

Banks are one of the contributors of a country's growth through lending money to investors and the business community.

i. This study is concerned with the profit planning in the commercial bank. It attempts to examine and analyze the applicability of profit planning system in the bank.
ii. Financial performance analysis process significantly contributes to improve the profitability as well as the overall financial performance of an organization with the help of the best utilization of resources.
iii. Financial analysis is a part of an overall process and is an area in which finance function plays major role. It is now an important responsibility of financial manager while activities of those require an accounting background.
iv. Knowledge of business principles, economic statistics and mathematics will be used so that recommendation will be based on realistic and applicability of it.
v. Financial performance analysis helps for planning of preparation for a definite period of time. Financial performance is crucial for management. Profit is the most important indicators for judging managerial efficiency and does not just happened for this every organization has to manage.

1.5 Limitations of the Study

The limitations of the study are as follows.

i. The study uses only secondary data it does not cover opinion and views of concerned banks.
ii. The study covers only seven years period i.e 2011/12 to 2017/18, If longer trend would have been used more accurate trend could have been analyzed.
iii. There are several determining factors of financial performance of commercial banks. However, only bank specific factor (internal factors) has been considered in this study.
iv. Out of 27 commercial banks only five commercial banks is taken for study which may not truly represent the characteristics entire population.

1.6 Chapter Plan

The study on trade off between liquidity and profitability of Banks has been dividend into five chapters.

Chapter-I Introduction

The introduction chapter deals background of the study, statement of the problem, purpose of the study, significance of the study, limitations of the study and chapter plan of the study.

Chapter-II Review of Literature

Second chapter, the relevant and pertinent literature and various studies have been reviewed. The review has been made in terms of the theoretical background of banking principles that are relevant to this research work.

Chapter-III Methodology

Third chapter briefly explains about the research methodology, which has been used to evaluate the liquidity and profitability position of banks under consideration. This chapter consists of research design, sample and population, sources of data, and statistical and financial tools and techniques.

Chapter-IV Results

In the fourth chapter, the data required for the study has been presented, analyzed and interpreted by using various tools and includes major findings of the study.

Chapter-V Conclusions

This chapter tries to draw out a conclusion of the study and attempts to offer various suggestions and recommendations for the improvement of the future performance of the bank.

Appendix: supplementary material at the end of a book, article and other calculation part which is related to banks annual report.

Bibliography: a list of source materials that are used in the preparation of a work or that are referred to in the text.

CHAPTER II

REVIEW OF LITERATURE

This chapter is focused on the review of relevant theoretical and empirical literatures on the determinants of bank lending behavior. This review of the literature established the framework for the study and clearly identified the gap in the literature that helps to formulate the research hypotheses for the study.

2.1 Theoretical Review

This chapter devotes to review some of the existing literature regarding the profit planning concepts. In this regard, various books, journals and articles concerned to this topic have been reviewed. The first part of the chapter deals with the conceptual framework of the study and the second part is concern with the review of previous articles, journals and dissertation (Gautam and Gautam, 2017).

Conceptual Framework

2.1.1 Concept of Financial Analysis

According to Pandey "Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. Management of the firm can undertake it or by parties outside the firm" The focus of the financial analysis is on the key figure contained in the financial statement and significant relationship existed. Management of the firm is generally interested in every aspect of the financial analysis; they are responsible for the overall efficient and effective utilization of the available resources and financial position of the firm. The vertical and horizontal analysis could be done for the financial analysis. The vertical analysis consists of financial Balance sheet, profit and loss Account of a certain period time only, which is known as static analysis. Likewise, the horizontal analysis consists of a series of statement relating to the number of years are reviewed and analyzed. It is also known as dynamic analysis that measures the change of the position or trend of the business over the number of years. In this study, the horizontal analysis has been adopted to find out the financial indicator of the EBL, Nabil, NSBI, MBL and NBL during the study period. The steps of analysis are as follows.

i. Selection of the information relevant to the decision.
ii. Arrangement or the selected information to highlight the significant relationship of the financial yardsticks.
iii. Interpretation and drawing of inferences and conclusions.

To evaluate the financial performance of a firm, the analyst needs a certain parameters of the company by which the quantitative relationship and its position come out. The most widely and effective used tool of the financial analysis is the ratio analysis. The financial ratio is the measurement of relationship between two accounting figures, expressed in mathematical way or the numerical relationship between two variables expressed as (i) percentage or, (ii) fraction or (iii) in proportion of numbers. Ratio analysis is the systematic use of financial information of the firm's strength and weakness as its historical performance, and current financial condition can be determined. After calculating various ratios, we need to compare with the certain standard and draw out the conclusion of the result. The comparison classified by Weston and Brigham into six types viz , (i)Liquidity ratios (ii) leverage ratios, (iii) Activity ratios (iv)profitability ratios and (v) Growth ratios . In this study the following ratios are analyzed. 1. Profitability Ratio 2. Liquidity Ratio 3. Efficiency Ratio 4. Capital structure Ratio 5. Investment ratio. The details of the ratios will be discussed in detail in the next chapter.

2.1.2 Concept of Performance Analysis

Performance Analysis refers to such statements, which contains comparison of financial report about an enterprise. It is the final product of accounting and physical work done during the accounting period – quarterly/ half-yearly/annually (Bernstein & Wild, 2015). Financial statements are prepared in monetary terms. Performance analysis is done on the statement difference shown in previous quarter or month or year. However, interim financial performance analysis are done for a shorter period, usually a quarter, and hence called 'Quarterly Financial analysis Statements'. The performance analysis statements are prepared by the auditor for reporting to board of director and shareholders in discharge of their stewardship function and hence corporate law enjoins upon them the responsibility of laying down them before annual general meeting of the shareholders so as to give a ‘true and fair view’ of the affairs of the company. The profit and loss account shall be annexed to the balance sheet and auditor’s report (including the auditor’s separate, special, or supplementary report, if any) shall be attached there to (Bernstein & Wild, 2015).

Performance is the major elements of an organization so that the concept of performance analysis may not be completed and meaningful in absence of the clear-cut well defined idea of performance evaluation method. Pandey (2009) stated that the easiest way to evaluate the performance of a firm is to compare its present ratio with the past ratio. It gives an indicator of the direction of change and reflects whether the firm’s financial performance has improved, deteriorated or remained constant over time (Bernstein & Wild, 2015).

2.1.3. Performance Evaluation of Banking Sector

The concept of financial performance and research into its measurement is well advanced within finance and management fields. Recently a well-judged technique named CAMEL rating is widely used for evaluating performance of financial institutions, especially to banks. In Nepal Rastra Bank known as Central bank, which is regulatory body has been calculating this rating till now. Performance of the banking sector under CAMEL frame work, which involves analysis and evaluation of the five crucial dimensions of banking operations. We now evaluate the performance of banks on the basis of CAMEL framework. This evaluation is done for the four categories of banks, namely “state-owned commercial banks, government-owned development financial institutions domestic private commercial banks and foreign commercial banks (Charles, 2009).

a. Capital Adequacy (C)

Capital adequacy is a measure of the financial strength of a bank, usually express as a ratio of its shareholders' fund to total assets. The ratio reflects the ability of a bank to withstand the unanticipated losses. This ratio has a positive relationship with the financial soundness of the bank ((Cheney and Mosses, 2015).

b. Asset Quality (A)

Asset quality is an important measure of the strength of banks. The ratio of non-performing loans and advances as a share of total and advances is considered for the purpose of analysis. In addition, the ratio of total loans and advances to total assets is utilized to measure the extent of deployment of assets in earning assets (Crossee, 2009).

c. Management Quality (M)

The capacity/efficiency of the management of a bank can be measured with the help of certain ratios. To capture the possible dynamics of management efficiency, the following ratios are considered: total loans and advances to total deposits, interest expenses to total deposits, and operating expenses to total assets (Francis, 2008).

d. Earnings Ability (E)

Two ratios are used to assess the earnings ability of the banks under study. The first ratio is the net income to total assets or "ROA". The second ratio used is interest income to total assets. The two ratios have positive relationship with the financial performance of the bank and negative relationship the risk of bank failure (Bhattacharya, 2017).

e. Liquidity (L)

Two ratios are employed in this study to assess the liquidity level of the banks. The first one is total liquid assets to total assets. The second ratio is liquid assets to customers‟ deposits (Gupta, 2004).

2.1.4 Long Range and Short Range Performance Plan

There are two types of profit plans developed; one strategic (long-range) and another tactical (short-range). The former performance plan takes a time horizon of 2 to 20 years and the later for short period. The long range planning is a picture of more summary data. A part of this plan is more or less informal as presented by tentative commitments made by the executive committee in the organizational planning seasons. The formal portion of long-range performance plan includes the following component detailed by each year.

i. Income statement
ii. Balance Sheet
iii. Capital Expenditure Plan
iv. Personnel Requirements
v. Research Plan and
vi. Long Range Market Penetration Plan

Thus the long range performance plan covers all the key areas of anticipated activity; sales, expenses, research and development, capital expenditure, cash, profit and return on investment. The short range tactical performance plan shows the primarily annual results, the detail by months, responsibility and products. In an organization these annual summaries should be prepared to provide a general understanding of the profit plan and to provide an overall view of the comprehensive short range profit plan (Bernstein & Wild, 2015).

It is possible for the firms to develop these two profit plans for all aspects of the operations (Welsch, 2011). Assuming participatory planning and receipt of the executive instruments, the manager of each responsibility canter will immediately initiate activities within his or her responsibility center to develop strategic profit plan and tactical profit plan. Certain format and normally the financial function should establish the general format, amount of detail, and other relevant procedural and format requirements essentially for aggregation of the plan. All these activities must be coordinating among the centers in conformity with the organization structure" (Welsch, 2011).

The preparation of long-range performance planning in addition to short range performance planning is also viewed as a total planning concept of business. Long range planning is essential to maintain the annual profit at improving level. The ultimate measure of the success of a business in generally based on growth in the volume of sales, increasing return on capital investment, efficient organization and these are all long-term consideration.

2.1.5 Performance Reports

Performance reporting is an important part of a comprehensive PPC system. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as the action necessary to assure the objectives plans, policies and standards are being attended. Performance reports are one of the vital tools of management to exercise its control function effectively (Welsch, 2011).

Special external reports, reports to owner and internal reports are specially presented in the organization. Performance reports include in internal reports groups. It is usually prepared on a monthly basis and follows a standardized format. Such reports are designed to facilitate internal control by management. Fundamentally actual results of reports are compared with goals and budget plans. Frequently they identify problems that require special attention since these reports are prepared to pinpoint both efficient and inefficient performance (Welsch, 2011).

Features of Performance Reports

In comprehensive performance report is very important. The main objective of performance reports is the communication of performance measurement, actual results and the related variances. Performance reports offer management essential insights in to all the facts of operational efficiencies. Performance reports should be:

i. Tailored to the organizational structure and focus of controllability (that is by responsibility centers).
ii. Designed to implement the management by exception principle.
iii. Repetitive and related to short term period.
iv. Adapted to the requirements of the primary users.
v. Simple understandable and reports only essential information.
vi. Accurate and designed to pinpoint significant distinctions.
vii. Prepared and presently promptly.
viii. Constructive in tone.

Aspects of Performance Reports

The various managers use their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to while the performance reports serves the management and decisions making needs of the users. Top management needs reports that give a complete and readily comprehensive summary of the overall aspects of operations and identification of major events. Middle management needs summary data as well as detailed data on day-to-day operation. Similarly lower level management needs reports that must be detailed, simple understandable and limited to items having a direct bearing on the supervisor's operational responsibilities (Welsch, 2011).

In the design and preparation of performance reports careful attention must be given that titles and headings should be descriptive; column heading and side caption should clearly identify the data, and the technical jargon should be avoided. Reports should not be too long and complex; tabulations should be avoided. Performance reports should be standardized to a reasonable degree and if should be relevant (Thapa, 2017).

Performance reports should be available on a timely basis. To attain a realistic balance between immediate reporting and the costs of detailed reporting, monthly performance reports are widely used in the organization (Thapa, 2017).

2.1.6 Concept of Commercials Banks

The term 'Bank', signifies the place where we keep our money for safe keeping as well as for earning some interest or the place from where we borrow money as loan. As regard to the borrowing money from the Bank, we may consider its function as that of money lender in our society. But a bank a moneylender is different in the sense that the former lends the money which is principally collected from their depositors while later does so from its own resources. The Random House Dictionary of the English Language defines the bank as an institution for receiving money and is some cases, issuing notes and transiting other financial business (Stein & Urdang, 2019).

Banks refer to an institution, which perform the activities related with money and credit. Banks have been traditionally regarded as merely the purveyor of money. But today they are not merely purveyor of money but creator or manufacturer of money in an economic system. McLean, in this book 'theory of credit' has defined the bank not only as an institution, that borrows and lend money but also the institution for creating credit. In the opinion of Sayers, Banks are the institutions whose debts usually are referred to as bank deposit and are commonly acceptable in final settlement of other people's debt. He has taken the bank deposit as the debt owe by bank and that particular depositor can set off his liability with his creditor by the deposit in the Bank to the extent of his deposit amount (Thapa, 2017).

The Commercial Bank Act 2031, under which commercial banks in Nepal are established and operated, has defined Commercial Bank as a bank which exchanges money, accepts deposit, advances loans and performs other commercial transactions and which is not specially established with the objectives of co-operative, agricultural, industrial or any other of such kind of specified purpose. The Act has defined the commercial Bank on the basis of its objectives and activities. Referring to the act, a commercial bank:

i. Should be established with a specified objective of co-operative, agricultural, industrial or any of such of specific purpose.
ii. Should accept customer deposit.
iii. Should advance loans and make investments.
iv. Perform commercial transactions.

The same Act has provided for the modalities of establishing a commercial bank, as per which a commercial bank can be established under the Company Act as a limited liability company only with the recommendations of Nepal Rastra Bank. From the various definition made and opinion produced regarding commercial banking, it can be concluded that a commercial bank is set up to collect scattered funds and employ them to productive sector of economy.

2.1.7 Evolution of Commercial Bank

The world 'Bank' is derived from the word 'Banco', "Bancus' or 'Banque' all meaning to a bench. This refers that early bankers transacted their money lending activities on branches in the marketplace exhibiting the coins of different countries in different denominations for the purpose of changing and or lending money. Some writers are of the opinion that the word 'Bank' came from the German word 'Banc' meaning joint stock fund (Varshney, 2013).

In its native from, banking is as old as in the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 B.C., the famous temples of Ephesus, Delphi and Olympia were used as depositories for people surplus fund and these temples were the centers for money lending transactions. The pries of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few centuries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The Bank of Venice, founded in 1157 A.D. was the first public banking institutions. Following this, in 14th century, the Bank of Barcelona and the Bank of Genoa were established in 1401 A.D. and 1407 A.D. respectively (Vaish, 2011).

In England, start of Banking can be accounted for as far back as the region of Edward III. Those days, the Royal Exchanger used to exchange the various coins into British money and also used to supply foreign money to the British men going out of the country. The bankers of Lombardy were famous n medieval Europe as the credit of planning the seed of modern banking in England goes to them when they settled in London in the locality now famous as the Lombard Street (Thapa, 2017).

The goldsmiths can be considered as the initial Bankers in England as they used to keep strong rooms with watchmen employed. People entrusted their cash to them. The goldsmiths used to issue duly signed receipt of the deposits with the undertaking to return the money on demand charging some fee for safe keeping. These undertaking helped in gaining a further confidence of the public therefore the money were kept with them for longer periods. They were thereby encouraged to lend some part of these funds, which became profitable business to them. Therefore they started offering interest on the deposits to attract more funds. In the course of time independent banking concerned were set up. The Bank of England was established in 1694, under a special Royal Charter. Further in 1833 legislative sanction was granted for establishment of joint stock banks in London, which served as a big impetus to the development of joint stock banking. These banks took the initiative for extending current account facilities and also introduced the facilities of withdrawals through cheques (Thapa, 2017).

In India, the ancient Hindu scriptures refer to the money lending activities in the Vedic period. During the Ramayan and Mahabharata eras, banking had become a full-fledged business activity and during the Smiriti period (after the Vedic period), the business of Banking was carried on by the members of Vanish community. Manu, the great law giver of the time speaks of the earning of interest as the business of Bishyas. The bankers in the Smriti period performed most of those functions which the banks in modern times performs such as the accepting of deposits, granting loans, acting as the treasurer, granting loans to the king in times of grave arises and banker to the state and issuing and managing the currency of the country (Vaish, 2011).

In Nepal, although the monetary history dates back to 1st century (Lichhavi Dynasty), the banking history is comparatively very short. The development of organized banking has started in Nepal only from around the starting of 20th century of BikramSambat. Nepal Bank Limited, established in B.S. 1994 with an authorized capital of Rs.1 crore and paid up capital of Rs.8 lacs 42 thousand is the first organized bank established in Nepal (NRB, 2045). Although during the Prime Minister-ship of Rana Prime Minister Ranadwip Singh an office called "TejarathAdda" was established for granting loans to government officials and also to the general public against the security of gold, silver and other valuables, it could not be considered as Bank in real sense as it did not collect deposit. Later after establishment of Nepal Bank, the functions of 'TejarathAdda' were limited upto providing loans to government officials only (NRB Report, 2045;12). Banking development in Nepal found another break after the establishment of Nepal Rastra Bank, the Central Bank of Nepal in 2013 B.S. (NRB, 2045:14). This has helped organizing the monetary system in the country before which the dual currency system (Indian and Nepalese currency) was prevailing in the system. Larger sector of economy was none monetized. In the course of organized development of banking sector, second commercial bank, Rastriya Banijya Bank was established in 2022 B.S. at the state ownership (NRB Report, 2045;16). Later on, in FY 2039/40, the policy for allowing establishment of foreign joint venture banks was taken with an aim of having fair competition and skill development in banking sector, which had added a new dimension in development of banking in Nepal. Accordingly, Nepal Arab Bank Ltd. (presently renamed as Nabil Bank) has been established as the first joint venture bank in Nepal in 2041 B.S. (NRB Report, 2019).

Afterward, various commercial banks were opened with foreign joint venture under private sectors in Nepal which had contributed a lot to bring the commercial banking at present day position. Nepal Bangladesh Bank has established in the year 2051 B.S.

2.1.8 Role of Commercial Banks in the Development of Economy

Commercial Banks play an important role in facilitating the affairs of the economy in various ways. The operations of commercial Banks record the economic pulse of the country. The size and composition of their transaction reflect the economic happening in the country. Commercial Banks have played a vital role in giving the direction in economic growth over the time by financing the requirement of industries and trade in the country. By encouraging thrift among the people, banks have fostered the process of capital formation in the country. In the context of deposit mobilization, commercial banks induce the savers to hold their savings in the form of bank deposits thus help bringing the scattered resources into the organized banking sector which can be allocated to the different economic activities. In his way they help in country's capital assets formation. Through their advances, banks also help the creation of income out of which further saving by the community and further growth potentials emerge for the good of the economy. In a planned economy, banks make the entire planned productive process possible by providing funds to the public sector, joint sector or private sector for any type of organization. All employment income distribution and other objectives of the plan as far as possible subsumed into the production plan which banks finance (Vaish, 2011).

The importance of commercial banks in directing the economic activities in the system is immense. Not only in the highly developed economies where the commercial and industrial activities are paralyzed in the absence of banks, even in the developing countries' economy are most of the economic activities particularly of organized sectors bank based. Therefore, in a nutshell it can be said that the growth of the economy is tied up with the growth of the commercial banks in the economy.

2.1.9 User of Financial Analysis

Significance of analysis lies on the objectives of financial analysis of any firm. Different groups associated with the concern perceive the fact discovered by the analysis differently. The facts and the relationships concerning managerial performance, corporate efficiency financial strengths and weakness and credit worthiness are interpreted on the basis of analysis leads management of an enterprise to take crucial decisions regarding operating policies, investment. value of the firm, internal financial control system and bargaining strategy for funds from external sources (Thapa, 2017).

The parties that are benefited by the results or conclusions drawn from the analysis of financial performance can be enumerated as:

Top Management: It is the overall responsibility of top management to see that the resources of the firms are used most effectively and efficiently and that the firm's financial condition is sound, understanding the past is a pre-requisite for anticipating the future. Hence, top management can measure the success. Otherwise, a company's operations determine the relative efficiency of various departments, products and process, appraise the individual's performance and evaluate the system of internal audit.

Creditors: The creditors can find out the financial strengths and capacity of the borrower to meet their claims. Trade creditors are interested in the firm top meet their claims over a very short period of time. The suppliers of long-term debt, on the other hand, are concerned with the firm's long-term solvency and survival. A leading bank through an analysis of their statements can decide whether the borrower retains the capacity of refunding the principle and paying interest in time or not.

Shareholders: The investors, who have invested their money in the firm's shares, are most concerned about the firm's earning. They are able to evaluate the efficiency of the management and determine if there is any need of change. In a large company, the shareholder's interest is to decide whether to buy, sell or hold the shares. If performance of the organization is excellent, investors which to buy the shares, where as they simply intend to hold the shares is case of satisfactory performance. But they are hurried to sell the shares in case of poor performance.

2.2 Review of Previous Related Study

Shakya (2015) has written a journal entitled by *Financial Performance of Nepal SBI Bank Limited and Everest Bank Limited* analyzed different ratio of NSBIBL 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 is better than NSBIBL. It seems overall profitability position of EBL is better than NSBIBL and both banks are highly leveraged."

Shrestha, (2015) found that entitled "*Role of Rastriya Banijya Bank in priority sector credit & its recovery*" has tried to reveal the following objectives: The compliance of the target loan limit to be invested in priority sector credit (PSC) as prescribed by NRB. and analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB. The study examine the situation of deprived sector credit (DSC) of RBB. To analyze the disbursement, recovery status & NPA position under Priority Sector Credit (PSC) of RBB.(Purpose wise)

Gautam (2015) has conducted research on *A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangladesh bank Limited"*Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score with the objectives of the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability. Its access the debt servicing of the joint venture commercial bank. The study examine the correlation and the signification of their relationship between different ratios related to capital structure. The study provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank. It obtained the objectives, some financial, statistical and accounting tools.

He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB's are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB's viz. SCBNL and NBBL to examine and evaluation the financial data.

The findings of the study are as JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim. The on an average, NBBL bank constitutes 16.27 times of P/E ratio, which should be reduce as quickly as possible. The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks. The average ROE of JVB's i.e. SCBL and NBBL area 37.36% and 21.75% respectively.

Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank.

Manandhar, (2015) has conducted research on *Financial performance analysis of Nepal Bangladesh bank ltd.* In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The specific objectives of his research are analyzed the functions, objectives procedure and activities of the NB bank. It analyze the lending practices and resources utilizations of NB bank. The study determines the impact of growth in deposit on liquidity and lending practices. The study examines the lending efficiency and its contribution to profit. It make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

The researcher found that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged. NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances. The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank. Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank.

Regmi, (2016) has conducted research on *Credit Management of NABIL Bank Limited"* highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition. The main objectives of the research study evaluate various financial ration of the Nabil Bank and analyze the portfolio of lending of selected sector of banks. The study determine the impact of deposit in liquidity and its effect on lending practices. The study offer suitable suggestions based on findings of this study. In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan &advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

Assets management position of the bank shows better performance in the recent years. Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank.In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances. Earnings per share and The Price earnings ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share. Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing

trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.
The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank.

Regmi (2016) has conducted research on *A Comparative Study of The Financial Performance of HBL and NBBL* in Himalayan Times Daily Newspaper suggested NBBL to increase its current assets because the bank is not maintaining adequate liquidity position in comparison with HBL. As capital structures of both the bank are highly levered both the banks are recommended to maintain and 29 improve mix at debt and owner's equity by increasing equity share. He further suggests to HBL to improve the efficiency in utilizing the deposits in loan and advance for generating the profit NBBL should try to maintain present position on this regards. Profitability position of HBL is comparatively better than the same of NBBL. So, NBBL is recommended to utilize its resources more efficiently for generating more profit margins. If resources held idle, bank faces high cost and causes the low profit margin. An ideal dividend payout ratio is based upon shareholders expectations and the growth requirement of the banks. NBBL is suggested to increase its dividend payout ratio.

Oli (2017) has has conducted research on *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."

Gautam (2017) has conducted research on "Role of Financial Development in Economic Growth of Nepal: An Empiricial Analysis" on Karobar Daily Newspaper concludes that The relationship and causality between financial development and economic growth is the central focus of this study, which is found to be positive and significant. Not only this, it also found that financial development matters for economic growth and economic growth also sustains for the financial development. The study supports both demand driven and supply leading hypotheses in case of Nepal. It is consistent with the results of Islam et. al (2004) that used the data for Bangladesh, Tahir (2004) that used data for Pakistan and also with Kharel and Pokhrel (2012) that used data for Nepal, to some extent. However, it differs with Timilsina (2014) regarding the direction of causality between bank credit and economic growth only. This study assessed the impact of private sector credit of banking system in contrast to Timilsina (2014) which used credit of commercial banks only in real terms. Nevertheless, the conclusion of this paper should be analyzed cautiously considering sample size, financial structure and level of development.

Duwal (2017) has journal prepared a journal entitled by *Comparative Analysis of Financial Sustainability of Nepalese Microfinance Institutions* on Economic Journal of Nepal, Nepal Online Journals, concludes that The major Target for Institutionalism campaign is cost recovery and maintaining financial self-sufficiency whereas the basic focus of the Welfares campaign is on poverty alleviation by providing financial services with lower interest rate, etc. In this paper, the Nepalese Microfinance Institutions (MFIs) are studied from financial sustainability point of view and analyzed whether different modalities of them make differences in their financial performance. In Nepal, there are mainly four different modalities of MFIs in operation viz. The GI-GBB, PI-MFB, FINGOs and Coop. Based on the empirical data, it is proved that the financial performance of Nepalese MFIs varies in accordance with the applied modalities of the MFIs. Except for government initiated microfinance banks, other Nepalese MFIs are financially sustainable and in the context of Nepalese financial market, the Welfares MFIs still need to cover the poorest of the poor section of the population and to broaden their financial services.

The Major Findings Made by the Researcher are as Follows Bank's total no of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC. RBB is very much success in complying the NRB policy. Bank was not able to fully utilize the collected deposits in a proper way. The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend. Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector.

Kunwar, (2017), has submitted thesis on the topic *Finanical Performance Analysis Planning of Nabil Bank Limited. With the t*he objectives of this study are as the relationships between total investment loan and advances, deposit, net profit and outside assets and identify the investment priority sectors of commercial Bank. The study assess the impact of investment on profitability. The study analyze and forecast the trend and structure of deposit utilization and its projection for five years of Commercial Bank.

Interest expenses amount is the highest among total expense items of the bank every year. The total deposit of the bank is found increasing every year corresponding to the increase in interest expenses the total deposit is perfectly and positively correlated with total interest expenses. NABIL bank lacks active and organized planning department to undertake innovative products research and development works. Objectives of the banks are expressed in literary form, and not specified clearly, therefore there is a danger if it being misinterpreted in the ways of one's

Maharjan. (2018), conducted a study on the topic *Profit Planning in a Commercial Bank (A Case Study of Standard Chartered Bank)* with the objective are highlight the current profit-planning premises adopted and its effectiveness in Standard Chartered

Bank. The study observe Standard Chartered Bank's Profit Planning on the basis of overall managerial Budgets developed by Bank. The study analyze the variance of budgeted and actual achievements. The study the growth of the business of the Bank over the period. he study make necessary suggestions and recommendations.

The decision making process is highly centralized however, management takes the feed forwards for annual planning and strategy building through manager conferences and strategy building through manager conferences and strategic meeting organized twice in every year at the head office. Interest expenses amount is the highest among total expense items of the bank every year. The total deposit of the bank is found increasing every year corresponding to the increase in interest expenses the total deposit is perfectly and positively correlated with total interest expenses. The Profitability ratio shows that it is a useful measurement for all financial researchers invested in the assets. As Return on assets is high during 2006/07 with 2.55% and return on equity is high in same fiscal year with 37.55%.

Rai (2018). has conduct research on *A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangladesh bank Limited* Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score. The study is the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability. It access the debt servicing of the joint venture commercial bank. He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB's are operating with higher technology and new efficient methods in banking sector. The research sample JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim.

Poudyal, (2018), entitle on *Financial Performance with Special Reference to Nepal Bank Ltd.* The Study analyze the repayment position of the priority sectors. It find trends of priority sectors loan. It analyze how far Nepal Bank Ltd. Is able to grant credit priority sectors. The study examines the impact of loan on priority sectors. The procedure of loan sanction is rather slow and clumsy. Banking procedures are so complicated that the laymen are unable to understand it completely.

2.3 Research Gap

In the researches done so far it is known which bank is better performing that which one. Also the comparative study of the liquidity position has been done. The study done so far studies about either the commercial banks but this study does the comparative study of as many as commercial banks possible. In studies done earlier either liquidity position or the profitability position and financial performance analysis of studied, but this study compares the investment policy of several banks in Nepal. In researches done so far, most of them focus on the limited number of banks or limited number of variables that measures liquidity or profitability. But this study has gathered as many as banks possible. Also, this study has gathered as many as variables and ratios to study and measure liquidity and profitability of the banks under study. This research is an original one should be the foundation for the future researchers to know about the pattern of sample banks.

CHAPTER III

METHODOLOGY

This chapter deals with research methodology of the study. To solve the research problem and fulfill the objectives of the study, detail discuss about research design, population and sample, sources of data & data analysis tools has been made. To accomplish the goal, the study follows the research methodology described in this chapter.

3.1 Research Design

A research design is the logical and systematic planning and direction of piece of research. Research design is like blue- print to the researcher. The descriptive and analytical research designs has been used for achieve the objectives. The descriptive research design has been adapted to undertake fact finding operation searching for adequate information in the context of determinants of lending behavior of commercial bank in Nepal. This study has also used correlation research design to establish the directions, magnitudes and forms of the observed relationship between different dependent and independent variables (Adhikari, 2015).

3.2 Population and Sample

There are 27 commercial banks in Nepal. Among them five commercial banks have been taken. The sample convenience method was used in choosing the banks for the study. Moreover, in selecting the 5 banks out of 27 commercial bank for the study, due care is given to include banks such as: joint venture, domestic, best performer, average performer and comparatively week performer in the sample. The banks selected for the study are: Nabil Bank Ltd., Everest Bank Ltd., Nepal SBI Bank Ltd. and Machhapuchchhre Bank Ltd and Nepal Bank Limited. This study assumes that the study population (i.e. listed commercial banks of Nepal) has been fairly represented by the selected sample.

3.3 Data Collection Procedure

As explained in previous chapters, the main sources of secondary data are the reports of the Banks published in their respective annual general meetings and web site of the relevant banks. In addition to that some of the relevant data are also collected from the non- bank financial statistics published by the non- bank regulation department of Nepal Rastra Bank.

3.4 Methods of Analysis

To achieve the objectives of the study, various financial, statistical and accounting tools have been used in this study. The analysis of data is done according to pattern of data available. With the available tools and resources, analytical statistical tools such as Karl Person's coefficient of correlation and simple regression are adopted in this study. The various calculated results obtained through financial, accounting and statistic tools are tabulated under different heading. Then they are compared with each other to interpret the results.

3.4.1 Financial Tools

The relationship between two accounting figures expressed mathematically is known as a financial ratio. Ratio analysis is used to compare a firm's financial performance and status to that of other firms or to itself over time. From the help of ratio analysis, qualitative judgment can be done regarding financial performance of the firm. In this study, following ratios are calculated and analyzed.

i) Liquidity Ratio

The liquidity refers to the ratio between liquid assets and liability. The ability of firm to meet its obligation in the short term is known as liquidity. It reflects the short term strength of the business. In order to ensure short- term solvency, the company maintain adequate liquidity. But liquidity ratio must be optimum. Thus the company should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity.

ii) Net Profit to Total deposit Ratio

This ratio measures percentage of profit with the bank to make immediate payment to the depositors. This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as follows:

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

iii) Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed dividing net profit (loss) by the total amount of loan and advances and can be mentioned as,

$$\text{Reuturn on Loan and Advances Ratio} = \frac{\text{Net Profit (Loss)}}{\text{Loan and Advances}}$$

iv) Net profit to Total Investment

Net profit to total investment ratio calculates the profitability of banks in comparison to the investment of the organizations. It is calculated by dividing net profit by investments.

$$\text{Net Profit to Total Investment} = \frac{\text{Net profit}}{\text{Total Deposits}}$$

v) Return on total assets (ROA)

Return on total assets or simply return on assets, measures the productivity of the assets. It is measured in terms of relationship between net profit and assets. "This ratio judges the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the assets used in the business thereby, indicating effective use of the resources available and vice-versa.

$$\text{Return on assets (ROA)} = \frac{\text{Net income}}{\text{Total assets}}$$

vi) Return on Equity Ratio (ROE)

Since, shareholders are entitled to the residual profits; ROE shows the relationship between net income and shareholders' fund. This ratio indicates the firm's ability of generating net income per rupee of shareholders' fund. The main objective of computing this ratio is to analyze how effectively the funds supplied by shareholders' have been utilized. This ratio is of great interest to the present as well as the future prospective shareholders and also of great concern to management which has the responsibility of maximizing the owners' welfare. This ratio can be computed by using following formula: $\text{ROE} = \frac{\text{Net income}}{\text{Shareshold er's equity}} \times 100\%$

3.4.2 Statistical Tools

Various statistical tools related to this study are drawn out to make the conclusion more reliable according to the available financial data. For this following statistical tools are used:

i) Arithmetic Mean

The average value is a single value within the range of the data that is used to present all of the values in the series. Since an average is somewhere within the range of the data, it is called a measure of central value. Arithmetic mean is more popular to denote particular type of average. It is obtained by dividing sum of obtain observations by the number of item which is present as follows:

$$X = \frac{\sum x}{n}$$

Where,

X = Arithmetic Mean

$\sum x$ = Summation for total observation

n = Number of items

ii) Standard Deviation

Standard deviation is the most important and widely used measure of studying dispersion. It is also known as root mean square deviation. It is also denoted by the small Greek Letter σ (sigma). The standard deviation measures the absolute dispersion of a distribution. Hence, standard deviation is extremely useful in judging the representative of the mean. Symbolically,

$$\sigma = \frac{\sqrt{\sum d^2}}{n}$$

Where, σ = Standard deviation

$\sum d^2$ = sum of squares of the deviation measured from arithmetic average

n = Number of items

iii) Coefficient of Variation

The co- efficient of variation is the corresponding relative measures of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in resulting percentage. It is used in problems where we want to compare the variability of two or more than two series. The series for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous and vice-versa.

We can denote this by following formula,

$$CV = \frac{\sigma}{X} * 100$$

Where, CV = Coefficient of variation

σ = Standard Deviation

x = Mean / Average

iv) Correlation Analysis

Correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The co- efficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. When r = +1, it means there is perfect relationship between two variables and vice –versa. When r = 0, it means there is no relationship between two variables. The Pearson's formula is:

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

Where, r = coefficient of correlation

x = independent variable

y = dependent variable

n = no. of periods

v) Probable Error of the Co-efficient of Correlation

After the calculation of Co-efficient of correlation the next thing is to find out the extent to which it is dependable. For this purpose the probable error of the coefficient of correlation is calculated. If the probable error is added to and subtracted from the co-efficient of correlation it would be giving two such limits with in which we can reasonably except the value of co-efficient of correlation to vary.

The formula for finding out the probable of error of the Karl Pearson's co-efficient of correlation is:

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

Where, P. E. (r) = Probable error of co-efficient of correlation

r = co-efficient of correlation

n = Number of pairs of observations

In order to conclude whether the co-efficient of correlation is significant or not. The following points should be kept in mind

i. If the co-efficient of correlations is less than it probable error, it is not at all significant.
ii. If the co-efficient of correlations is more than six times of probable error, it is definitely significant.
iii. If the probable error is not much and it the co-efficient of correlation is 0.5 or more it is generally to be significant.

CHAPTER-IV

RESULTS

4.1 Profitability Position of Selected Banks

The relationship between two accounting figure expressed mathematically, is known as a financial ratio or simply a ratio. An accounting figure conveys meaning when it is related to some relevant information. Here profitability ratios are calculated and evaluated in terms of the relationship between net profit and assets.

4.1.1 Return on Assets of Selected Banks

The following table shows the percentage of net profit to total assets of sample banks:

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

Table 4.1

Profitability Position of Selected Banks (ROA %)

Year	SBI	EBL	Nabil	MBL	NBL
2011/12	1.01	2.10	2.43	0.05	1.07
2012/13	0.83	2.11	2.80	0.16	0.30
2013/14	1.19	2.39	3.25	0.49	1.07
2014/15	1.51	2.39	2.65	1.12	0.92
2015/16	1.80	1.85	2.06	1.26	0.55
2016/17	1.70	1.61	2.32	1.51	2.79
2017/18	1.53	1.72	2.70	1.89	2.78
Mean	1.36	2.02	2.60	0.93	1.35
S.D.	0.36	0.31	0.38	0.70	1.02
C.V.	0.27	0.15	0.15	0.76	0.75

Source: Annual Report of Selected Banks

Table 4.1 shows that average ROA of Nepal SBI Bank Limited is 1.19 ratio which is the higher and lower is 0.83 in 2012/13. Total average of Nabil bank is higher than other and lower is MBL. In this way standard deviation of NBL is higher than others. In overall Nabil bank is better performance and NBL is slightly weak than among sample banks.

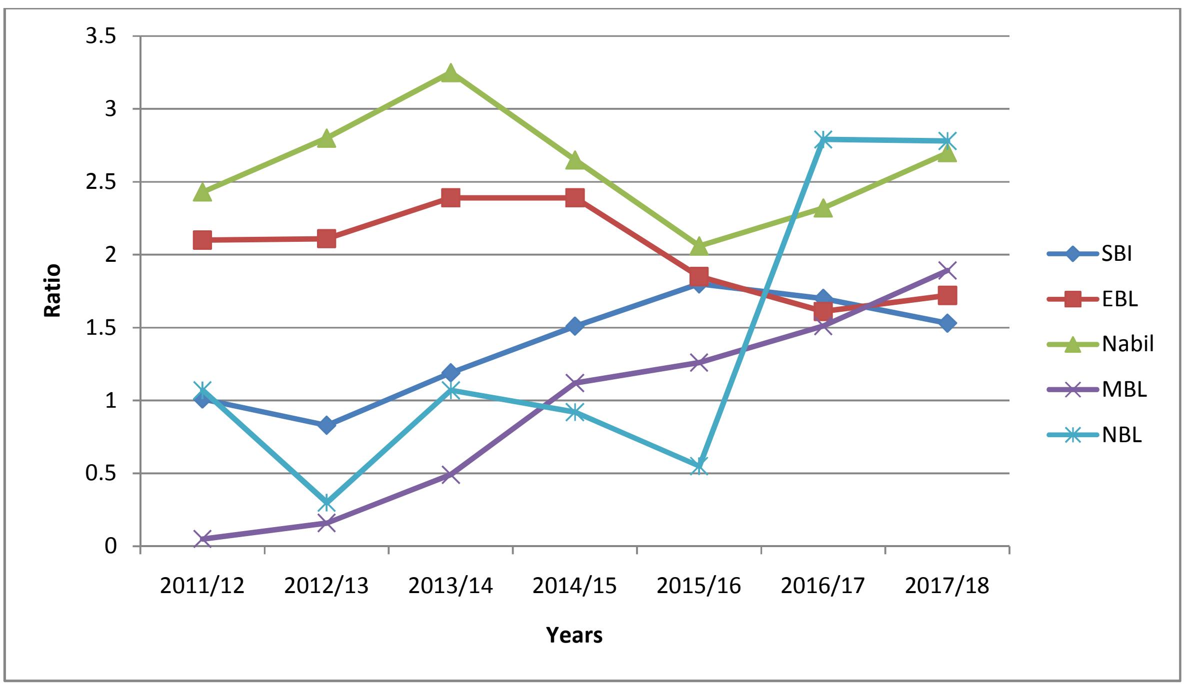

Figure 4.1: Profitability Position of Selected Banks (ROA %)

Figure 4.1 shows that average ROA of Nepal SBI Bank Limited is 1.19 ratio which is the higher and lower is 0.83 in 2012/13. Total average of Nabil bank is higher than other and lower is MBL. In this way standard deviation of NBL is higher than others. In overall Nabil bank is better performance and NBL is slightly weak than among sample banks.

4.1.2 Net Profit to Total Deposits Ratio

This ratio can be obtained dividing net profit by total deposits. Ratios and statistical calculations are given as under:

$$\text{Net profit to Total Deposit} = \frac{\text{Net profit}}{\text{Total Deposits}}$$

Table 4.2

Comparative Net Profit to Total Deposit Ratios

Year	**Ratio**				
	SBI	**EBL**	**NABIL**	**MBL**	**NBL**
2011/12	0.0174	0.02703	0.0214	0.0843	0.0078
2012/13	0.0095	0.0218	0.3100	0.0099	0.0030
2013/14	0.0129	0.0255	0.0318	0.989	0.0013
2014/15	0.0168	0.025	0.0341	0.0503	0.0087
2015/16	0.0189	0.0189	0.2292	0.0198	0.0065

2016/17 2017/18	0.0204 0.0184	0.0185 0.0241	0.0266 0.0309	0.0242 0.0316	(0.026) (0.042)
Mean($\overline{X}$)	0.00009	0.000066	0.0219	0.1189	0.00157
S.D. (σ)	0.00014	0.000044	0.0419	0.1303	0.01496
C.V. (%)	8.31	1.9043	42.91	9.03	36.75

Source: Appendix I to V

Table 4.2 shows that net profit to total deposit ratio of SBI, EBL, NABIL, MBL and NBL are in fluctuating trend during the seven years study period. EBL has not invested its total working fund in shares and debentures in the year 2011/12. SBI, EBL, NABIL, MBL and NBL have the CV ratio of 8.31%, 1.9043%, 42.91%, 9.03% and 36.75% in year 2012/13, 2013/14 and 2012/13 respectively during the study period. SBI has invested more amounts in shares and debentures i.e. 4% than EBL and NABIL in average.

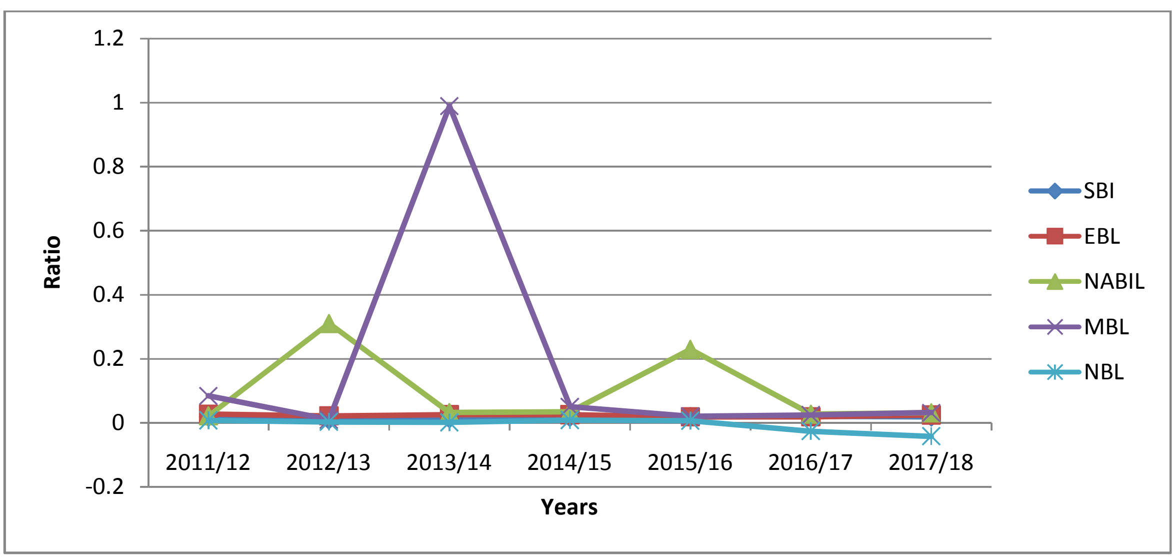

Figure 4.2: Comparative Net Profit to Total Deposit Ratios

Figure 4.2 show that The Coefficient of variation shows more stable ratio of NABIL than SBI, EBL, MBL and NBL and NBL has 9.03 and 36.75 Net Profit to Total Deposit Ratios respectively. The ratio of comparative investment on shares and debentures to total working fund ratios of Nepal SBI Bank Limited is 0.0174, 0.0095, 0.0129, 0.0168, 0.0189, 0.0204 and 0.0184 respectively between fiscal year 2011/12 and 2017/18. Similarly the ratio of comparative investment on shares and debentures to total working fund ratios of Nabil Bank Limited is 0.0214, 0.3100, 0.0318, 0.0341, 0.2292, 0.0266 and 0.0309 respectively from fiscal year 2011/12 to 2017/18. Likewise, the ratio of comparative investment on shares and debentures to total working fund ratios of the Everest Bank Limited is 0.02703, 0.0218, 0.0255, 0.025, 0.0189, 0.0185 and 0.0241 respectively from fiscal year 2011/12 to 2017/18. In similarly MBL and NBL has Net Profit to Total Deposit Ratios are 0.0843, 0.0099, 0.989, 0.0503, 0.0198, 0.0242, 0.0316 and 0.0078 as well as 0.0030, 0.0013, 0.0087, 0.0065, (0.026) and (0.042) respectively.

4.1.3 Return on Loan & Advances Ratio

This ratio is computed dividing net profit (loss) by the total amount of loan and advances and can be mentioned as,

$$\text{Return on Loan \& Advances} = \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

Table 4.3

Comparative Return on Loan and Advances Ratios

Year	**Ratio**				
	SBI	**EBL**	**NABIL**	**MBL**	**NBL**
2011/12	0.0346	0.0358	0.0279	0.959	0.0196
2012/13	0.0193	0.0304	0.0409	0.136	0.0061
2013/14	0.0265	0.0339	0.0436	0.029	0.0022
2014/15	0.0259	0.0326	0.0470	0.064	0.0154

2015/16 2016/17 2017/18	0.0245 0.0284 0.0238	0.0289 0.0255 0.0297	0.0364 0.0386 0.0408	0.256 0.029 0.0362	0.0099 (0.0372) (0.0554)
Mean($\overline{X}$)	0.000019	0.000001	0.0000315	0.09813	0.0018
S.D. (σ)	0.00062	0.0012	0.00080	0.1184	0.0158
C.V. (%)	2.39	3.88	2.04	54.87	40.13

Source: Appendix I to V

Table 4.3 shows that Return on Loan and Advances Ratios of Nepal SBI bank has 0.0346, 0.0193, 0.0265, 0.0259, 0.0245, 0.0284 and 0.0238 and EBL is 0.0358, 0.0304, 0.0339, 0.0326, 0.0289, 0.0255 and 0.0297 is respectively. In this way Nabil bank is 0.0279, 0.0409, 0.0436, 0.0470, 0.0364, 0.0386 and 0.0408 respectively. MBL is 0.959, 0.136, 0.029, 0.064, 0.256, 0.029 and 0.0362 respectively. NBL is 0.0196, 0.0061, 0.0022, 0.0154, 0.0099, (0.0372) and (0.0554) respectively.

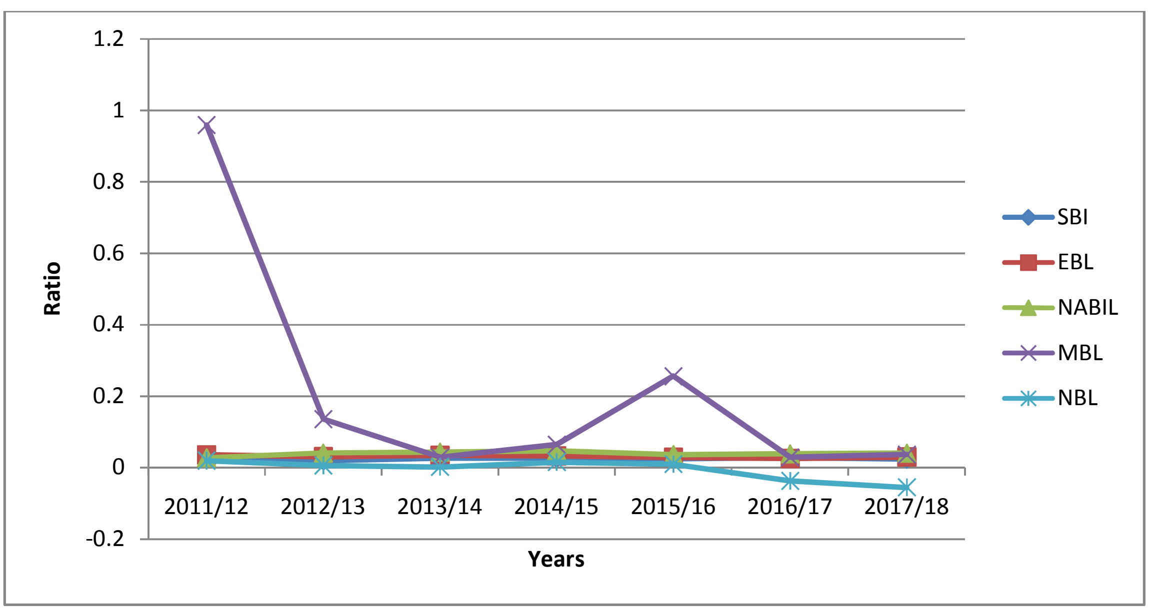

Figure 4.3: Comparative Return on Loan and Advances Ratios

Figure 4.3 shows that the return on loan and advances of SBI, EBL, NABIL, MBL and NBL has the ratio of fluctuating trend. During the study period, NABIL has the highest ratio of 5.61% than that of SBI, EBL, MBL and NBL i.e. 3.22% and 2.87% respectively. In average MBL has the highest mean ratio of 9.81 % where as SBI, EBL, MBL and NBL has the mean ratio of 2.74% and 2.20%. Coefficient of variation indicates that EBL has no more variance between seven years study period than SBI and NABIL.

4.1.4 Net Profit to Investment Ratio

Table 4.4

Net Profit to Investment Ratio

Year	Ratio				
	SBI	EBL	NABIL	MBL	NBL
2011/12	0.0391	0.1435	0.0817	0.9812	0.0559
2012/13	0.0206	0.1386	0.1137	1.2480	0.0201
2013/14	0.0295	0.1588	0.1236	0.2501	0.0073
2014/15	0.0516	0.2382	0.1407	0.5402	0.0299
2015/16	0.1049	0.1042	0.0769	0.1957	0.0299
2016/17	0.0690	0.9507	0.0804	0.2106	(0.1776)
2017/18	0.0717	0.1916	0.1120	0.3016	(0.3263)
Mean($\overline{X}$)	0.0092	0.0776	0.0005	1.5189	0.0177
S.D. (σ)	0.0036	0.1052	0.0086	0.147	0.0503
C.V. (%)	24.61	38.24	8.28	27.66	13.81

Source: Appendix I to V

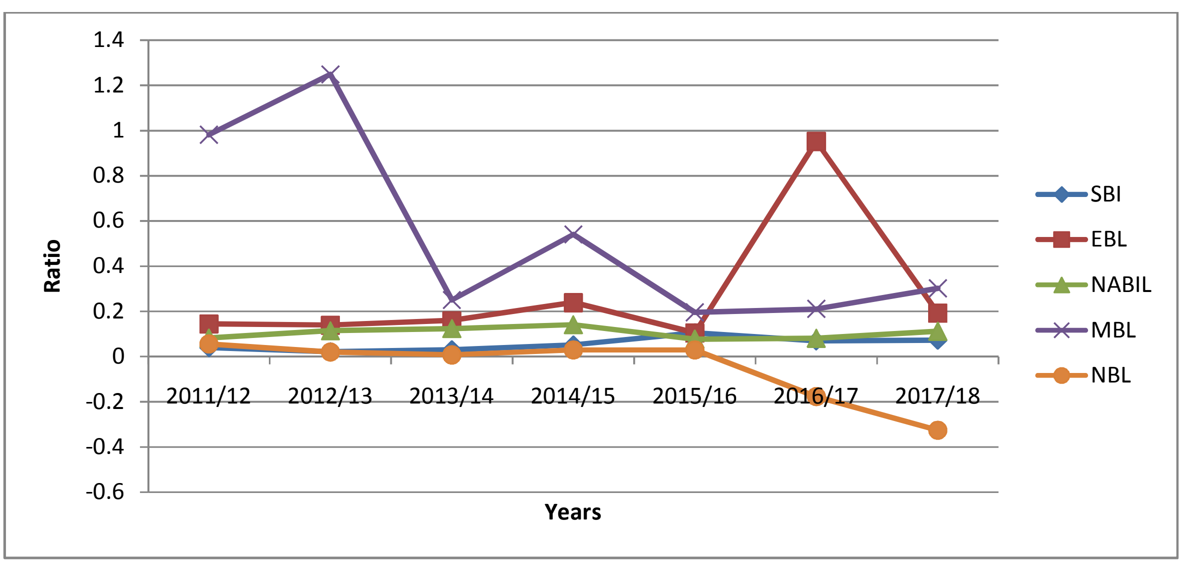

Figure 4.4: Net Profit to Investment Ratio

Table 4.4 shows that SBI has average net profit to investment ratio is 24.61 percent and Net profit to investment ratio of 38.24 of Everest Bank Limited. Similarly, the ratios of MBL are 98.12, 124 , 25.01, 54.02, 19.57, 21.06 and 30.16 from fiscal year 2011/12 to 2017/18. Similarly the ratios of Nepal Bank Limited are 5.59, 2.01, 0.73, 2.99, (17.76) and (32.63) from fiscal year 2011/12 to 2017/18. The ratios of the Nepal SBI Bank Limited are 3.91, 2.06, 2.95, 5.16, 10.49, 6.9 and 7.17 respectively between fiscal year 2011/12 and 2017/18. Similarly the ratios of Nabil Bank Limited are 8.17, 11.37, 12.36, 14.07, 7.69, 8.04 and 11.20 respectively. The ratio of EBL are 14.35, 13.86, 15.88, 23.82, 10.42, 6.90, and 7.17 respectively from fiscal year 2011/12 to 2017/18. The mean ratio of SBI is lower than that of EBL and NBL i.e. 24.61 %< 27.66 %< 38.24%. It means that SBI has maintained the lower net profit to investment ratio which means it operates with lower risk for higher profit..

4.1.5 Return on Equity

The following table shows the net profit to shareholder's equity multiplied by 100%.

$$\mathrm{ROE} = \frac{\text{Net income}}{\text{Sharesholder's equity}} \times 100\%$$

Table 4.5

Return on Equity

Year	Ratio				
	SBI	**EBL**	**NABIL**	**MBL**	**NBL**
2011/12	16.19	25.57	29.02	0.50	(21.30)
2012/13	15.02	27.15	30.25	1.44	(4.12)
2013/14	20.31	31.51	32.78	5.30	(21.30)
2014/15	22.85	29.04	27.91	14.05	86.09
2015/16	21.51	23.25	22.73	16.15	12.68

2016/17 2017/18	22.16 20.41	20.05 17.49	25.61 26.64	18.12 19.28	42.88 27.30
Mean($\overline{X}$)	19.78	24.87	27.85	10.69	17.46
S.D. (σ)	3.01	4.96	3.27	8.05	38.61
C.V. (%)	0.15	0.20	0.12	0.75	2.21

Source: Annual Report of Sample Banks

Table 4.5 shows that average ROE of Nabil Bank Limited ids higher than other sample banks and standard deviation of MBL is higher than other bank and coefficient variance of NBL is higher than other sample banks.

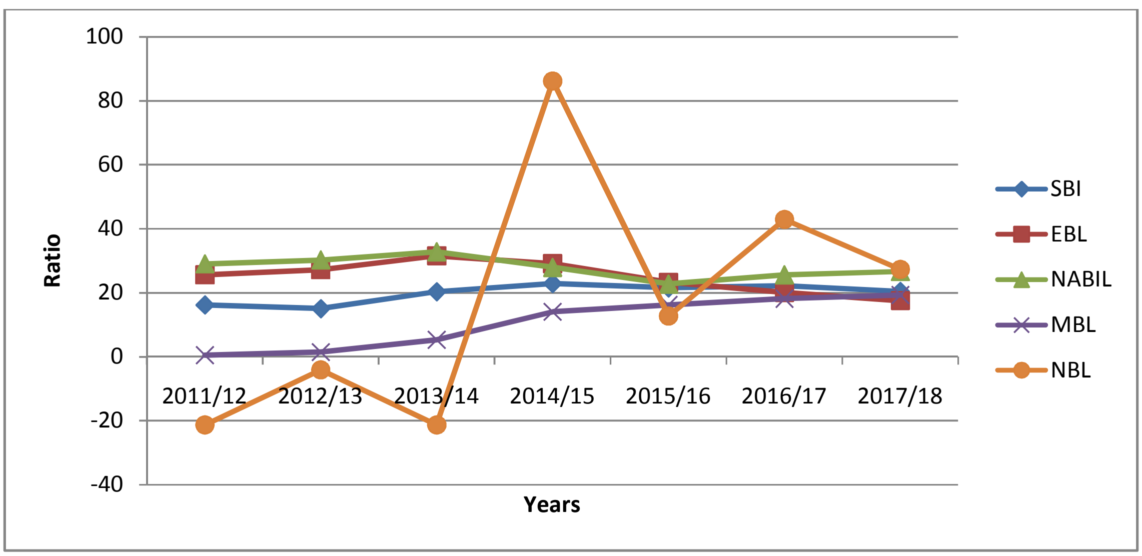

Figure 4.5: Return on Equity

Figure 4.5 shows that average ROE of Nabil Bank Limited ids higher than other sample banks and standard deviation of MBL is higher than other bank and coefficient variance of NBL is higher than other sample banks.

4.2 Descriptive Statistics of Variables

The summary of the descriptive statistics for all variables used in the study is presented in Table 4.6. The table reports the financial performance analysis of commercial banks in Nepal which are the loan and advances, investment, total deposit, CDR, ROA. The result shows that the average value of the loans and advance size which is measured by natural logarithm of total assets is 27 percent to 75 percent. The results indicate that sample commercial banks selected for the study are not very much different with regard to size. There is also low variation among the banks liquidity which is evident from low standard deviation of the liquidity variable which is 0.047.

Table 4.6

Calculation of Different Ratios

Variable	Mean	Standard Deviation	Sample Variance	Kurtosis	Skewness	Range	Minimum	Maximum
CDR	92.70943	126.4234	15982.88	24.18294	4.764238	750.0161	7.750436	757.7665
AU	23.05397	0.848535	0.720012	0.099843	-0.80882	3.255118	21.06654	24.32165
CAR	24.6848	0.687499	0.472655	4.80816	-2.06466	3.073436	22.4263	25.49973
NPL	24.28643	0.81341	0.661635	7.719384	-2.49614	4.133196	21.08851	25.22171

Source: Annual Report of Selected Banks and Results were drawn using Excel-2007

4.3 Correlation Analysis

This tool is used to predict the relationship between deposits and loan & advances, net profit and outsider assets and deposits and Investment. Under this study, Karl' Pearson's coefficient is being used.

In order to assess the nature of the correlation between the dependent and the independent variables and to ascertain whether or not multicollinearity exists as a result of the correlation among variables, Pearson correlation coefficients were calculated and have been shown as correlation matrix in Table 4.6. The results indicate that bank financial performance indicator (ROA) is significantly positively correlated with bank size and cash reserve ratio. The result indicates that these two variables may significantly affect financial performance analysis of Nepalese commercial banks. The result further implies that large size bank with enough cash reserve can provide more loans and advances to their clients.

Table 4.7

Correlation between CDR and Profitability Ratio

Variable	*CDR*	*ROA*	*ROE*	*NIM*
CDR	1			
ROA	0.96756	1		
ROE	0.85634	0.5689	1	
NIM	0.9953	0.2568	0.3657	1

Sources: Results were drawn using SPSS Programe

Table 4.8

Correlation between AU and Profitability Ratio

Variable	*AU*	*ROA*	*ROE*	*NIM*
AU	1			
ROA	0.2568	1		
ROE	0.5897	0.56987	1	
NIM	0.9875	0.5896	0.9654	1

Sources: Results were drawn using SPSS Programe

Table 4.9

Correlation between CAR and Profitability Ratio

Variable	*CAR*	*ROA*	*ROE*	*NIM*
CAR	1			
ROA	0.8567	1		

ROE	0.8697	0.8964	1	
NIM	0.8752	0.7652	0.8936	1

Sources: Results were drawn using SPSS Programe

Table 4.10

Relation between CDR, AU, CAR and NPL

Variable	*CDR*	*AU*	*CAR*	*NPL*
CDR	1			
AU	-0.0138	1		
CAR	-0.69843	0.500541	1	
NPL	0.109222	0.563703	0.529418	1

Sources: Results were drawn using SPSS Programe

The main result of a correlation is called the correlation coefficient. It ranges from the -1 to +1. The closer r is to +1 or -1, the more closely the two variables are related. If r is close to 0, it means there is no relationship between the variables. If r is positive, it means that as one variable gets larger the other gets larger. If r is negative it means that as on e variables gees larger the other gets.. If r is negative it means that as one gets larger, the other gets smaller (often called as inverse correlation).

While correlation coefficient ate normally reported as r= (a values between -1 to =1) squaring them makes then easier t understand. The square of the coefficient (or r square) is equal to the percent of the the variation in one variables that is related to variation in the other. After squaring r ignore the decimal point. An r of 0.5 means 25 percent of the variation is related (0.5 square =0.25). An r value of 0.7 means 49 percent of the variation is related. However the insignificant correlation between loans and advances and liquidity; between loans and advances and investment portfolio; between loans and advances and deposit to capital ratio imply that the relationships are not strong. Moreover, the correlation matrix of the variables presented Table 4.10 reveals that all correlations coefficients among the independent variables are less than 0.71, implying the absence of multicollinearity. Thus, there is no evidence of presence of multicollinearity among the independent variables.

A correlation report can also show a second result of each test - statistical significance. In this the significance level will tell you how likely it is that the correlation report may be sue to chance in this form of and sampling error. If you are working with small sample sizes chose a report format that includes the significance level. This format also reported the sample size.

4.4 Regression Result

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation or prediction of one variable on the basis of the other variables. In other words, regression is that statistical tool with the help of which the unknown value of one variable can be estimated or predicted on the basis of known value of the other variable. For example, if we know that production and sales are closely related, we can find out the quantity of production required to achieve a given amount of sales. Thus regression determines the average probable change in one variable based on a certain amount of change in another.

Table 4.11

Regression Results

Variable	*Coefficients*	*Standard Error*	*t Stat*	*P-value*
Intercept	-25.1624	6.48821	-3.87818	0.000533
CDR	0.00511	0.002185	2.338685	0.026206

CAR	-0.00931	0.18102	-0.05144	0.959313
ROA	1.006943	0.489573	2.056778	0.048494
NPL	0.070071	0.263529	0.265895	0.792139
	R Square=0.460411 , Adjusted R Square=0.388466 , F-statistics=6.399469, F-sig. =0.000757			

Source: Annual report of selected banks and Results were drawn using Excel-2007

Table 4.11 presents the regression result of the performance evaluation of credit deposit ratio, total investment, total deposit and loan and advance. The value of R square and adjusted R square are 0.460411 and 0.388466 respectively. The overall explanatory power of the variables in the model is weak with R square of 0.460411. This indicates that 46.04% of the variation in the bank performance can be explained by variation in the explanatory variables. However, the F- significance in the model represents model is fairly fitted since it is less than 0.01. The size of the coefficient for independent variable gives the size of the effect on dependent variable. The sign of the coefficient (positive or negative) gives the direction of the effect. The result from table 4.11 indicates that the coefficient of investment, Total deposit and loan and advances are -0.00511, 1.006943 and 0.070071 respectively. And the coefficient is statically significant at 10 percent level. This positive coefficient is surprising. In general understanding, the result should be negative. But at this point, it should be noted that explanatory power of the variables in the model is not strong. In addition, the level of significance is also weak. The coefficient of credit deposit ratio is significant at 1 percent level. The results from table 4.11 indicate that the coefficient of credit deposit ratio is positive with ROA. The result shows that for each increment in CDR leads to increase by 0.00511. This finding supports the general principle of banking industry. As indicated in the table, the level of significance of CDR is strong as well. The coefficient indicates that for every additional CDR the expected NPL increase by an average of 0.000757.

4.5 Findings

i. Average ROA of Nabil Bank Limited is 2.60 which is the highest and lower is 0.93 in Machchapuchchre, Nabil and Everest Bank Limited is the less CV which means better ROA among sample commercial banks.

ii. Net Profit to Total Deposit Ratios is 0.00009, 0.000066, 0.0219, 0.1189 and 0.00157 respectively.

iii. The average CV value of the return on loan and advance ratio of Nabil Bank Limited is lower than other sample banks mean NABIL is better performance than others.

iv. Net profit to Investment ratio of Nabil is higher than other sample banks.

v. ROE of Nabil Bank Limited ids higher than other sample banks and standard deviation of MBL is higher than other bank and coefficient variance of NBL is higher than other sample banks.

vi. The coefficient is statically significant at 10 percent level. This positive coefficient is surprising. In general understanding, the result should be negative. But at this point, it should be noted that explanatory power of the variables in the model is not strong. In addition, the level of significance is also weak.

vii. The results indicate that bank financial policy indicator is significantly positively correlated with bank size and cash reserve ratio. The result indicates that these two variables may significantly affect financial policy of Nepalese commercial banks. The result further implies that large size bank with enough cash reserve can provide more loans and advances to their clients.

viii. The major determinants of commercial banks' financial performance in Nepal are: bank size, liquidity, investment portfolio, and cash reserve ratio.

CHAPTER V

CONCLUSION

The last chapter of this study is Discussion, conclusion and recommendations developed from the study of the financial performance analysis of sample banks. Conclusion and recommendation consists of two parts, the first one is conclusion which is drawn from the major findings of this study and the second one is recommendations to the sample banks to solve the problems found on the basis of analysis and conclusion.

5.1 Discussion

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. Integrated and speedy developed of the country is possible only when competitive banking service reach every nooks and corners of the country. Today number of commercial bank are concentrated in only few places because lack of development of infrastructure in remote places. Government must give attention toward remote places.

Bank plays vital role in the economic development of nations. So today it is challenging for government to formulate the new banking policy rationally in remote area. Actually more than 60% of total areas of Nepal is covered with rural areas. For the economic development of rural areas it is necessary to provide banking services in rural areas. The research work should have reached the destiny where we satisfy with the queries of research problems which were specified in the statement of the problem in the introductory chapter.

The aim of this study to investigate and verify the effectiveness of the common determinants of commercial banks financial performance analysis and how it affects the financial performance analysis of commercial banks in Nepal. The descriptive and causal comparative research designs have been adopted for the study. The estimated regression model reveals that bank size has positive and statistically significant relationship between commercial bank financial performance analyses. Liquidity has negative and statistically significant impact on commercial bank financial performance analysis. Likely, investment portfolio has negative and statistically significant impact on commercial bank financial performance analysis. Moreover, cash reserve ratio has also negative and statistically significant impact on commercial bank financial performance analysis. However, deposit to capital ratio (deposit) has negative but statistically insignificant relationship with commercial bank financial performance analysis of commercial banks in Nepal.

Sharma (2015) has found that the analysis of liquidity position of these commercial banks shows different position here, the average current ratio of NSBI is great than that of NBB. Therefore, the liquidity position of SBI is in normal position. From the analysis of turnover of these two banks, NBB has better turnover than SBI in terms of loans and advances to total deposit ratio. Thus NBB has better utilization of resources income generating activities than SBI bank. Despite the fluctuating trend in the ratio of cash and bank balance to total deposit SBI bank is more efficient than NBB in cash management i.e. it is more able to keep more cash balance against its various deposits.

Gautam (2015) has found the correlation and the signification of their relationship between different ratios related to capital structure and found study was the banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. It is operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB’s viz. SCBNL and NBBL to examine and evaluation the financial data. The findings of the study are as JVB’s have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider’s claim in total assets of the bank is owner’s claim.

Oli (2017) has found 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 NSBI and HBL. But NSBI 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 joint venture commercial banks.

In this study Average ROA of Nabil Bank Limited is 2.60 which is the highest and lower is 0.93 in Machchapuchchre, Nabil and Everest Bank Limited is the less CV which means better ROA among sample commercial banks. Net Profit to Total Deposit Ratios is 0.00009, 0.000066, 0.0219, 0.1189 and 0.00157 respectively. The average CV value of the return on loan and advance ratio of Nabil Bank Limited is lower than other sample banks mean NABIL is better performance than others. Net profit to Investment ratio of Nabil is higher than other sample banks.

In this study and previous research finding's are difference due to choose the sample of banks, bank performance, return on assets, net profit margin ratio, return on equity, years to be choose the data and annual report financial indicator so the study finding's is different to previous study findings so this study is contradictory. The results are inconsistent because of difference in the pace of time and tools used in analysis of data are different.

5.2 Conclusion

This study has investigated the determinants of commercial banks' financial performance analysis of the Nepalese context. The pooled data of five commercial banks for the period 2011/12 to 2017/18 have been analyzed using regression model. The regression results reveal that bank size has significant positive effect on loans and advances whereas liquidity ratio, investment portfolio and cash reserve ratio have significant negative effect on banks' loan advances. This study concludes that the major determinants of commercial banks' financial performance analysis of Nepal are: bank size, liquidity, investment portfolio, and cash reserve ratio. There is no doubt that banking plays vital role in the development of a country. Banking is a system in which an organized institution collects funds and mobilizes the collected funds and resources into various productive sectors. The systematic collection of idle funds and the subsequent mobilization or canalizations has supplemented not only the financial needs of trading. Manufacturing and service industries, but also provided the necessary finances for agricultural sector. Therefore, it can be said that the development in the field of industrialization and commercialization is possible only with the support of banking. The average CV value of the return on loan and advance ratio of Nabil Bank Limited is lower than other sample banks mean NABIL is better performance than others. Net profit to Investment ratio of Nabil is higher than other sample banks. ROE of Nabil Bank Limited ids higher than other sample banks and standard deviation of MBL is higher than other bank and coefficient variance of NBL is higher than other sample banks. The coefficient is statically significant at 10 percent level. This positive coefficient is surprising. In general understanding, the result should be negative. But at this point, it should be noted that explanatory power of the variables in the model is not strong. In addition, the level of significance is also weak. The results indicate that bank financial policy indicator is significantly positively correlated with bank size and cash reserve ratio. The result indicates that these two variables may significantly affect financial policy of Nepalese commercial banks. The result further implies that large size bank with enough cash reserve can provide more loans and advances to their clients.

5.3 Implications

Further researcher can use the more data so as to make the research more robust and make more generalized to the findings of the study. Further researcher can use different tools and techniques of researcher so as to ratify the study of the results, Researcher also can apply the same methods in the different population that is in manufacturing and public sector so that the study findings can be tested in different sector so as to generalize the findings in all performed areas of business

The study strategic and financial results are closely linked, and the performance in one area can impact the other. A high level of financial performance may result from an effective strategy, but good financial results let you pursue strategies that require substantial investments. When you develop effective strategies and implement them so they achieve the desired financial results, they can give you the flexibility to pursue additional strategic initiatives. The financial performance implications, it has to define the goals of your financial and strategic initiatives. To what extent you have reached the financial and strategic targets you set defines the level of performance achieved.

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