

ANALYSIS OF FINANCIAL PERFORMANCE ON LISTED COMMERCIAL BANKS

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RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**Analysis of Financial Performance on Listed Commercial Banks**” submitted to Shanker Dev Campus, faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirements of the Master Degree in Business Studies (M.B.S.) under the supervision and guidance of **Dr. Kamal Das Manandhar**, (Associate Professor) and **Mr. Dhurba Subedi**, (Lecturer) Shanker Dev Campus, T.U., Ramshahpath.

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ABBREVIATIONS

ASEAN	=	Association of South East Asian Nations
BIMSTEC	=	Bay of Bengal Initiative For Multi-Sectrol Technical Co-Operation
BOP	=	Balance of Payment
BOK	=	Bank of Kathmandu
CBs	=	Commercial Banks
CRR	=	Cash Reserve Ratio
CV	=	Co-Efficient of Variation
COM.	=	Commercial Bank
CIB	=	Credit Information Bureau
CBPASS	=	Commercial Banks Problems Analysis And Strategy
DEC.	=	December
EBL	=	Everest Bank Ltd.
ESAP	=	Enhanced Structural Adjustment Programme
EPS	=	Earning Per Share
E-Generation	=	Electronic Generation
FDI	=	Foreign Direct Investment
F.Y	=	Fiscal Year
GBBs	=	Gramin Bikash Banks
GDP	=	Gross Domestic Product
HMG	=	His Majesty's Government
HBL	=	Himalayan Bank Ltd.
IT	=	Information Technology
IMF	=	International Monetary Fund
LTD	=	Limited
NRB	=	Nepal Rastra Bank
NBL	=	Nepal Bank Ltd.
NO.	=	Number
NB	=	Nepal Bangladesh
NABIL	=	Nepal Arab Bank Ltd.
NPA	=	Non – Performing Assets
NIBL	=	Nepal Investment Bank Ltd.
NEPSE	=	Nepal Stock Exchange Ltd
NGO	=	Non – Government Organization
NIDC	=	Nepal Industrial Development Corporation
NCC	=	Nepal Credit and Commerce
NIC	=	Nepal Industrial and Commercial
NPM	=	Net Profit Margin
PRGR	=	Poverty Reduction Growth Facility
PNB	=	Punjab National Bank

PC	=	Personal Computer
P-E	=	Price – Earning
ROA	=	Return on Assets
Rs.	=	Rupees
RDBs	=	Rural Development Banks
RBB	=	Rastriya Banijya Bank
S.N	=	Serial Number
SCBNL	=	Standard Chartered Bank Nepal Ltd.
STD.	=	Standard
SAARC	=	South Asian Association for Regional Co-operation
SAP	=	Structural Adjustment Programme
SEBON	=	Security Board of Nepal
SWOT	=	Strength Weakness Opportunity Threats
T-BILLS	=	Treasury Bills
T.U	=	Tribhuvan University
U.K	=	United Kingdom
WTO	=	World Trade Organization

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Surrounded by China and India, the two regional giant economic powers, Nepal is still in the list of the least developed countries in the world. Majority of the population is still under the line of poverty. The agro-dominated economy is further deteriorated by the complex geographical situation. Various factors e.g. landlocked situation, poor resource mobilization, lack of expertise knowledge, lack of institutional commitment, inconsistent government policy, political instability etc. are responsible for the slow pace of development of Nepal.

Nepalese economy is distinctly different in its character from the regional economies, poverty, less developed geographical situation and technological backwardness are the main features of Nepalese economy. Most of the population of the country is in the rural areas, where there is no access of banking facilities. Due to lack of awareness and guidance to the poor, the poor are still in severe condition at many places. From the beginning of the 1970s same programs were introduced focused to rural and the poverty-stricken areas people. But these programs did not achieve significant result in the area of the poverty reduction. The population below the poverty line is still 38 percent by end of the Tenth-five year plan. Nepalese Economy experienced the internal and external shocks. Budget and current account deficits, BOP crisis were the examples. Budget deficit created the requirement of the internal and external loan. Heavy currency devaluation due to fixed exchange rate system for a long period, the objective of devaluation was to increase export. Import was controlled and the domestic industrial sector was protected through high custom duties. Regulation in import of capital goods too, limited the industrialization in the country. Generally low growth rate, high inflation, and deficits in BOP, budget and current account etc became the general phenomenon. To overcome the critical situation, the program of Economic Stabilization, in initiation of IMF, was introduced in 1985 A.D. The program included: reduction of unproductive expenditure, self sustaining the public enterprises, prioritization of the development projects, cancellation of the low priority projects, limiting the budget deficit within the certain percentage of the GDP, limiting the public loan from the banking sector, interest rate deregulation, decreasing import barriers through the reduction in custom duties and auctioning import licensing etc. The outcome of the program was less satisfactory. Open general licensing increased revenue and import capital goods. At the same time, the

government introduced a new Economic Policy to stimulate private sector in the agriculture, education, health and financial sector, through the overall impact of economic stabilization was not satisfactory.

Nepalese economy, a satellite of Indian economy for more than four decades of planned development, is yet isolated from global economic revolutions that created many bubble economies in the SAARC and the ASEAN. However, Nepal's effort towards economic development in recent years has been subdued by increasingly acute and rampant corruption that has marginalized the prospectus for good governance. Although good governance requires accountable, legitimate and transparent government, corruption has been the biggest vice that has widened the gap between government and the citizens in absence of active civil society. Nepal, as a sub-system of international system, is directly affected by the global waves of democratization.

In this concern Government and the central bank is policy provider. Until recent times they have also implemented various activities focused on these areas; but very less attainment. Nepal Rastra Bank has introduced direct lending by issuing priority sector loan guidelines to commercial banks. Some awareness encouraged in participating in micro – finance activities. Some fund from the commercial banking sector has been following for the implementation of such program in the area of poverty reduction.

Banking Industry: A Historical Perspective

The institutional development of financial sector has just emerged 71 years before. In BS 1993, *The Tejarath Adda* was established in Kathmandu valley. This establishment helped the general public by providing credit facilities at very low rate. *The Tejarath Adda* provides credit facilities to the public especially on the collateral of gold and silver. It was the first institutional financial intermediaries at that time. Although it played a vital role in the banking system, it provides credit facility to only the government officials. The establishment of Nepal Bank LTD. in 1994 was the first bank of financial sector in Nepal. Besides the need of banking institution was realized by the Government. Then Nepal Rastra Bank was established under NRB Act, 2012 as a central bank. NRB being a central bank play vita role to continue the Nepalese currency in the market, stability in exchange of Nepalese currency and the development of banking sector in Nepal. As a result, Nepal Industrial Development Corporation and Rastriya Banijya Bank were similarly establishment in 2014 and 2022. In this way the banking practices began with the establishment of the first banking institute NBL

which was established as a joint venture of Government and private individuals. Today twenty commercial banks are operating in service sector. Some of them are foreign joint ventures. Such banking system is advancing a head in liberalized and competitive environment. The sample banks are as follows:

a. Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Limited which was formerly known as Nepal Grindlays Bank was established in 1987 A.D. as a second foreign joint venture bank under the company act. Its ownership is 75% of the shares held by Standard Chartered Grindlays Bank, 25% of shares by local ownership. Standard Chartered Bank completes 150 years of operation in 2003. This was considered a unique opportunity to refresh the Brand. Standard Chartered plays an active role in supporting those communities in which its customers and staffs live. The focus of the Standard Chartered group is on projects that assist needy children, particularly in the area of education and environment. The Bank is in a position to service customers through a large domestic network. In addition to which the global network of Standard Chartered Bank gives the Bank the unique opportunity to provide truly international banking in Nepal. SCBNL focuses mainly on corporate and consumer banking, catering to a wide range of customers from individuals, to mid-market local corporate to multinationals and large public sector companies as well as embassies, aid agencies, airlines, hotels, and government corporations. The Bank has been the pioneer in introducing consumer focused product and services in the country.

b. NABIL Bank Limited

NABIL commenced its operation on 12th July 1984 as the first joint venture bank in Nepal. Dubai bank Ltd. Dubai (later acquired by Emirates bank international limited, Dubai -EBIL,) was the first joint venture partner of NABIL. Later EBIL sold its entire stock to National Bank Ltd, Bangladesh (NBL). NABIL Bank Ltd had the official name Nepal Arab Bank Limited till 31st Dec, 2001. Hence 50% equity shares of NABIL Bank Ltd are held by NBL and out of another 50% shares, 20% shares has been hold by financial institutions and remaining 30% shares were issued to general public of Nepal. NABIL Bank Ltd has been providing banking services through 15 branches and 2 counters in all major cities.

c. Himalayan Bank Limited (HBL)

Himalayan Bank Ltd. was incorporated in 1992 by the distinguished business personality of Nepal in partnership with Employee provident Fund and Habib Bank Limited, one of the largest commercial Bank of Pakistan. Banks operation was commenced from January 1992. It is the first commercial bank of Nepal with maximum share holding by Nepalese private sector. Promoter's shareholders are 51%, Habib Bank 20%, Employee Provident Fund 14%, and Nepal Public shareholders 15%. Beside commercial activities, the bank also offers industrial and merchant banking.

The bank at present has five branches in Kathmandu Valley namely Thamel, Newroad, Maharajgunj, Pulchowk(Patan), and Suryavinayak. Beside, it has nine branches out side the Kathmandu Valley namely Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bhirawa, Biratnagar, Pokhara, and Dharan. The Bank is also operating a counter in the premise of the Royal

Palace. The Bank has a very aggressive plan of establishing more branches in different parts of the kingdom in near future.

d. Everest Bank Limited (EBL)

Everest Bank Ltd was established in 1994 and started its operations with a view and objective of extending professional and efficient banking services to various segments of the society.

EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the largest Public Bank of India having 109 years of banking history with more than 4400 officers' all over India and is known for its strong system and procedures and a distinct work culture. Drawing its strength from its joints venture partner, EBL has been steadily growing in its size and operations ever since its inception and today it has established itself as leading Privet sectors Bank of the Nation, reckoned as one of the fastest growing Commercial Bank of the country. It has a main policy is to grant a loan as possible rate and through easy procedures, beside many other commercial activities. The local Nepalese promoters hold 50% stake in the Bank's equity, while 20% of equity is contributed by joint venture partner PNB whereas remaining 30% is held by the public. The Bank provides a wide range of banking facilities through a wide network of 15 branches(Baneshwor, New road, Teku , Pulchowk, Lazimpat, Satungal, Biratnagar, Dhubai, Janakpur, Birgunj, Simara, Butwal, Bhirawa, Dhangadi, ICD-Dry port,Parsa) covering all the 5 regions of the country and over more than 250 reputed correspondent banks across the globe.

e. Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd. was established in 1986 as a joint - venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was credit Agricole Indosuez, a subsidiary of one of the largest banking group in the world.

With the decision of Credit Indosuez to divest, a group of companies comprising of bankers, industrialists, and businessmen, has acquired on April, 2002 the 50% shareholding of Credit

Agricole Indosuez in Nepal Indosuez Bank Ltd. now the name has been changed to Nepal Investment Bank.

A group of companies is holding 50% of the capital, RBB holding 15% of the capital and the Rastriya Beema Sansthan holding the same. The remaining 20% is being held by the general public. It has been awarded by Bank of the year Award - 2005.

1.2 Statement of the Problem

Nepal has become 147th member of World Trade Organization (WTO). In general there is much curiosity in people about the opportunities and threats after the accession of membership of WTO. Many questions may arise at once. It is crystal clear that Nepal has to face various challenges in different aspects in coming days. The prominent one is financial sector because it is the vast and dynamic. Since 2040s, Nepal has opened up and gradually liberalized the financial services. The institutional network and volume of operations of the financial system has been expanded and diversified with a number of commercial banks which were five in 1990 and are 17 at the present. Similarly a number of other financial institutions came into operation rapidly.

After the liberalization and openness in the financial system, the establishment of banks and financial institutions tremendously increased. The establishment process, in fact took an aggressive move. Service sector is a major contribution to GDP (more than 50 percent in an average) and financial service is a major component of this sector. Financial services sector consists basically banking services and insurance service. Such services in Nepal are very important because they provide many opportunities for efficient allocation of resources, utilization, promotion of economic activities and fair competition and increased in FDI.

The Commitments in Financial Services Sector Set-Forth in WTO.

- 1) Opening market to around 75 sectors and to 150 countries of the world.
- 2) Financial services in the form of operations can be carried out inside the country through a locally incorporated company.
- 3) Commercial presence allowed for all the companies rated at least B in international standard.
- 4) Allowed foreign equity participation (investment) in financial sector up to 67 percent of the issue share capital.

- 5) Branches of foreign companies will be allowed insurance services and wholesale banking after January 1, 2010.
- 6) Composition of board of directors of financial institution in proportion to their equity participation.
- 7) Opening financial advisory/consultancy services.
- 8) Employment of foreign employees to the extent of 15% of the local employees.
- 9) Assurance of full competition in financial sector.
- 10) Entry in the financial sector is to be regulated by Central Bank and Insurance board.
- 11) Status quo has to be maintained and no further restriction can be imposed.

Liberalization in services sector is inevitable. We cannot escape from the ground reality of globalization, widespread acceptance of WTO and necessity of membership in this international trade institution. It should not be opposed to hide our inefficiencies or governance problems. Rather it is right time to find out the impacts, continue and finish the reform process making the service sector really competitive. Otherwise, we will lose the opportunities. Transparency and disclosure practices are must for the sustainable liberalization process and for the growth and development of financial services sector especially commercial banks. In short, SWOT analysis is necessary in this sector. In this situation Nepalese commercial banking is advancing a head in this competitive environment. It has been freed from control mechanism. CBs are free to quote their own cost of fund (interest rate) and return on assets. Competitive environment has to some extent been conducive for quality service and the sustainability. However to release the earmarked resources, NRB has taken off the imposition of the statutory liquidity requirement and even have been lowering down the bank rate and CRR. Banking sector is almost free to do their business at their own stake. Only few mandatory obligations are to be met as financing their resources to priority sector. Banking and Financial Institution Ordinance 2004 has been enacted as an umbrella act to create fair competition and control mechanism to promote financial institution as their own service-coverage activities. Nepalese banking and financial system has expanded rapidly. At the present moment we have twenty commercial banks. In spite of rapid growth, some indicators show performance is not much encouraging towards the service coverage. In such a situation the study tried to analyze the present performance of banks which would give the answers of following queries.

- a. What are the comparative Liquidity, Profitability, Activity, Stability, Solvency and Capital Adequacy position among top five commercial banks?
- b. Are the positions of NPA among top five commercial banks comparatively standard level?
- c. How are the trends in terms of above ratios?

1.3 Objectives of the Study

The main objective of the study was to analyze the comparative financial status of top five commercial banks in Nepal. The objective has been further specified in the following sub-objectives.

- a. To analyze and compare the liquidity, profitability, stability and market value positions among top five commercial banks.
- b. To analyze and compare solvency (capital structure) ratios such as core capital, supplementary capital and total capital fund.
- c. To analyze and compare the position of NPA.
- d. To provide suggestions and recommendations of the study.

1.4 Significance of the Study

No single measure of a banks financial condition or performance can tell much. Most important point to remember about performance analysis is that every financial measure should be compared across time and across over same line of companies to be meaningful. Banks as a service – organization, only few financial ratios would be sufficient to compare the performance, however different sources and different analysts use different lists or combination of financial ratio analysis. Prior research has been conducted only based on maximum of two banks in this topic and use the traditional financial ratio analysis. The value of the approach was quantitative relations. The world is becoming more dynamic and subject to rapid changes. This research will be based upon the modern approaches to financial analysis; in which comparable group approach and include consideration of economic and strategic factors where feasible. Even the study will base upon those core indicators especially related with banking sector as well as it will compares across time and across same line of banks i.e. maximum of top five commercial banks. Thus, the research will be an interest to a wide range of its stakeholders and other government regulatory interests.

1.5 Limitations of the Study

The study is not free from shortcomings. The major one's are:

- a. The study considered only past five years secondary data.
- b. The study took into account only top five private- sector commercial banks.
- c. The analysis was based on secondary data mainly the major (key) ratios published by the commercial banks. Hence the reliability of results depends on the reliability of secondary data.
- d. Time and resources put constraints for the study.

1.6 Organizational of the Study

For the systematic present of the report the research was divided into five chapters as follows:

Chapter 1: Introduction

Chapter 2: Review of Literature

Chapter 3: Research Methodology

Chapter 4: Presentation and Analysis of Data

Chapter 5: Summary, Conclusions and Recommendation

1. **Introduction:** It includes general background of the study, historical perspective of banking industry, overview of sample banks, statement of the problem, objectives of the study, significance of the study and limitation of the study.
2. **Review of Literature:** Review of literature contains the review of the subjects-related books, journals, and past research work.
3. **Research Methodology:** This chapter expresses the way and the technique of the studying applied in the research process. It includes research design, population and sample, data collection procedure and processing, tools and methods of analysis.
4. **Presentation and Analysis of Data:** In this chapter collected and processed data are presented, analyzed and interpreted with using financial tools as well as statistical tools.
5. **Summary, Conclusions and Recommendations:** In this chapter, summary of whole study, conclusions and recommendations are made.

Besides this, bibliography and appendix has included in the last of this research work.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature is an essential part of any research work. In this part, the researcher reviewed various books, articles, and previous researches, publications of related subjects. This chapter consists of three sections: conceptual review, review of previous research work and research gap.

2.1 Conceptual Review

Before presenting further performance highlights of the banks, it would be pertinent to have an overview on the general concept and banking scenario of the country and analytical techniques used to present and analysis of data for conceptual review point of view.

2.1.1 Banking

The lexis “Banking “is a derivate of terminology ‘Bank ‘. Bank itself is an organization engaged in any or all the various functions of banking viz. receiving, collecting, transferring, paying, lending, investing, dealing exchanging and servicing (safe deposit, trusteeship, agency, custodianship) money and claims to money both domestically and internationally. This is a broad concept under which different types of bank includes. There are several popular modalities of banking. It may be differ country to country. Commercial banking is one of them. [Prashikshan-2003, NRB].Banking and financial institutions are also the transmission channels of monetary policy, it is important for the effective monetary policy management to ensure that their financial health is sound and overall financial sector is stable.

2.1.2 Modern Banking in Nepal

Nepal Bank Ltd. is the first modern bank of Nepal. It is taken as the milestone of modern banking of the country. This was established in 1937 A.D. From the beginning, it has rendered the following services to the customers:

- a. Accept deposit,
- b. Extend loan,
- c. Render customer-related service i.e. issue of bill of exchange, hundis.
- d. Invest is government bonds and securities.
- e. Perform agency function.

- f. Act as banker to the government.

Until mid-1940s, only metallic coins were used as medium of exchange. So the H.M.G. felt the need of separate institution or body to issues national currencies and promote financial organization in the country. Hence, the Nepal Rastra Bank Act 1955 was formulated, which was approved by H.M.G. According, the Nepal Rastra Bank was established in 1956 A.D. as the central bank of Nepal.

A sound banking system is important for smooth development of banking system. It can play a key role in the economy. It gathers saving from all over the country and provides liquidity for industry and trade [Singh 2062: 13]. In 1957 A.D, Industrial Development Bank was established to promote the industrialization in Nepal, which was later converted into Nepal Industrial Development Corporation (NIDC) in 1959 A.D.

Rastriya Banijya Bank was established in 1865 A.D, as the second commercial bank of Nepal. The financial shapes of these two commercial banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad position.

As the agriculture is the basic occupation of major Nepalese, the development of this sector plays the prime role in the economy. So, separate Agricultural Development Bank was established in 1968 A.D. This is the first institution in agricultural financing.

For more than two decades, no more banks have been established in the country. After declaring free economy and privatization policy, HMG encouraged the foreign banks for joint venture in Nepal; As a result, Nepal Arab Bank Ltd. (NABIL) was established in 2041 B.S. This is the first modern bank with latest banking technology.

Then lot commercial banks have been opened in the country. Nepal Indosuez Bank was established in 1985 A.D. as a private joint venture bank. Nepal Grindlays Bank was established as a joint venture between ANZ Grindlays and Nepal Bank Ltd. This bank is now known as Standard Chartered Bank since July 2001. After the opening of Nepal Indosuez Bank and Nepal Grindlays Bank, Nepalese really saw modern banking. Now there are 15 commercial banks in Nepal. Among them, 13 banks have been opened by private sector in joint venture with foreign banks. Other commercial banks later established in the country are:

Himalayan Bank Ltd. is a joint venture with Habib Bank of Pakistan. It started its operation in 2049 with paid-up capital of Rs.60 millions.

Nepal SBI Bank Ltd. is a joint venture between Employees Provident Fund and State Bank of India, where Indian bank holds 50% of the equity. The initial paid-up capital was Rs.119.95 million in 2050.

Nepal Bangladesh Bank was established in 2050 B.S. in technical collaboration with IFIC Bank Ltd. of Bangladesh.

Everest Bank Ltd. started its operation in 2051 B.S. It entered into joint venture with Punjab National Bank of India (PNB). PNB holds 20% equity stakes in the bank.

Bank of Kathmandu was established in a joint venture with Syan Bank of Thailand. Nepal Bank of Ceylon is a joint venture with a leading bank of Sri Lanka. Lumbini Bank was established in the year 2055 B.S. in Narayangadh. This is the first regional bank of Nepal. Nepal Industrial and Commercial Bank was established in 2055 B.S. It does not have any joint venture yet. But it has employed senior managers from India to handle its operation.

Machhapuchre Bank started its operation from 2056 B.S. Its head office is established in Pokhara. Kumari Bank was established in 2056 B.S. its head office is in Kathmandu. This bank has introduces internet banking which is a Hi-Tech banking system of the world. Lately, Laxmi Bank was established in 2058 B.S. Its head office is situated in Kathmandu.

These commercial banks have played a very significant role in creating banking habit among the people, widening area and business communities and the government in various ways.

2.1.3 The Banks Services Offered to the Public

Banks accept the deposits from unproductive sectors and canalize them in the productive sectors. This is the basic function of banks. By this, they earn profit as interest by advancing the funds as loan at the interest rate higher than its cost. As the same, banks generate capital for economic development of a country. In the past, banks used to be just an intermediary between the saving and users of fund. They used to collect deposit from savers and provide loans to the business men and others. Now, the services provided by bank have been expanded to many areas as human wants and the development of technology [Singh, 2062: 15]. General commercial banks offer the following services to customers:

1) Accepting Deposit

The primary function of bank is to accept deposits from savers. Banks accept deposits from those who can save money, but cannot utilize them in profitable sectors. People consider it more rational to deposit their savings in a bank because, by doing so, they earn interest. At the same time, they avoid the danger of theft, because a bank guarantees the safe custody of deposits.

This is the oldest function of banks. The banker used to charge a commission for keeping the money in its custody at that time. To attract savings from all sorts' customers, the banks provide different types of account facilities. Among them, major accounts are as follows:

- a. **Current Account:** Especially businessmen open the current account, which have to make a number of payment everyday. Money from these accounts can be withdrawn as many times as desired by the depositors, There is not limit on the amount of cheque in this account. Generally, no interest is paid on this account. Rather, the depositors have to pay certain incidental charges such as interest on bank overdraft, remittance charge, guarantee charge etc. The main advantage of this account is safe custody of deposit and unlimited drawing facility to the account holders.
- b. **Fixed Account:** When account holders want to deposit their fund for certain time period, they have to open fixed account in banks. Money in these accounts is deposited for fixed period of time. It may range from one month, three months, six months, one year, up to five years. The money deposited into fixed account cannot be withdrawn before the expiry of that period. So the rate of interest on this account is higher than that on other types of accounts. The longer the period, the higher will be the rate of interest.
- c. **Saving Account:** Banks have provided saving account facility especially for general public, who have some saving out to their income and expenditure. The main objective of this account is to encourage ad mobilize small savings of the public. Certain restrictions are imposed on the account holders regarding the number of withdrawals and the amount to be withdrawn in a given period. Cheque facility is provided to the depositors. Rate of interest paid on this account is low as compared to that on fixed account. Similarly, withdrawal facility is also restricted in some limit as compared to that of current account.

- d. Home Saving Account:** Account holders are provided the facility to deposit their saving in their own homes in this account. For this purpose, safe boxes locked by banker, are supplied to all account holders to keep them at homes and to put their small savings in them. Periodically, the boxes are taken to the bank where the amount of safe box taken out and credited to their accounts. This account is appropriate for those, who have very small savings and hesitate to come to bank to deposit them. Especially, children and housewives are targeted under this account. This account promotes saving habits among the people providing them home deposit facility. Banks provide some interest as well as safe custody on this deposit.
- e. Recurring Deposit Account:** Account holders have to pay in the installment deposit regularly in recurring deposit account. Generally, money in these accounts is deposited in monthly installments for a fixed period and is repaid to the depository along with interest on maturity. The rate of interest on these deposits is nearly the same as on fixed deposits. The main purpose of this account is to encourage regular savings of general public. People, who have fixed income, are target to make saving habit by this account.

2) Advancing of Loans

Commercial bank is a profit oriented business organization. So banks have to advance loans to public and generate interest from them as profit. After keeping certain cash reserves, banks provide short, medium and long-term loans to needy borrowers. For security, banks generally provide loan on mortgage. General, loans for individuals are provided on the mortgage of gold, silver, fixed deposit, receipts, Treasury bills, development bonds etc. whereas business loans are advanced on the mortgage of negotiable instruments such as land, building, god own etc.

Nowadays, banking business is also facing sharp competitions. So bankers, sometimes, provide loans without mortgage, too. Such loans are advanced on the basis of goodwill and relationship with the party. The loan proposal is very good. The probability of success of proposed business is very high. Then bank may security. In this case, the bankers assume the loan proposal itself as the security of loan. According to the needs of the borrowers, banks provide different types of loan for different time period as given below:

- i. Term Loans:** Banks advance loans of different terms or period as required to customers. It provides medium-term and long-term loans on the basis of loan

proposal. The maturity period of such loans is more than one year. Generally, the amount sanctioned is credited to the account of the borrower. However, banks pay the amount in cash to the borrower in some cases. The interest is charged on the entire amount of the loan and the loan is repaid either on maturity or on installments.

- ii. Cash Credit:** Banks advance loan as cash credit to businessmen against certain specified securities. The amount of the loan is credited to the current account of the borrower. In case of a new customer, a loan account for the sum is opened. The borrowers can withdraw money through cheque according to his requirement. Interest is charged only on the amount actually withdrawn from the account.
- iii. Overdraft:** Generally, businessmen and organizations open current account in bank. They deposit all receipts in the account and pay all dues through cheque. Bank provides overdraft facilities to such account holders. Overdraft facility allows the customer to withdraw more than their deposits. The account holders have to go in a special contract with bank to get such facility.
- iv. Money at Call:** It is a very short-term loan provided by bank at a very short notice. Generally, loan under money at call has a time duration of only one day to fourteen days. After that period, the money should be refunded. Such loan is useful especially for other financial institutions and traders.

3) Discounting of Bill of Exchange

Bill of exchange is a negotiable instrument, which is accepted by the debtor, drawn upon him/her by the creditor (drawer) and agrees to pay the amount mentioned on maturity. Discounting bill of exchange is another important function of modern banks. Under this function, banks purchase bill of exchange. Bank purchases it from holder in discount after making some managerial deduction in the form of commission. The banks pay the deducted value to the holders when traders discount it into bank. The percentage of discount is determined by mutual agreement between bank and trader, which is affected by duration of expiry and goodwill of drawer of bill of exchange.

4) Payment of Cheque

Cheque is the most developed credit instrument in the money market. In the modern business transactions, cheque has become a much more convenient method of settling debts than the use of cash.

Banks provide cheque pads to the account holders. Account holders can draw Cheque upon bank to pay money. Banks pay for cheque of customers after formal verification and official procedures. Providing the cheque payment functions, a bank renders a very useful medium of exchange in the form of cheque. Through a cheque, the depositor directs the bankers to make payment to the payee.

5) Remittance

It is system, through which cash fund is transferred from one place to another. Banks provide the facilities of remittance to the customers and earn some service charge. Generally, a bank provides such facilities through cheque, bank drafts, letter of credit (L.C.) etc. Remittance plays an important role in the modern national as well as international trade.

6) Collection and Payment of Credit Instruments

Modern business uses different types of credit instruments such as bill of exchange, promissory notes, cheque etc. Banks deal with such instruments. Banks collect and pay various credit instruments as the representatives of the customers. The remittance service of banks has benefited both the business and personal customers.

7) Exchange Foreign Currencies

Banks deal with foreign currencies. As the requirement of customers, banks exchange foreign currencies with local currencies, which is essential to state down the dues in the international trade.

8) Consultancy

Banks are large organizations. They can expand their function to consultancy business. [In this function, banks hire financial, legal and market experts, who provide advices to customers in regarding investment, industry, trade, income, tax etc.]

9) Bank Guarantee

Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit certain fund in governmental offices or courts for specific purpose such as legal case, bank can present itself as the guarantee for the customer, instead of depositing fund by customer. Bank provides such facility only, when the customers have sufficient fund in their account.

10) Agency Functions

As the agents of customers, modern banks perform different types of functions such as:

- i. **Periodic Payment:** Banks can execute the standing order or instruction of customers for making periodic payment on behalf of their customers. Under this function, banks pay subscription, income tax, rents, insurance premium etc. for their respective customers and earn appropriate service charge.
- ii. **Periodic Collection:** On behalf of them, bank can collect incomes of customers such as dividends of share, interest on debenture and fixed deposits etc.
- iii. **Purchase and Sales of Securities:** On behalf of customers, banks undertake purchase and sales of various securities like share, stocks, bonds, debentures etc. Banks do not interfere in the decision and process of their customers regarding these investments. They simply perform the function of a broker only to purchase and sell the securities.
- iv. **Representative:** Banks can act as representative of their customers. They can proceed for passports, traveler's tickets, book, vehicles, plots of lands etc. for their customers. In connection to getting such things for customers, they can exchange correspondence to concerned parties.
- v. **Trustee or Executor:** When customers want to transfer their property to specific persons after demise, they can make a legal document about them and handover it to the banks as trustee or executor. Banks preserve such documents of customers' will and execute their will after demise.

11) Others

Except above functions, modern banks provide many general utility services as given below:

- i. **Locker System:** Modern banks provide locker system to their customers. The customers can hire a specific number of lock boxes, keep precious assets, and document in it. Bank provide guarantee to safeguard the valuable assets locked in such box.
- ii. **Traveler's Cheque:** Carrying money while traveling is a risk in business. It is far more convenient to use traveler's cheque. Traveler's Cheque helps their customers to make their traveling comfortable. Traveler's cheque is accepted by most traders. So customers need not take the risk of carrying cash with them during their travel, when bank issues traveler's cheque to them.
- iii. **Credit Card:** Credit card is the developed form of traveler's cheque. It is a plastic card with magnetic mark of account number and bank balance. Such card is issued

by modern commercial banks to their customers, who have deposited specific sum in the account to get such facility. Credit card facility has become possible only by development of technology, because modern equipment and computerized system is essential to implement the credit card system. Credit card is very convenient means of payment. The cardholders have just to show the credit card to the seller to pay the value. The seller enters the card in a machine and returns to the purchaser. Payment of due is automatically received by the bank. So it is widely used in modern market. It is also called plastic money and bank money.

- iv. **Underwriting Securities:** Banks underwrite the securities issued by the Joint Stock Company, private company and even government organizations. Public have good faith upon banks. So people will not hesitate in buying securities carrying the signatures of a bank.
- v. **Gift Cheque:** Some banks issue special cheque to mark the auspicious occasions. They are known as gift cheque. Such Cheques have already printed value such as Rs. 11, 21, 31, 51, 101, 1001, etc.
- vi. **Collection of Data:** Banks collect data giving important information relating to banking, money, business, industry and economy. They conduct survey and research for the purpose. Such data are published along with articles on economic and financial matters in bulletin, journals and other financial magazines.
- vii. **Individual Information of Customers:** According to the demand of outside, banks provide individual information regarding the financial position, business reputation and respectability of their customers. The welfare of customers is top priority of modern banks. So they do not provide the information restricted by concerned customers. Significantly lower the per-unit cost associated with high-volume transactions. But they will depersonalize banking and result in further loss of jobs as capital equipment is substituted for labor. Recent experience suggests, however, that fully automated banking for all customers may take a long time [Singh, 2062: 21].

2.1.4 Needs and Role of Bank in the Economy

A well-developed banking system plays an important role in the economic development of a country. The banking services have become pre-condition for overall development in the modern economy. A country needs adequate and wide-distributed banking services for fast industrialization. Besides providing financial resources, bank can also influence the direction in which these resources are to be utilized for industrialization.

In the developing country like Nepal, not only the banking facilities are limited to a few urban areas, but also the banking activities are limited mostly to trade and commerce. Therefore, a well-developed and diversified banking system is needed giving adequate attention to industry and agriculture. To fulfill this purpose, structural as well as functional reforms in the banking system are needed to enable the banks perform developmental role in the country.

In a modern economy, banks are to be considered not merely as dealer in money, but also the leaders in development. They are not needed only for storing the nation's wealth, but also are needed to provide resources necessary for economic development.

It is the growth of commercial banking in the 18th and 19th centuries that facilitated the occurrence of industrial revolution in Europe. Similarly, the economic progress in the present day largely depends upon the growth of sound banking system in developing countries.

2.1.5 Commercial Bank

The banks which perform all kinds of banking business are known as commercial banks. Generally, commercial banks deal with finance, trade and commerce. Since their deposits are for a short period, these banks normally advance short-term loans to the businessmen and traders. They specially avoid long-term lending. Majority of the commercial banks are in the public sector. They are established with the capital collected issuance of share in public. Hence, the commercial banks are also called joint stock banks. There are many commercial banks established in Nepal such as Nepal Bank, Bank of Kathmandu, and Himalayan Bank etc. Now, there are all together 20 commercial banks operating in the country.

Commercial banking is an entity carrying out the commercial activities either long- term or short- term or both. It is the major component in the financial system. They work as the financial intermediaries between depositors and lenders and facilitate in overall development of the economy with major thrust in industrial development. Commercial banks came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. A sound banking system is important because of the key roles it plays in the economy. Commercial banks also accelerate common people's economic welfare and facility to make available loan to agriculture, industry and commerce and to provide the banking services to the public and the state.

Role of Commercial Banks in Developing Countries:

- i. Mobilizing saving for capital formation.
- ii. Development of industries/ agriculture.
- iii. Increase in employment opportunities.
- iv. Increase in trade.
- v. Help to the consumer.
- vi. Help in monetary policy.
- vii. Proper utilization of domestic resources and etc.

Obviously the banking system in Nepal started with the establishment of NBL. Today we got twenty commercial banks in operation. The commercial banks in Nepal can be categorized into two types the public sector and private sector. Public sector banks consists two old banks. One is NBL and another is RBB. Private sector comprises fifteen banks.

List of Licensed Commercial Banks

Commercial Banks	Established Date(B.S)	Authorized Capital	Head Office	No. of Branch
1.Nepal Bank Limited	1994/07/30	2000 Million	Kathmandu	109
2. Rastriya Banijya Bank	2022/10/10	2000 Million	Kathmandu	113
3. NABIL	2041/03/29	500 Million	Kathmandu	19
4.Nepal Investment Bank Ltd.	2042/11/16	1000 Million	Kathmandu	17
5.Standard Chartered Bank Ltd.	2043/10/16	1000 Million	Kathmandu	12
6. Himalayan Bank Ltd.	2049/10/05	1000 Million	Kathmandu	18
7. Nepal SBI Bank Ltd.	2050/03/23	1000 Million	Kathmandu	18
8. NB Bank Ltd.	2050/02/23	1500 Million	Kathmandu	18
9. Everest Bank Ltd.	2051/07/01	750 Million	Kathmandu	23
10.BOK Ltd.	2051/11/28	1000 Million	Kathmandu	10
11. NCC Bank Ltd.	2053/06/28	1000 Million	Siddharthanagar	15
12. Lumbini Bank Ltd.	2055/04/01	1000 Million	Narayangadh	7
13. NIC Bank Ltd.	2055/04/05	500 Million	Biratnagar	13
14. Machhapuchre Bank Ltd.	2057/06/17	1000 Million	Pokhara	15
15. Kumari Bank Ltd.	2056/08/24	1000 Million	Kathmandu	8
16. Laxmi Bank Ltd.	2058/06/11	1000 Million	Birgunj	10
17. Siddhartha Bank Ltd.	2058/06/12	1000 Million	Kathmandu	7

18 Agriculture Development Bank Ltd.	2024/10/21	2000 Million	Kathmandu	95
19. Global Bank Ltd.	2062/12/15	1500 Million	Kathmandu	5
20. Citizen Investment Bank Ltd.	2063/05/20	1000 Million	Kathmandu	3

Source: Banking and Financial Statistics-2005/06 NRB.

2.1.6 Internet Banking

It is simply doing many of your banking transactions using your PC and the Internet (subject to minimum browser restrictions). No banking hours, no queues. Just banking from wherever you are connected, safely and securely. It's easy, convenient, and best of all; it's available to you anytime.

It's for you if you want to control your account and it's free. Once you've registered and received your membership name and password - you'll find many benefits to banking from home or office or elsewhere.

Features:

- 1) Save time. You don't need to queue at a branch.
- 2) Bank when you want, day and night, where it suits you.
- 3) Take control. Pay bills and check statements instantly.
- 4) Bank with ease, with easy-to-follow processes and a helpdesk.
- 5) Have security with our Online Banking Guarantee.
- 6) Enjoy flexibility.

2.1.7 Universal Banking

Universal banking in general refers to financial institution offering wide varieties of financial services under one roof, e.g., deposit taking, lending, trading of financial instruments, foreign exchange, derivatives trading, underwriting of securities, brokerage, managing public issue, investment management, insurance etc. Therefore, universal banking is the combination of commercial banking and investment banking. The concept of investment banking envisages multiple business activity. If specialized banking is the one end, universal banking is the other. In a very broad sense, however, the term 'universal banking' refers to those banks that offer a wide variety of financial services, especially insurance [Mahat, 2003:16].

2.1.8 Retail Banking

Retail banking business consists like housing loan, vehicle loan and educational loan, personal loan, home appliances loan and like other consumer related loan other than commercial loan. It is also known as consumer lending. It is simply the lending portfolio towards its consumer-based loan. Consumer lending has been a growth and good business area of most of the banks in Nepal. Recent years have shown an upsurge in lending by the banks. Compared to the other sector the rate of default in this sector is low and again all loans are adequately secured.

2.1.9 Factors Responsible for the Advent of Modern Banking

Several arguments can be extended in support of the advent of the modern banking. However, principle phenomenon discussed in the text follows have made environment conducive for the inception of 'modern banking system [Prasikshan, 2003: 154].

1) Organizational Change

The numbers of banks and bank branches have been established as 'mushroom growth' style over the world. Especially, after the financial globalization and liberalization, this trend is in 'acceleration'. This up-shooting expansion in banking business has brought a realization of modernized and dynamic concept of banking in providing the services efficiently and swiftly. In this connection, banks are willingly or unwillingly compelled to reform, renovate and expand their organizational structure and layout.

2) Change in the Nature of Loan Demand

Previously, there was a small volume of credit for small types of businesses and industrial activities. But, after the evolution of 'the theory of division of labor' and 'specialization', there has been a spectacular change in economic activities, and the industrial revolution also took place. Thus, the nature and tendency of lending changed from individual borrowing to corporate borrowing. For this, simple types of appraisals were not sufficient to maintain an appropriate portfolio. For the project/industry/business appraisal, advanced types of programming, different types of financial ratio analysis, credit risk evaluations etc were needed and these factors led the banking system towards modernization.

3) Competition and Protection of Public Interest

This is an age of ‘cut-throat-competition’ than before. There are so many bank commencements, mergers and/or liquidations over the world. This is quite natural in the competitive market on reasonable mark-up with protection of the depositors interest is a main challenge to the banking system. And, this condition virtually invited modernization in the banking system.

4) Responsibility of Reduce Regional Imbalances

Especially after the incarnation of the ‘State Intervention Policy’ with so-called collapse of ‘Classical Theory’, the banks were liable to participate in the government’s programs of reducing sector-wide disparities. Either on the basis of poverty line or the prioritized sub-sectors, banks is to shake hands with poor through finance. Government has had identified diverse mandatory areas to embark upon. In this course, banks are compelled to implement their strategies of credit planning, bank marketing and customer service in such a way that enables them in making trade off between social obligation and business motive. Advent of this type of condition motivated the banking system in the direction of modern outlook.

5) New Innovations and the Technological Changes

The most responsible factor for modernizing the banking system is significant improvements in the technology. Technology has affected all the corners of economic and social system. Previously, there were traditional activities on lending and deposit, but now the nature of those transactions has changed, for example, there were foreign exchange transactions in a controlled terms viz. direct quotation and exchange, but now there are so many types of forward and future transaction (derivative products) with managed floating system. Even in the lending side also, transaction trend has been diverted from individual to syndicate loans and computerized financing. In the part of customer service, there are computerized banking service with Automated Teller Machine (ATM), Electronic Fund Transfers, Electronic Clearing-House, implementation of the concept of ‘Step-at-Door Service’ for deposit collection and loan disbursement. Nature of the transactions is also changed. For example, collateral based lending practices have gradually been replaced by the lending practice based on goodwill, faith, track record, personal guarantee, and project financing. Most of the business transactions are inclined to ‘off balance-sheet’ (non-fund based) nature like guarantee, letter of credit etc [Prasikshan, 2003: 154].

2.1.10 Market Capitalization

Market capitalization is the market value of all the shares issued by the companies in the market. It is the tool which measures how much is the market value of the shares of the company. It is the market value per share of the company is higher, the company is considered as a better company otherwise not.

So, the Market Capitalization = No. Of Shares Issue x Market Value per Share.

Top Five Commercial Banks on the Basis of Market Capitalization:

S. N	Name	Rank
1	Standard Chartered Bank Ltd.	I
2	NABIL Limited	II
3	Himalayan Bank Ltd.	III
4	Everest Bank Ltd.	IV
5	Nepal Investment Bank Ltd.	V

Source: Nepal Stock Exchange, Annual report-2005/06

2.1.11 Comparative Performance Analysis

Management performance can be evaluated through comparative performance analysis. The purpose of bank performance analysis is to evaluate progress towards meeting the goals and objectives set forth by the management and to compare the performance among the similar banks.

Comparative performance analysis can be evaluated through financial statement analysis. It should be evaluated from the prospectus of liquidity, profitability, stability, activity and possibility. Management itself can use those parameters to improve the organizations performance in near future. Comparative performance analysis basically covers the financial analysis.

Performance analysis of a company is directly concerned with financial performance. Since it efficiency is measured by liquidity position in term of solvency, profitability from operations in term of earning power and cash flow generation ability, capital structure position, judgment ability to meet fixed obligations, activity in terms of turnover of assets and over all market value maximization determined by the company's track record of dividend paying ability, retained – earning for re-investment and growth and etc. among various financial

tools, the commonly used tool is ratios that have predictive value to project the success or failure of company by taking the combined effects of ratios [Shrestha, 2004:53].

Management is required to evaluate their performance compared to different periods of its own enterprise or with industry average or with same business nature of other enterprises. Management is interested to know and review about the productivity, profitability, activity, stability, and growth possibility of its own enterprises that can help management to decide the course of action to be taken in future [Dangol & Dangol, 2061:628]. Performance evaluation covers the entire operational areas of the firm. Management performance should be evaluated from the prospective of productivity, profitability, activity, stability and possibility [Bajracharya, et. al. 2004:1033].

Performance measures are analyzed in three groups:

- 1) Profitability ratios measure management's effectiveness by the returns generated on sales revenues and investment.
- 2) Growth ratios measure the firm's ability to maintain its economic position in the growth of the economy and the industries or product markets in which it operates.
- 3) Valuation measures measure the ability of management to achieve market values in excess of cost outlays [Weston and Copeland,1992:191].

2.1.12 Financial Statement Analysis

Financial statements are based on historical accounting information, which reflects the transactions and other events that are affected the firm. The financial statement analysis helps to know strength, weakness, opportunities and threats. To know the financial health of the commercial banks, it is necessary to study their major indicators. A manager in the bank would be interested in the banks overall financial strength, its income and growth potential and the financial affects of pending decisions. A potential lender, such as a bank loan officer would be concerned primarily about the firms' ability to payback the loan. Potential investors would be interested not only has the company's ability to repay its loan obligations, but also its future profited potential. Potential shareholders would want to assess the firm's ability to carry out its operation effectively and meet delivery schedule. Thus the needs of the analyst dictate the sort of financial statement analysis.

The analysis of financial statements is an important aid to financial analysis. The focus of the financial analysis is on key figures in the financial statements and the significant relationship

between components parts of financial statement to obtain a better understanding of the firm's position and performance [Khan & Jain, 2006:4.2].

Interested parties in financial statements analysis are management, investors or shareholders or owner, creditors, employees and trade union, bankers and lenders and Government etc. [Dangol & Dangol, 2061:593]. Financial statement analysis is technique of answering various questions regarding the performance of a firm in the past, present, and the future [Pradhan,2004:45].

Financial Statement

Financial statements provide information about a firm's position at a point in time as well as its operation over some past period. However the real value of financial statements lies in the fact that they can be used to help predict the firms financial position in the future, and to determine expected earnings and dividends from an investors standpoint, predicting the future is what financial statement analysis is all about while from management's standpoint, financial statement analysis is useful both as a way to anticipate future conditions and more important as a starting point for planning actions that will influence the future course of events [Weston & Brigham,1990: 93].

Financial statements are vital sources of information to a company's stakeholders in learning about the financial health of the company and how their respective interest is there by affected [Chitrakar, 2003:8]. Financial statements are prepared primarily for users outside an organization; managers also find their organization's financial statements useful in making decision [Hilton & Ronald, 2002:9.5].

There are primarily four financial statements:

- 1) Balance Sheet
- 2) Income Statements.
- 3) Retained Earning Statement.
- 4) Statement of Cash flows.

1) Balance Sheet

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

2) Income Statement

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

3) Retained Earnings

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

4) Cash Flow Statement

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

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

It is useful in providing information to the users of financial statements about the ability of the enterprise to generate cash and cash equivalents and the need of the enterprise to utilize those cash flows [Wagle & Dahal, 2004:11.1-11.2] .

Importance of Financial Statement Analysis

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

Objectives of Financial Statement Analysis

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

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

LIMITATIONS OF FINANCIAL STATEMENT ANALYSIS

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

- 1) Financial analysis fails to disclose the current worth of the enterprise.
- 2) Financial analysis is based on financial statements, which record historical facts. They do not record the changes in the price level.
- 3) The financial analysis is based on facts and figures contained on financial statements. Hence the limitations of financial statements such as influence of personal judgment, disclose of monetary facts only are the limitations of financial analysis. [Munankarmi, 2002:467]

2.1.13 Analytical Technique Used

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

- 1) Horizontal Analysis.
- 2) Trend Analysis.
- 3) Common- Size / Vertical analysis.
- 4) Ratio Analysis.

Horizontal Analysis

Horizontal analysis is the analysis of financial statements over a series of years. The calculation of changes in absolute amount or percentage changes in the statement item or totals is horizontal analysis [Bajracharya, et. al, 2004:1016].

When the financial statements of previous year along with current year are presented horizontally with added columns to reflect absolutely changes in amount and percentage for each item from the previous year to current year, it forms the horizontal analysis [Wagle & Dahal, 2004:10.2]. For example, assume that the sales figure for the previous year and current year amounts to Rs. 200000 and Rs. 300000 respectively.

Trend Analysis

Trend analysis is nothing more than the extension of horizontal analysis for several years. It is carried out by assigning a value of 100 to the items of base years (year with normal financial and operating environment) financial statements and then expressing the financial statements items in the following years as a percentage of base year value. It is also known as Time Series Analysis [Wagle & Dahal, 2004:10.2].

Trend ratios involve a comparison of the ratios of a firm over time that is present ratios are compared with post ratios for the same firm. Trend ratios indicate the direction of change in the performance – improvement, deterioration or constancy- over the years. [Khan & Jain, 2006:4.2]. Trend analysis is the comparisons over the three or more years [Hilton & Ronald, 2002:920].

Common – Size Statement Analysis

Common size analysis is a vertical analysis. It expresses all items in the statement as percentage of a selected item (the base) in the statement. Financial statement that shows only percentage and no absolute amounts are common- size statements. This is the first step in a comprehensive ratio analysis. Management performance can be evaluated through common-size statement analysis. It should be evaluated from the prospective of liquidity, profitability, and stability, activity & possibility. Management itself can be using these parameters to improve the organization's performance in future. It is also known as vertical analysis. Financial analysts use vertical analysis to gain insight into the relative importance or magnitude of various items on the financial statements [Hilton & Ronald, 2002: 921].

Ratio Analysis

Ratios are the tools for measuring liquidity, solvency, profitability and management efficiency of the firm and it is also equally useful to the internal management, prospective investors, and creditors and outsiders etc. The roles of accounting ratios are very significant to increase the efficiency of the management. As such it is very important tool of management accounting also. An analysis of the firm's ratios generally is the first step in financial analysis. [Weston & Brigham, 1990:93.].Ratio analysis uses financial report and data

and summarizes the key relationship in order to appraise financial performance. The effectiveness will greatly improve when trends are identified, comparative ratios are available and inter-related ratios are prepared" [Munankarmi, 2002:468]. Ratio analysis is widely used tool of financial analysis is fined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two items/variables. The relationship can be expressed as; percentage, fractions and proportion of numbers. Alternative methods of expressing items, which are related to each other, are for the purpose of financial analysis referred to as ratio analysis. A rationale of ratio analysis lies in fact that makes related information comparable. Single figure by itself has no meaning but when expressed in terms of a related figure. It yields significance instances. [Khan and Jain, 1996:60]. Ration analysis is a tool of scanning the financial statements of the firm. Through this one comes to know in which areas of the operation the organization is strong and in which areas it is weak [Bajracharya, et. al. 2001:1017]. Ultimately, Ratio analysis is a tool of scanning the financial statement of the firm.

Nature of Ratio Analysis:

In financial analysis, ratio analysis is used as an index of yardstick for evaluating the financial position and performance of the firm. It is a technique of analysis and interpretation of financial statements. It helps in making decisions as it helps establishing relationship between various ratios and interprets there on. It helps analysts to make quantitative judgment

about the financial position and performance of the firm. Ratio analysis involves the following four steps.

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

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

- 1) Liquidity Analysis.
- 2) Profitability Analysis.
- 3) Activity Ratio Analysis.
- 4) Long-Term Debt and Solvency Analysis.
- 5) Market Value Analysis.
- 6) Other Relevant Ratio.
- 7) NPA Analysis.

2.1.14 Liquidity Analysis/Working Capital Analysis

It measures the adequacy of a firm's cash resources to meet its near term cash obligations. It is pre-requisite for the very survival of firm. Liquidity analysis measures the liquidity position and short-term obligations. "Liquidity is the ability to meet anticipated and contingent cash needs cash needs arise from deposit withdrawals; liability maturity and loan disbursements (new loans and the draw down of outstanding lending commitment cash needs are met any increase in deposits and borrowing loan repayment, investment maturity and the sale of assets" [Scott David, 1992: 140].

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

Cash Reserve Ratio (CRR): CRR measures the ability to meet short-term obligations and reflect the short-term financial strength and solvency of the bank. The cash reserve ratio (CRR) is being used as a prime and effective instrument to inject liquidity to and absorb liquidity from the economy. The CRR, which has been used particularly for last few years to reduce the cost of resources of commercial banks and to manage necessary liquidity in the economy, has been gradually lowered in the neighboring countries as well as the majority of the countries in the world in complement to the prevalent use of indirect monetary instruments and prudential regulatory measures. “In this context, the CRR has been reduced from 6.0 percent to 5.0 percent for FY 2004/05” [Monetary Policy-2004/05, NRB].

2.1.15 Profitability Ratio Analysis

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

Profit is the differences of revenues and expenses over a period of time. Profit is the ultimate output of a company and it will have no future if it fails to make sufficient profits. Therefore the financial manager should continuously evaluate the efficiency of its company. So the profitability ratio measures the net income of the firm relative to its revenue and capital. The following major profitability ratios are calculated to measure the efficiency of banks.

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

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

Return on Assets (ROA): It measures the productivity of the assets. It is a measure in terms of relationship between net profit and assets. The income figure used in computing this ratio should be operating income [Munankarmi 2002:485]. This ratio is calculated by:

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

Interest Income on Loan and Advances: The major source of operating income of any commercial bank is interest income. Among the interest income should, loans and advance and overdraft are the major source of interest income. Investment on government securities and debentures are also the major source of interest income. Interest income to loan and advance ratio shows the high utilization of loan and advances. Higher percentage income reflects better operational efficiency or higher level of risk due to higher volume of investment in loan and advances [Shrestha, 2003: 124]. This ratio is calculated by:

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

Operating Ratio: Operating ratio of banks tries to establish relationship between operating expenses and total income. Operating expenses include administrative expenses, interest on short-term loan, discount allowed and bad debts [Munankarmi 2002:484]. This ratio is calculated as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses}}{\text{Total Income}} \times 100$$

2.1.16 Activity Ratio Analysis

Funds of creditors and owners are invested in various assets to generate sales and profits. The better the management of assets, the larger the amount of sales. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilized its assets. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into sales. Activity ratios, thus involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well several activity ratios can be calculated to judge the effectiveness of asset utilization [Pandey, 1997:119]. Various activity ratios are calculated to find out the degree of effective utilization of resources by the bank.

Credit Deposit Ratio: Loan and advances to total deposit ratio is calculated by dividing total function is to be mobilize the funds from the depositors to the borrowers. To measure the activity position of commercial banks, loan and advances to total deposit ratio is calculated [Shrestha, 2003: 96]. This ratio is calculated by

$$\text{Credit Deposit Ratio} = \frac{\text{Total Loan and Advances}}{\text{Total Deposit}} \times 100$$

2.1.17 Long-term Debt & Solvency Analysis

It is also known as leverage or capital structure ratio. Solvency analysis may be defined as financial ratios, which through light on the long-term solvency of a firm reflected in its ability to assure the long-term creditors with regard to (a) periodic payment of investors during the period of loan and (b) payment of principal on maturity or in predetermined installments at due dates. There are aspects of the long-term solvency of the firm.

- 1) **Ability to repay the principal when due and**
- 2) Regular payment of the interest [Khan & Jain, 1996:98].

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

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

As per the directions of NRB, the commercial banks must maintain minimum percentage of adequacy of capital fund on risk weighted assets of me bank. NRB has provided a risk of on

balance that and off-balance sheet of assets with risk rates on the basis of which commercial bank should calculate risk weighted assets. As per the directive of NRB in the 2003/04, commercial bank must maintain minimum 11.00% total capital fund and 5.50% core capital on risk weighted assets. But in recent year, Capital Adequacy Ratio (CAR) to be maintained by the banks and financial institutions on the basis of risk-weighted assets (RWA) will be continued at 11.0 percent, with core capital at 5.5 percent, for FY 2004/05 in place of the previously fixed ratio of 12.0 percent. [Monetary Policy-2004/05, NRB]. The ratio of core capital, supplementary capital and total capital fund on risk weighted assets in case of the banks has been found as follows:

a. Core Capital: It is the combination of paid up capital, share premium, non-redeemable preference share, general reserve fund and retained earnings of bank.

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

c. Total Capital Fund: It is the addition of core capital and supplementary capital [Panta, 2005: 63].

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

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

$$\text{Interest Expenses to Total Deposit Ratio} = \frac{\text{Interest Expenses to Total Deposit Ratio}}{\text{Total Deposits}} \times 100$$

2.1.18 Market Value Analysis

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

investors think of the company/banks past performance and future prospectus. If the firm's liquidity, asset management, debt management and profitability ratios are all good then its market value ratio will be high and its price will be probably be as high as can be expected [Weston & Brigham, 1996:104].

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

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

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

$$\text{Earning Per Share} = \frac{\text{Net Profit after Tax - Preference Dividend}}{\text{No. of Equity Shares Outstanding}} \times 100$$

Price-Earning Ratio: Price-earning ratio is widely used by the security analyst to value the firm's performance as expected by investors. It reflects investors' expectation about the firm's growth in the firm's earning. This ratio measures investors' expectations and the market appraisal of the performance of the firm [Munankarmi, 2002: 490]. Price-Earning Ratio shows how much investors are willing to pay per dollar of reported profits [Westom & Brigham, 1996: 296]. This ratio is calculated as follows:

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

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

Cash Dividend on Share Capital: The amount of earning distributed and paid as cash dividend is considered as the cash dividend on share capital or dividend per share. The net profit after taxes belongs to the equity shareholders [Munankarmi, 2002:489]. This ratio is

computed by dividing the amount of dividend distributed to shareholders by the number of common shares outstanding. It may be expressed as under:

$$\text{Dividend Per Share} = \frac{\text{Earning/Dividend Paid to Shareholders}}{\text{Number of Equity Shareholders}} \times 100$$

2.1.19 Other Relevant Ratios

To measure commercial bank's performance it is necessary to study other relevant ratios too.

This ratio includes:

- 1) Staff Expenses to Total Operating Expenses.
- 2) Staff Bonus to Total Staff Expenses.
- 3) Weighted Average Interest Rate Spread.
- 4) Exchange/Fx-fluctuation gain to Total income.

Staff Expenses to Total Operating Expenses Ratio: Staff expenses to total operating ratio are the contribution of total staff expenses in total operating expenses. It is concluded that higher ratio means the bank has provided better salary and other allowances. It is also the sign of highly motivated staff. [Panta, 2005: 60]. On the other hand, the high ratio affects the net profit. This ratio is calculated as follows:

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

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

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

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

$$\text{Interest Rate Spread} = \text{Interest Rate on Lending} - \text{Interest Rate on Deposits}$$

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

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

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

2.1.20 Non-Performing Asset

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

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

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

Causes of NPA in Nepalese Commercial Banks

- 1) Lack of proper analysis of loan and advances.
- 2) Lack of clear lending policy.
- 3) Lack of good governance in debt management inside the bank.
- 4) Overall economic crisis in the country.
- 5) Weakness in consortium financing.

- 6) Lack in internal control and auditing system.
- 7) Lack of proper supervision of central bank.
- 8) Bad intention of borrowers.

New NRB Directives on Classification of Loan and Provisioning

Nepal Rastra Bank has issued Unified Directives to bank and financial institution for implementation effective 2062.4.1 (16 July 2005). This also contains the new directive (No.2) concerning classification of loan portfolios and provisioning. Except a few important changes, this directive has retained most of the provisions.

Classification of Loan and Advances

The classification criteria are as follows:

- 1) PASS category: all loans and advances the principal of which are not past due or past due for a period up to 3 (three) months. Only loans falling under PASS category are termed as "Performing Loan".
- 2) SUBSTANDARD category: all loans and advances the principal of which are past due for a period of more than 3 months and up to 6 months.
- 3) DOUBTFUL category: all loans and advances the principal of which are past due for a period of more than 6 months and up to 1 (one) year.
- 4) LOSS category: All loans and advances the principal of which are past due for a period of more than 1 (one) year.

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

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

Loan Loss Provisioning

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

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

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

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

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

Loan loss provisioning on rescheduled/ restructured sick industries recommended by sick industry preliminary Enquiry and Recommendation committee, upon recovery of minimum 12% outstanding interest is fixed at minimum 25% (upper limit is not prohibited though). The only concession provided this case is rescheduling is made possible against collection of 12% interest (in other case, it is 25%). At the some time, the provisioning is required at minimum 25% (in other cases it is 12.5%).

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

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

by the insurance (presumably with Deposit Insurance and credit Guarantee Corporation) fall under normal category. The norms of classification remain same for these loans and advances also.

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

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

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

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

Effect of NPA on Profitability of the Bank:

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

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

2.2 Review of Previous Research work

Resta Jha (1998) has conducted a research on a topic “Comparative Analysis of Financial Performance of the Selected Joint Venture Banks”. Mr. Jha has mainly focused his research in examining different financial ratios of four commercial banks namely NABIL, NIBL, NGBL & HBL. The main objectives of his study were: to analyze and compare the liquidity, profitability, stability and market value positions among commercial banks.

Time Period covered by the research was five years from fiscal year 1993/94 to 1996/97. Necessary data and other informational had been collected mainly from secondary sources of data. In this research, Mr. Jha had pointed out various findings some conclusions and recommendations of the research work were:

ROA of NIBL was highest as compared to other sample banks respectively. Return on total deposit was also highest in case of NIBL. Interest earned on total assets was also highest in case of NIBL. However return on net worth or shareholders fund was highest in case of HBL. Ultimately profitability of NIBL had better results expect in case of return on net worth.

Current, cash and bank balance to deposit ratio found that NIBL s current ratio at the end of FY 1996/1997 stood highest as compared to other banks.

Among the analysis of leverage ratio (total debt to total asset ratio, long-term debt to total asset ratio, total debt to net worth ratio & long –term debt to net worth ratio), the total debt to total assets ratio was above 85 percentage for all the selected banks during 1996-1997, which signifies the excessive use of debts or outsider fund to finance total assets.

- It is recommended to selected banks to effective utilization of total fund (assets) so as to make more profitability.

- Interest income on loan and advances is at satisfactory, so it is recommended to give continuity as previous.
- It is recommended to selected bank to pay more attention towards exchange of foreign currencies. It will give contribution to total income too.

Bhoj Raj Bohara (1994) had conducted a research on a topic “Financial Performance of NABIL & NIBL.” The basic objectives of his study/research were to highlight the financial performance and role of joint venture banks in the liberalized Nepalese Economy. His attempts of analyzing financial performance were concentrated in ratio analysis and he derived the strength and weakness of two banks. Some remarkable suggestions/recommendations of the research were:

Banks need to balance between disbursing cash dividend and issuing of bonus share.

They need to increase operational profit by concentrating in consistent earnings rather than fluctuating earnings.

They need to maintain liquidity in the form of CRR as per regulation of NRB.

- To meet short-term obligations, it is strongly recommended to selected bank to maintain CCR as per the directives of central bank. Other wise it will suffer from liquidity crunch and will lose creditors confidence.
- Interest income on loan and advances is at satisfactory, so it is recommended to give continuity as previous.

Besides these suggestions, he had emphasized in small entrepreneurs development programmers, branch expansion, and mobilization of deposits in the productive sectors.

Brinda Shrestha (2003) had conducted a research on a topic “A Comparative Analysis of Financial Performance of the Selected Joint Venture Banks.” her mainly objectives were to comparative examining the overall performance of NABIL, HBL and NB Bank through financial analysis.

Time period covered by the research was five years from 1997/1998 to 2001/2002. Necessary data and other information had been collected mainly from the secondary sources of data. Some remarkable findings, conclusions and recommendations of the research were:

- Liquidity analysis indicates better liquidity position of NB Bank. Although liquidity position of HBL and NABIL are lower, they were still able to meet their current obligations.

- ❑ Activity/ Turnover analysis indicated that the loan and advance to total deposit and to saving deposit ratio of NB Bank was the highest with NABIL in the second place while that of HBL was the least. This implied NB Bank was efficiently utilizing its deposit on loan and advances.
- ❑ Leverage/Capital Structure analysis indicated the long-term debt to net worth ratio of NB Bank was the highest and NABIL was the lowest. An unbalanced capital structure was the common situation in all the commercial banks. The banks were using excessive debt capital.
- ❑ Capital adequacy ratio calculated for these banks below the prescribed ratio by NRB.
- ❑ Profitability of these banks were reflected by the determination of return on investment, return on shareholders equity, interest earned to total assets ratio, interest income to interest expenses ratio.
- ❑ The market value ratio such as price –earning ratio and dividend payout ratio of NABIL was the highest and HBL was the second highest.
 - It is recommended to HBL and NABIL to effective utilization of total fund (assets) so as to make more profitability.
 - Both banks strongly recommended maintaining capital adequacy ratio as per the directives of central bank.

Gopal Prasad Ghimire (2003) had conducted a research on a topic “Financial Performance of Commercial Banks: A Comparative Case Study of NB Bank, HBL and EBL.” He had mainly objective of his study in examining the financial performance of those three banks such as profitability, liquidity, activity, and capital structure analysis.

Time period covered by the research was five years from 1996/97 to 2001/02. Necessary data and other information were primarily based on secondary data such as annual reports and other related journals and books etc. In this research, Mr. Ghimire had pointed out various findings, conclusions and recommendations.

- ❑ The liquidity position of banks was not satisfactory.
- ❑ The HBL was more efficient in utilizing the deposits in loans and advances or other more profit - generating sectors.
- ❑ The banks did not do a lot of exercises in more credit creation and reducing the interest rate for loan and advances for more competitiveness.
- ❑ The banks did not maintain the CRR as per NRB directives.

- The EPS of HBL had been rapidly decreasing over the period. However the EPS of another two banks were in increasing trend.
 - It is recommended to selected banks to effective utilization of total fund (assets) so as to make more profitability.
 - Interest income on loan and advances is at satisfactory, so it is recommended to give continuity as previous.
 - It is recommended to selected bank to pay more attention towards exchange of foreign currencies. It will give contribution to total income too.

Ganesh Prasad Awasthi (2003) had conducted a research on a topic “A Comparative Study on Financial Performance between HBL and Bank of Kathmandu LTD.” He had mainly objectives of his study in examining financial performance of two banks i.e. HBL & Bank of Kathmandu.

Time period covered by the research was five years from 1997/98 to 2001/02. The research was primarily based on the information provided by the banks. In this research, he had pointed out various findings, conclusions and recommendations:

- The bank had not pay attention towards the improvement in investment by total deposit ratio. They had not found out the new area of investment.
- Profitability ratio in both banks such as return on investment and return on total assets were not satisfactory.
- Both banks seemed highly leveraged.
- Both banks had been able to earning profit on shareholders equity but not satisfaction level. HBL was more success to generate more return on its shareholders fund than BOK.
- Profitability position: Return on investment comparatively decided that HBL may have idle deposit due to the lower return as compared to BOK.
- Asset utilization: HBL has been efficient in utilizing most part of its total assets in profit generating purpose than BOK during the period.
- The liquidity position of the both banks was not satisfactory.
 - To meet short-term obligations, it is strongly recommended to selected bank to maintain CCR as per the directives of central bank. Other wise it will suffer from liquidity crunch and will lose creditors confidence.

- Interest income on loan and advances is at satisfactory, so it is recommended to give continuity as previous.

Prasun Acharya (2003) had conducted a research on a topic. “A Comparative Study on Financial Performance of Nepal SBI Banks and Everest Bank Ltd”. He had mainly objectives of his study to examining financial performance of those banks through profitability, liquidity, and activity analysis.

Time period covered by the research was five years from fiscal year 052/53 to 056/57. Necessary data and other information were primarily based on secondary data. In this research Mr. Acharya had pointed out various findings, conclusions and recommendations.

- ❑ They had not given a special attention towards NPA.
- ❑ Both banks had higher operating expenses.
- ❑ Both banks had not found out the new productive sectors for their investment purpose.
- ❑ Both banks had not given attention towards attracting new deposits.
 - It is recommended to both bank to pay more attention towards interest rate spread.
 - It is recommended to selected bank to pay more attention towards exchange of foreign currencies. It will give contribution to total income too.

Bhusan Prasad Gupta (2004) had conducted a research on a topic “Financial Performance Analysis of Everest Bank Ltd.” He had mainly objectives of his research to examining the technique of financial analysis such as liquidity, activity, profitability ratios of EBL.

Time period covered by the research was five years from fiscal years 1997/98 to 2001/2002. Necessary data and other information had been collected from the secondary and primary sources of data. In this research, Mr. Gupta had pointed out various findings. Some remarkable findings and recommendations of the research were:

- ❑ The banks liquidity position is below the normal standard and also inconsistency in liquidity policy.
- ❑ The EBL should utilize its risky assets and shareholders fund to gain profit margin. Similarly it should reduce its expenses and should try to collect cheaper fund being more profitable.
- ❑ EBL should be encouraging the small depositors for promoting small investors.

- Return on equity is found unsatisfactory, as it has not efficiently utilized its equity capital.
 - To meet short-term obligations, it is strongly recommended to selected bank to maintain CCR as per the directives of central bank. Other wise it will suffer from liquidity crunch and will lose creditors confidence.
 - Interest income on loan and advances is at satisfactory, so it is recommended to give continuity as previous.
 - It is recommended to selected bank to pay more attention towards exchange of foreign currencies. It will give contribution to total income too.

Govind Ghimire (2005) had conducted a research on a topic “Non Performing Assets of Commercial Banks: Cause and Effect.” he had mainly focused his research in analyze and identify the impact, cause and consequences of NPA of commercial banks namely NBBL, Nepal SBI Bank and BOK.

Time period covered by the research was five years from fiscal year 1997/98 to 2001/02. Necessary data and other information were collected from secondary sources of data. In this research Mr. Ghimire had pointed out various findings, conclusions and recommendations:

- There is positive growth of operating profit maintained by all the samples banks but the growth of net profit is negative due to increase in loan loss provisioning.
- It is found that there is some relationship between credit expansion and increment of NPA. NBA (Non-Banking Assets) is created due to having NPA. But it is not certain that NPA always creates NBA.
- In regard to the creation of high level of NPA, it has been found that relationship of borrowers with top management is the major determining factor in lending. Commercial banks are giving least weight on personal integrity of the borrower. Follow up of overdue loan and advances in commercial banks starts one month later after the maturity of the loan. It proves the poor loan recovery system in those banks.
- Bad intention of borrower, weak monitoring and mis-management are the most responsible factor of NPA growth. Similarly weak legal provision and credit concentration are found as the least preferred factor in turning good loan to bad loan. Lack of portfolio analysis, not being effective credit policy and shortfall on security were also identified as factors affectively in NPA growth.

- Supervision and monitoring system have been identified as average factor. It is also identified that banks give highest priority to trade found that the service sector is not given much priority.
 - To meet short-term obligations, it is strongly recommended to selected bank to maintain CCR as per the directives of central bank. Other wise it will suffer from liquidity crunch and will lose creditors confidence.
 - Interest income on loan and advances is at satisfactory, so it is recommended to give continuity as previous.

Yug Basnet (2005) had conducted a research on a topic “A Comparative Study on Financial Performance between the Commercial Banks.” The study had covered only two banks i.e. NB Bank and Nepal SBI Bank. He had mainly focused on his study in examining the financial performance of these two banks.

Time period covered by the research was five years from fiscal year 1998/99 to 2002/03. Necessary data was primarily based on secondary sources of data. In this research, Mr. Basnet had pointed out some remarkable findings:

- Liquidity analysis indicated the banks did not maintain sufficient liquidity.
- The efficiency analysis showed that the ratio is in fluctuating trend of Nepal SBI Bank and decreasing trend of NB Bank.
- The profitability position of NB Bank was comparatively better than the same of Nepal SBI Bank.
- Capital structure ratio of both banks was highly levered.
 - Interest income on loan and advances is at satisfactory, so it is recommended to give continuity as previous.
 - It is recommended to selected bank to pay more attention towards exchange of foreign currencies. It will give contribution to total income too.

Ishwori Prasad Panta (2005) had conducted a research on a topic “A comparative study of Everest Bank Ltd. and Nepal Industrial and Commercial Bank Ltd.” He had mainly objectives on his study in comparing and analyzing liquidity, profitability, solvency and activity ratio analysis as well as so other major ratio such as weighted avg. interest rate spread Fx-fluctuation gain to total income ratio etc.

Time period covered by the research was six years data from FY 1998/99 to 2003/04. Necessary data and other information had been collected from the secondary sources of data. In this research, Mr. Panta had pointed out various remarkable findings recommendations were:

- ❑ CRR of the banks were maintained as per the directive of NRB.
- ❑ Both banks had maintained NRB balance to deposit ratio remarkably higher than the standard prescribed by the NRB.
- ❑ They should encourage to small, medium and large scale organizations to avail their services.
- ❑ Both banks were suggested to review their overall capital structure and investment portfolio to make better mix in capital structure as well as investment portfolio.
- ❑ Both banks were maintaining lower capital adequacy ratio. The net worth to total assets, net worth to total deposit and net worth to total credit ratio also seemed less satisfactory.
 - It is recommended to selected banks to effective utilization of total fund (assets) so as to make more profitability.
 - Interest income on loan and advances is at satisfactory, so it is recommended to give continuity as previous.
 - It is recommended to selected bank to pay more attention towards exchange of foreign currencies. It will give contribution to total income too.

2.3 Research Gap

There were gap between the present research and past research. Previous research conducted generally on comparative financial analysis of two banks. In some cases, there was also found the comparative financial analysis of maximum of four banks without any ranking criteria. Those analyses expressed all items in the statement in the form of amount. The previous researches did not disclose the practical comparative analysis which is plasticized by the commercial banks. Thus to fulfill this gap the present research is conducted. It covers top five commercial banks from the source of NEPSE and SEBO/N. The analysis based on expressing all items in the statement as a percentage. This may be probably the first.

Due to the less contribution on research study, what sort of analysis of financial performance practice exists in commercial banks are almost unknown. So, it is felt that there is a need to

carry out a study concerning the financial performance of commercial banks. In this study, researcher has tried to spare his contribution to commercial banks for providing additional insights to this sector.

This study will be fruitful to those interested persons, scholars, researcher, students, teachers, businessman, banks and government for academically as well as policy perspectives.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology describes the methods and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps (along with a rationale of each step) to be adopted by a researcher in studying a problem with certain objectives. Thus the overall approach to the research is presented in this chapter. This chapter consists of research design, population and sample, data collection procedure and data processing and tools for analysis.

3.1 Research Design

A research design is the arrangement of condition and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In other words, research design is the plan, structure and strategy of investigation. It is a blueprint for the collection measurement and analysis of data. "Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from the writing the hypothesis and their operational implications to the final analysis of data." [Kerlinger 1986:275]

This research work tried to analyze the comparative performance of commercial banks in the present e-generation. The research followed analytical and descriptive research design. The study was based on financial data provided by the concerned banks i.e. the data became secondary sources to the research work. Only top five commercial banks took in to account which represent almost same strategic group. Comparative data of commercial banks presented in such a way, so as to make the research informative to the readers. Financial as well as Statistical tools were used to analyze and interpret.

3.2 Population and Sample

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

- 1) Standard Chartered Bank Nepal Ltd.
- 2) NABIL

- 3) Himalayan Bank Ltd.
- 4) Everest Bank Ltd.
- 5) Neal Investment Bank Ltd.

3.3 Sources of Information/Data Collection Procedure

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

Primary Sources of Data: This study was mainly based on secondary data. In some cases the responses from the administrative officers, the selected clients of commercial banks, and responses from the general public were also conducted wherever required.

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

- Annual reports of the concerned banks and NEPSE.
- Related websites of concerned banks.
- Economic survey, Ministry of Finance.
- NRB Samachar, NRB Directives.
- Bank and Financial Institution Ordinance 2064.
- Banking and Financial Statistics of NRB.
- Survey, reports, journals issued by NRB.
- Book related to Financial Performance Analysis.
- Previous Dissertations.
- News paper, Journals and Business magazines.

3.4 Data Processing and Presentation Procedure

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

3.5 Tools for Analysis and Presentation

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

Financial Tools:

Various financial tools were used to measure the strength and weakness of commercial banks. In addition, Non – Performing Asset and Weighted Average Interest Rate Spread has also studied under the research work.

b. Liquidity analysis

- i. CRR.

c. Solvency analysis

- i. Capital adequacy ratio.
- ii. Interests expenses to total deposit ratio.

d. Profitability analysis

- i. Net profit to total income ratio.
- ii. Return on assets.
- iii. Interest income on loan and advances.
- iv. Operating ratio.

e. Activity or Turnover analysis

- i. Loan and advances to total deposit ratio.
- f. Market Value analysis**
 - i. Per share income.
 - ii. Market value per share.
 - iii. P-E ratio.
 - iv. Cash dividend in share capital.
 - v. Dividend in share capital (including bonus)
- g. Other relevant ratios analysis**
 - i. Staff expenses to total operating expenses.
 - ii. Staff bonus to total staff expenses.
 - iii. Weighted average interest rate spread.
 - iv. Fx- Fluctuation gain to total income.

Statistical Tools

Arithmetic Mean: Arithmetic Mean of a given set of observations is the sum of the observation divided by the number of observations. In such a case all the items are equally important. Simple Arithmetic Mean is used in this study as per necessary for analysis.

We have,

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

Where,

X = Sum of all values of the observations.

n = Number of observations.

X = Values of variables.

Standard Deviation: The standard deviation usually denoted by the letter Sigma (σ). Karl Pearson suggested it as a widely used measure of dispersion and is defined as the given observations from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation, in this study has been used to measure the degree of fluctuation of interest rate and that of other variables as per the necessity of the analysis [Gupta, 2002:238].

We have,

$$\text{Standard deviation} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

Coefficient of Variation (C.V.): The relative measure of dispersion based on standard deviation is called coefficient of Standard deviation and 100 times coefficient of Standard deviation is called coefficient of Variation. It is denoted by C.V. Thus,

$$C.V. = \frac{\text{Standard deviation}}{\bar{X}} \times 100$$

Where,

Standard deviation

\bar{X} = Mean value of variables

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

Analysis of Variance Test (F-Test): The analysis of variance is used to test whether the difference between the means of three or more populations is significant or not [Shrestha and Silwal, 2057:261]. So, the researcher used F-test i.e. one-way ANOVA to find out differences among the sample means.

One-way ANOVA: The calculations of SSC, SSW and degree of freedom have been made, these figures can be presented in a sample table called analysis of variance table or simply one-way ANOVA table, as follows:

$$SSW = SST - SSC$$

Where,

SSW = Sum of square within sample

SST = Total sum of square

SSC = Sum of square between sample

Degree of freedom between columns = k-1

Degree of freedom total number = N-1

One -Way ANOVA Table

Source of Variations	Sum of Square	Degree of Freedom	Mean Sum of Square	F Ratio
Between Samples (treatments)	SSC	k-1	$MSB = \frac{SSC}{k-1}$	$F = \frac{MSB}{MSW}$
Within samples (errors)	SSW	N-k	$MSW = \frac{SSW}{N-k}$	
Total	SST	N-1		

Since $F_{cal} < F_{tab}$, H_0 is accepted, otherwise rejected.

Where,

MSB = Mean Sample Between

MSW = Mean Samples Within

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

For better understand and presentation financial cum statistical tools was used. Tables were based on data provided by concerned banks and charts were also created according the related table. In this chapter, Liquidity, Profitability, Activity, Solvency and NPA analysis was mainly conducted.

4.1 Liquidity/Working Capital Analysis

Commercial banks need liquidity to meet loan demand and deposit withdrawals. Liquidity is also needed for the purpose of meeting Cash Reserve Ratio (CRR) requirements prescribed by NRB. The commercial bank should ensure that they do not suffer from the liquidity crunch and also that it is not too much highly liquid. The failure of the bank to meet its cash obligation due to lack of sufficient liquidity will result bad credit image and loss of creditors confidence.

A very high degree of liquidity is also bad; idle or non-performing assets earn nothing. Therefore it is necessary to strike a proper balance between liquidity and lack of liquidity. So, an attempt has been made to analyze and interpret financial data of the subject matter in sequential order.

4.1.1 Cash Reserve Ratio

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

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

Table 4.1: Comparative Review of CRR

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	10.76	9.87	9.07	9.46	8.77	9.59	0.69	7.24
NABIL	%	5.13	6.78	8.51	6.87	3.83	6.22	1.61	25.79
HBL	%	11.77	11.69	8.30	8.28	7.86	9.58	1.76	18.40
EBL	%	2.40	3.20	2.04	1.60	1.90	2.23	0.55	24.68
NIBL	%	9.32	11.16	10.11	9.19	9.78	9.91	0.71	7.11
Mean		7.88	8.54	7.61	7.08	6.43			
Std. Deviation		3.55	3.17	2.85	2.89	3.03			
CV		45.10	37.09	37.51	40.76	47.20			

Source: Annual Report, 2001/02 to 2005/06

From the computation, the average CRR of SCBNL, NABIL, HBL, EBL and NIBL is 9.59, 6.22, 9.58, 2.23 and 9.91 respectively. Similarly, the CV of SCBNL, NABIL, HBL, EBL, and NIBL is 7.24, 26.79, 18.40, 24.68 and 7.11 respectively. This shows that the average CRR of SCBNL, HBL, and NIBL is almost same. But average CRR of EBL is 2.23 which are less than 5%. It means EBL was unable to maintain the CRR as per the directives. On the basis of CV, it indicates that the value of NIBL is more consistent due to lower CV than others. Similarly, from the computation of combined mean of different banks, the average CRR in 2005/06 is 6.43 i.e. greater than 5%. It means in the year of 2005/06, all banks were maintained as per the directives of NRB.

Test of Hypothesis

Null Hypothesis: $H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5$ i.e. there is no significant difference in CRR among five different banks.

Alternative Hypothesis: $H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$ i.e. there is significant difference in CRR among five different banks in different years.

Level of significance = 5%

Test Statistics: The test is based on significance of CRR among five different banks in different years. Therefore, we use one-way ANOVA.

Table 4.2: One-Way ANOVA Table

Source of Variation	Sum of Squares	D.F.	Mean Sum of Squares	F-Ratio
Between Sample	228.55	5-1 = 4	$\frac{228.55}{4} = 57.14$	$F = \frac{57.14}{1.8635} = 30.66$
Within Sample (Error)	37.27	20	$\frac{37.27}{20} = 1.8635$	
Total	268.82	25-1 = 24		

Critical Value: The tabulated value of F at 5% level of significance for 4 and 20 degree of freedom (d.f.) is 2.87.

Decision: Since calculated F (30.66) is greater than the tabulated F (2.87). The null hypothesis H_0 is rejected and hence the alternative hypothesis H_1 is accepted. Therefore, we concluded that there is significant difference in the CRR among five different banks in different years.

4.2 Profitability Analysis

Profitability measures the success of the banks in terms of profit margin, return on assets, return on loan and advances and reflects the overall efficiency and effectiveness of management. The operating efficiency of the bank and its ability to ensure adequate return to its shareholders depends ultimately on the profit earned by the bank. “Sufficient profits must be earned to sustain the operation of the banks to be able to obtain fund from the investors for expansion and growth and to continue towards the social overheads for welfare of the society”. [Pandey, 1997:124]. Thus profitability ratios are computed to measure the efficiency of the banks. So, an attempt has been made to analyze and interpret financial data of the subject matter in sequential order.

4.2.1 Net Profit Margin

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

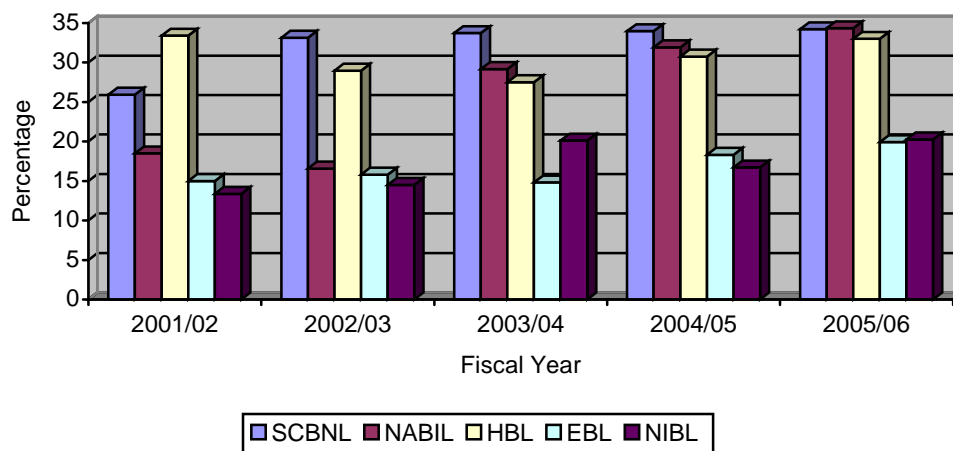
Table 4.3: Comparative Review of NPM

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	25.92	33.12	33.71	33.95	34.21	32.18	3.15	9.79
NABIL	%	18.50	16.57	29.16	31.92	34.33	26.10	7.20	27.61
HBL	%	33.39	28.96	27.51	30.75	32.98	30.72	2.26	7.37
EBL	%	15.00	15.80	14.80	18.30	19.90	16.76	2.00	11.96
NIBL	%	13.38	14.50	20.12	16.71	20.26	16.99	2.82	16.60
Mean		21.24	21.79	25.06	26.33	28.34			
Std. Deviation		7.45	7.69	6.74	7.29	6.76			
CV		35.09	35.31	26.91	27.70	23.85			

Source: Annual Report, 2001/02 to 2005/06

From the computation using scientific calculator, the average Net Profit Margin of SCBNL shows higher value than other banks i.e. 32.18. The average NPM of NABIL, HBL, EBL, AND NIBL seems 26.10, 30.72, 16.76, and 16.99 respectively. It indicates that HBL also able to get satisfactory profit margin than other banks whereas NABIL occupied 3rd position. Considering the above table, the average NPM of SCNL and HBL is almost same i.e. same satisfactory level. Similarly from the computation of combined mean of different banks, the average net profit margins are 21.24, 21.79, 25.06, 26.33 and 28.34 respectively. It shows that the banks had earned greater net profit in the year of 2005/06. At the same period, such ratio is seemed more consistent than other period too. So the considering the above table, it is concluded that such ratio has increasing nature from 21.24 to 28.34. Of course this is good sign for profitability point of view. Figure 4.1 makes it more obvious.

Figure 4.1: Net Profit Margin



The above chart shows that the Net Profit Margin of SCBNL is increasing slightly. Similarly NABIL is also showed increasing trend after the year of 2003/04. But the remaining banks show fluctuations in NPM.

Test of Hypothesis

Null Hypothesis: $H_0: \mu_1=\mu_2=\mu_3=\mu_4=\mu_5$ i.e. there is no significant difference in net profit margin among five different banks.

Alternative Hypothesis: $H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4 \neq \mu_5$ i.e. there is significant difference in net profit margin among five different banks in different years.

Level of significance = 5%

Test Statistics: The test is based on significance of net profit margin among five different banks in different years. Therefore, we use one-way ANOVA.

Table 4.4: One-Way ANOVA Table

Source of Variation	Sum of Squares	D.F.	Mean Sum of Squares	F-Ratio
Between Sample	1084.32	5-1 = 4	$\frac{1084.32}{4}, = 271.08$	$F = \frac{271.08}{19.63}$ $= 13.81$
Within Sample (Error)	392.69	20	$\frac{392.69}{20}, = 19.63$	
Total	1477.01	25-1 = 24		

Critical Value: The tabulated value of F at 5% level of significance for 4 and 20 degree of freedom (d.f.) is 2.87.

Decision: Since calculated F (13.18) is greater than the tabulated F (2.87). The null hypothesis H_0 is rejected and hence the alternative hypothesis H_1 is accepted. Therefore, we have concluded that there is significant difference in the net profit margin among five different banks in different years.

4.2.2 Return on 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 business there by indicating effective use of the resources available and vice-versa.

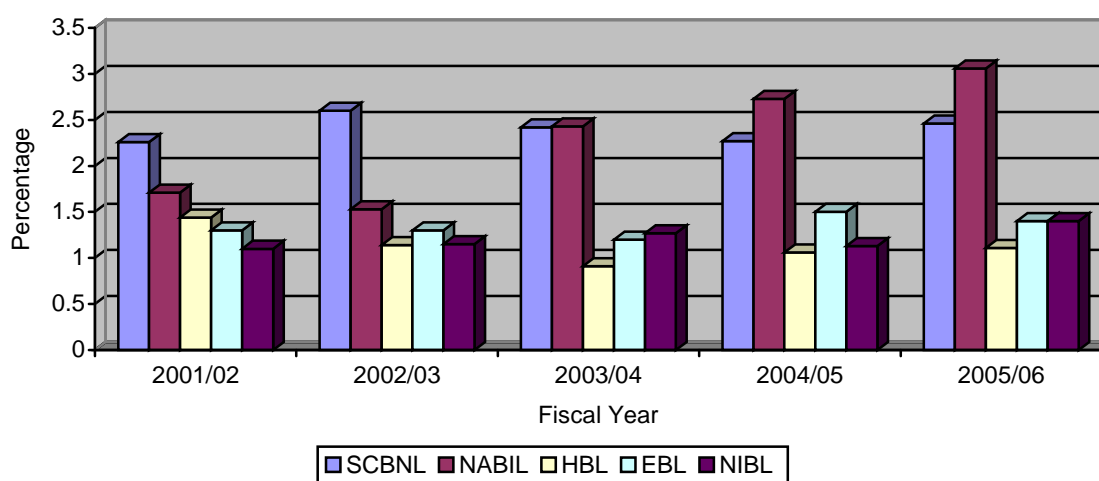
Table 4.5: Comparative Review of ROA

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	2.26	2.60	2.42	2.27	2.46	2.40	0.13	5.28
NABIL	%	1.71	1.53	2.43	2.73	3.06	2.29	0.59	25.59
HBL	%	1.44	1.14	0.91	1.06	1.11	1.13	0.17	15.29
EBL	%	1.30	1.30	1.20	1.50	1.40	1.34	0.10	7.61
NIBL	%	1.10	1.15	1.27	1.13	1.40	1.21	0.11	9.19
Mean		1.56	1.54	1.65	1.74	1.89			
Std. Deviation		0.40	0.55	0.65	0.66	0.75			
CV		25.71	35.40	39.33	37.76	39.55			

Source: Annual Report, 2001/02 to 2005/06

From the computation using scientific calculator, the average ROA of SCBNL shows higher value than other banks i.e. 2.40. The average ROA of NABIL, HBL, EBL, and NIBL seems 2.29, 1.13, 1.34, and 1.21 respectively. It indicates that SCBNL able to get effective use of resource available. Similarly, from the computation of combined mean of different banks, the average ROA is 1.56, 1.54, 1.65, 1.74 and 1.89 respectively. The table shows that the banks had earned greater ROA in the year of 2005/06. On the basis of CV, the ratio seems more consistent in the year of 2001/02. So considering the above table, it is concluded that such ratio has increasing nature from 1.56 to 1.89. Of course it is good sign for assets utilization point of view in terms of profit. Figure 4.2 makes it more obvious.

Figure 4.2: Return on Assets



The above chart shows that the ROA of NABIL is increasing slightly from the year of 2002/03. Similarly, NIBL also showed increasing trend except 4th year. Remaining banks show fluctuate nature in ROA.

4.2.3 Interest Income on Loan and Advances

Interest income is the major source from the total loan and advances that earned high rate of interest income. It shows the high utilization of loan and advances.

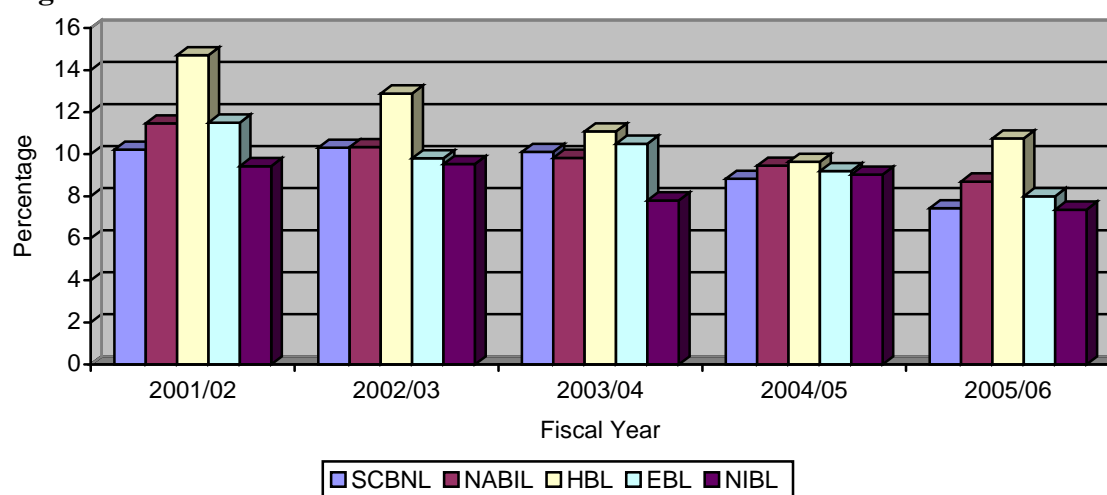
Table 4.6: Comparative Review of Interest Income on Loan and Advances

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	10.22	10.31	10.11	8.83	7.43	9.38	1.11	11.88
NABIL	%	11.46	10.34	9.83	9.45	8.70	9.96	0.92	9.27
HBL	%	14.71	12.89	11.08	9.64	10.75	11.81	1.79	15.11
EBL	%	11.50	9.80	10.50	9.20	8.00	9.80	1.18	12.06
NIBL	%	9.43	9.53	7.80	9.03	7.36	8.63	0.88	10.25
Mean		11.46	10.57	9.86	9.23	8.45			
Std. Deviation		1.80	1.20	1.11	0.29	1.25			
CV		15.71	11.33	11.29	3.13	14.77			

Source: Annual Report, 2001/02 to 2005/06

From the computation using scientific calculator, the average Interest Income on Loan and Advances of HBL shows higher value than other banks i.e. 11.81. The average Interest on Loans and Advances of SCBNL, NABIL, EBL AND NIBL seems 9.38, 9.96, 9.80, and 8.63 respectively. It indicates that HBL able to get high rate of Interest Income on Loan and Advances than others. On the basis of CV, NABIL seems more consistent than other banks. Similarly, from the computation of combined mean of different banks in different years, the average Interest Income on Loan and Advances is 11.46, 10.57, 9.86, 9.23 and 8.45 respectively. It shows that the banks had earned greater Interest Income on Loan and Advance in the year of 2001/02. In the year of 2005/06, such ratio is seemed very lower. That means in the year of 2005/06, the banks could not able to earn interest income through loan and advances. Considering the above table, it is concluded that such ratio has decreasing nature from 11.46 to 8.45. In the year of 2005/06, such ratio seemed more consistent than other financial year. Figure 4.3 makes it more obvious

Figure 4.3: Interest Income on Loan and Advances



The above chart shows that the average Interest on Loan and Advances ratios were increasing trend in first three year. Then it were decreasing trend. It means such ratio is becoming unsatisfactory.

4.2.5 Operating Ratio

Operating ration indicates an operating efficiency incurred on total assets. It determines the operational efficiency.

Table 4.7: Comparative Review of Operating Ratio

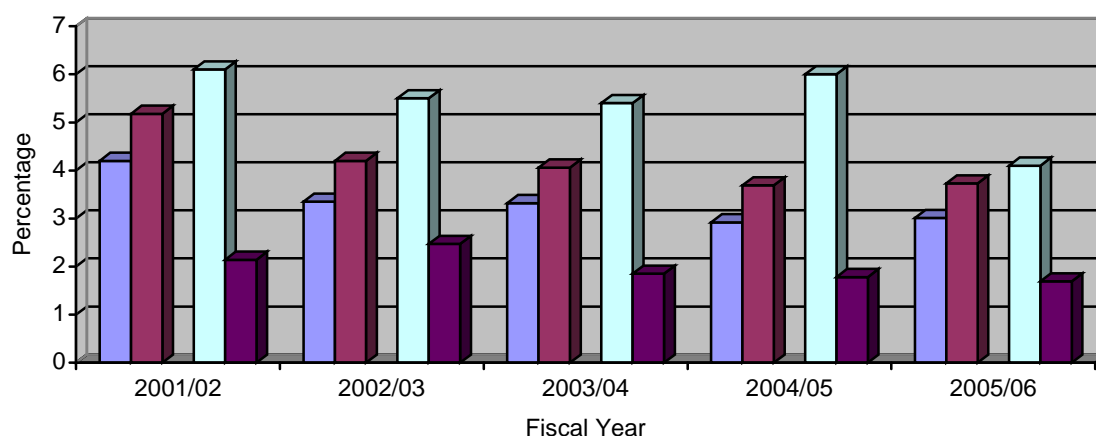
Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	4.20	3.35	3.32	2.92	3.01	3.36	0.45	13.46
NABIL	%	5.18	4.20	4.06	3.69	3.73	4.17	0.54	12.94
HBL	%	*	*	*	*	*			
EBL	%	6.10	5.50	5.40	6.00	4.10	5.42	0.71	13.17
NIBL	%	2.14	2.47	1.85	1.78	1.69	1.99	0.29	14.36
Mean		4.41	3.88	3.66	3.60	3.13			
Std. Deviation		1.47	1.12	1.28	1.54	0.92			
CV		33.38	28.80	35.07	42.93	29.38			

Source: Annual Report, 2001/02 to 2005/06

* = Not Available

From the computation using scientific calculator, the average operating ratio of SCBNL, NABIL, EBL and NIBL is 3.36, 4.14, 5.42 and 1.99 respectively. It indicates that NIBL is satisfactory level in expense operating ratio with comparison to them. SCBNL holds second position and NABIL be third but EBL shows comparatively unsatisfactory. On the basis of CV, NABIL seems more consistent than other banks. Similarly, from the computation of combined mean of different banks in different years, the average operating ratio of SCBNL, NABIL, EBL and NIBL is 4.41, 3.88, 3.66, 3.60, and 3.13 respectively. It shows that the banks had lower average of operating ratio in the year of 2005/06. It means in the year of 2005/06, the banks could able to expense lower operating expenses on total assets.

Figure 4.4: Operating Ratio



The above chart shows that the operating ratio of SCBNL, NABIL and NIBL is slightly decreasing but EBL shows fluctuating nature.

4.3 Activity Ratio Analysis

The activity ratios measure the effectiveness of asset utilization, reflecting the management's efficiency to use available resources. The bank uses the funds of creditors and owners in various profit generating assets like loans and advances, investments etc. So, the activity ratios are employed to evaluate the efficiency of the bank in terms of utilizing its assets. So an attempt has been made to analyze and interpret financial data of the subject matter in sequential order.

4.3.1 Credit Deposit Ratio

Banks make profit by lending or utilizing the deposits by charging a higher rate of interest to the borrowers than they pay the depositors. It measures the extent to which the banks are successful to mobilize the outsider fund i.e. total deposits in loan and advances for the purpose of profit-generation. Comparative Credit Deposit Ratio of selected top five commercial banks has been tabulated below:

Table 4.8: Comparative Review of Credit Deposit Ratio

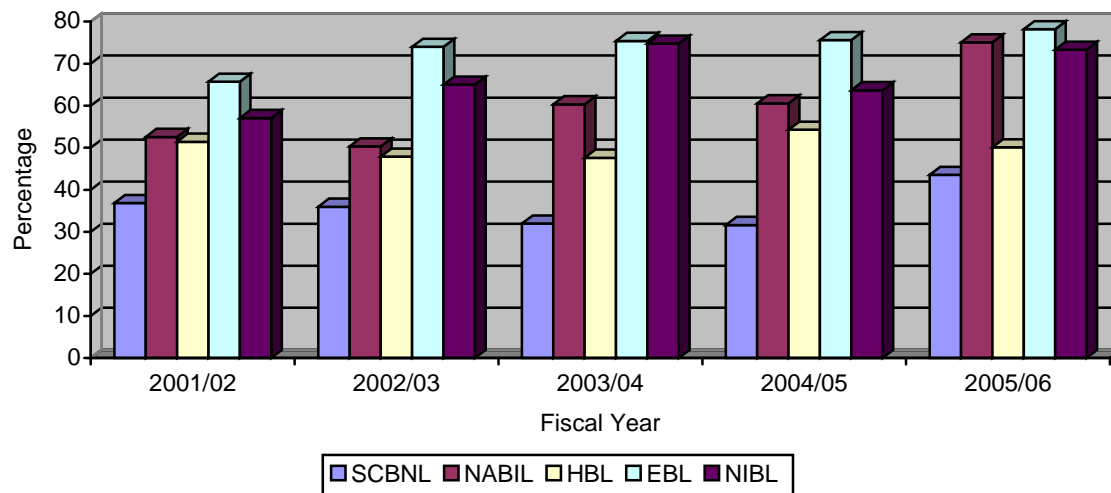
Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	36.82	35.97	31.99	31.63	43.55	35.99	4.31	11.97
NABIL	%	52.56	50.31	60.34	60.55	75.05	59.76	8.67	14.51
HBL	%	51.42	47.89	47.61	54.30	50.07	50.26	2.46	4.90
EBL	%	65.70	74.00	75.40	75.60	78.20	73.78	4.26	5.78
NIBL	%	57.07	65.00	74.74	63.68	73.33	66.76	6.53	9.78
Mean		52.71	54.63	58.02	57.15	64.04			
Std. Deviation		9.40	13.38	16.57	14.52	14.30			
CV		17.83	24.49	28.56	25.40	22.34			

Source: Annual Report, 2001/02 to 2005/06

From the computation using scientific calculator, the average Credit Deposit ratio of EBL shows higher value than other banks i.e. 73.78. It is comparatively far higher than other value. The average Credit Deposit ratio of SCBNL, NABIL, HBL, and NIBL is 35.99, 59.76, 50.26 and 66.76 respectively. The table shows that average Credit Deposit ratio of SCBNL seems least, whereas NABIL and NIBL seems nearly the sample average. It indicates that NABIL AND NIBL is able to almost satisfactory level comparison to EBL. Similarly, from

the computation of combined mean of different banks in different years, the average Credit Deposit ratio is 52.71, 54.63, 58.02, 57.15 and 64.04 respectively. It shows that the average Credit Deposit ratio in the year of 2005/06 had greater value than other financial year. On the basis of CV, such ratio seemed more consistent in the year of 2001/02. Figure 4.5 makes it more obvious.

Figure 4.5: Credit Deposit Ratio



The above chart shows that the Credit Deposit ratio of EBL is increasing. Similarly, the ratio of NABIL is increasing after the year of 2003/04. But the remaining banks show fluctuating nature in Credit Deposit ratio.

4.4 Solvency/Capital-Structure Analysis

A bank should have strong short-term as well as long-term financial position. The long term financial position of the bank is judged by the leverage or capital structure ratio analysis. It measures the extent of the bank's total debt burden. It reflects the bank's ability to meet its short-term as well as long-term obligations.

To measure banks capacity of borrowing as means of capital accumulation, i.e. over extension of credit and borrowing power which determine the long term solvency of the banks. For this several capital-structure ratios are calculated.

4.4.1 Capital Adequacy Ratio

Capital adequacy ratio shows whether the commercial banks are maintaining sufficient amount of shareholders fund (net worth) in comparison to total amount of their deposits.

Extremely high or low ratio is inappropriate in terms of lowered return of lowered solvency respectively. For this several capita adequacy ratios are calculated.

a. Core Capital

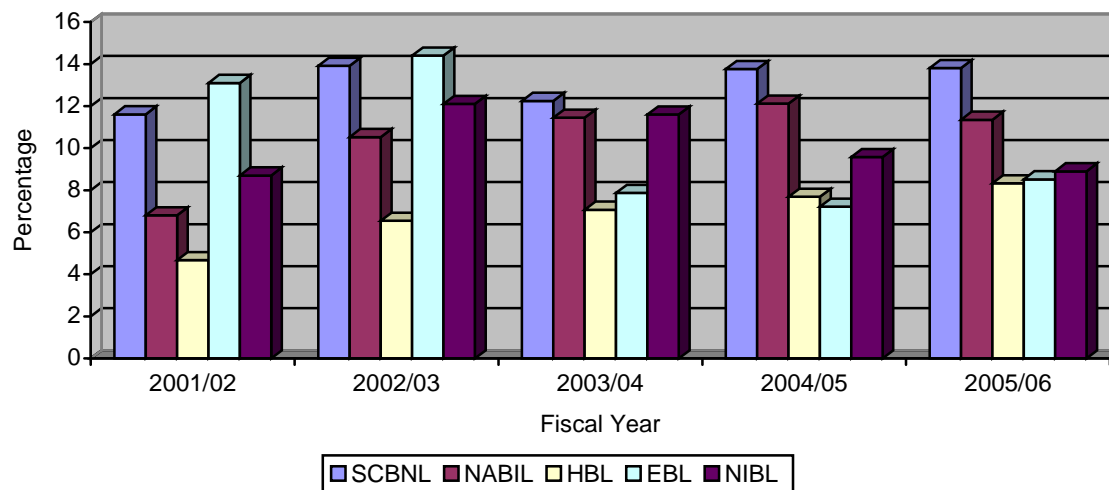
Table 4.9: Comparative Review of Core Capital

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	11.61	13.92	12.25	13.76	13.81	13.07	0.95	7.30
NABIL	%	6.80	10.53	11.45	12.12	11.35	10.45	1.89	18.12
HBL	%	4.67	6.55	7.07	7.69	8.33	6.86	1.25	18.19
EBL	%	13.10	14.40	7.87	7.22	8.52	10.22	2.94	28.75
NIBL	%	8.70	12.10	11.60	9.58	8.90	10.18	1.41	13.82
Mean		8.98	11.50	10.05	10.07	10.18			
Std. Deviation		3.08	2.83	2.14	2.52	2.11			
CV		34.27	24.62	21.27	25.05	20.77			

Source: Annual Report, 2001/02 to 2005/06

From the computation using scientific calculator, the average of Core Capital ratio of SCBNL shows higher value than other banks i.e. 13.07. It means SCBNL has been giving contributing to maintain the Core Capital. The average Core Capital of NABIL HBL, EBL, AND NIBL is 10.45, 6.86, 10.22, and 10.18 respectively. On the basis of CV, it can be say that Core Capital ratio of SCBNL is more consistent than other ratio. EBL CV shows that the ratio is less consistent due to higher value. Similarly, from the computation of combined mean of different banks in different years, the average of Core Capital ratio is 8.98, 11.50, 10.05, 10.07 and 10.18 respectively. On the basis of CV, such ratio is seemed more consistent in the year of 2005/06. Figure 4.6 makes it more obvious.

Figure 4.6: Core Capital



The above chart shows that the core capital of HBL is increasing in nature. SCBNL also holds the same trend except the year of 2002/2003. Other remaining banks show fluctuating nature.

b. Supplementary Capital

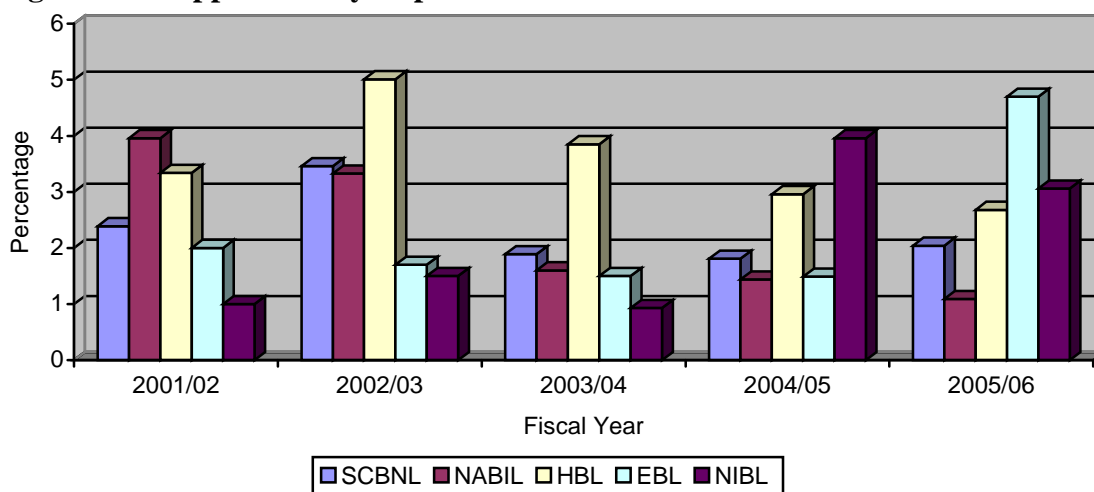
Table 4.10: Comparative Review of Supplementary Capital

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	2.39	3.46	1.89	1.81	2.04	2.32	0.60	26.08
NABIL	%	3.96	3.33	1.60	1.44	1.09	2.28	1.14	49.95
HBL	%	3.34	5.01	3.85	2.96	2.68	3.57	0.82	23.01
EBL	%	2.00	1.70	1.50	1.49	4.70	2.28	1.23	53.78
NIBL	%	1.00	1.50	0.93	3.96	3.06	2.09	1.21	57.89
Mean		2.54	3.00	1.95	2.33	2.71			
Std. Deviation		1.03	1.29	1.00	0.98	1.20			
CV		40.73	42.95	51.07	42.11	44.08			

Source: Annual Report, 2001/02 to 2005/06

From the computation using scientific calculator, the average supplementary capital is 2.32, 2.28, 3.57, 2.28 and 2.09 respectively. Also the CV is 26.08, 49.45, 23.01, 53.78 and 57.89 respectively. On the basis of CV it seemed that SCBNL is more consistent than other banks. Similarly, from the computation of combined mean of different banks in different years, the average Supplementary Capital is 2.54, 3.00, 1.95, 2.33 and 2.71 respectively. Figure 4.7 makes it more obvious.

Figure 4.7: Supplementary Capital



c. Total Capital Fund

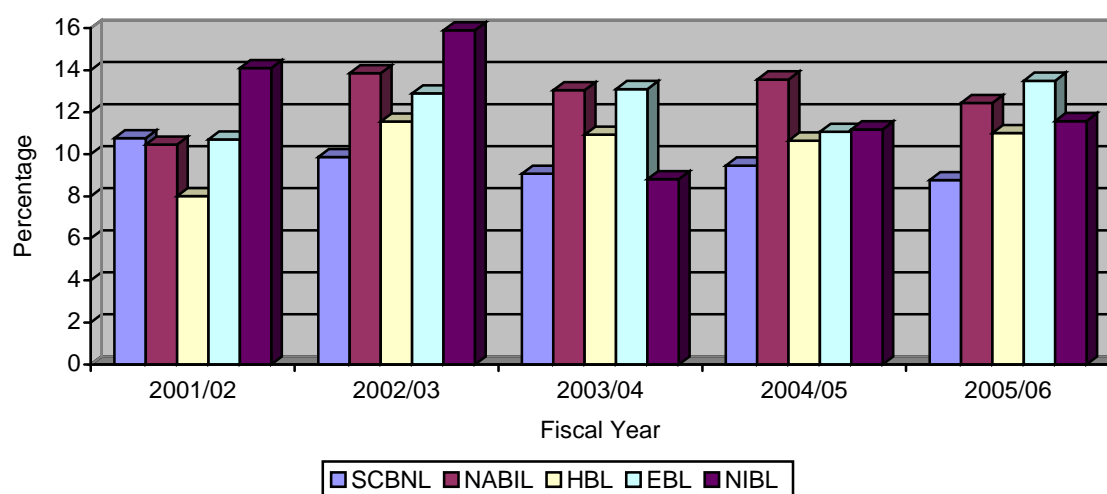
Table 4.11: Comparative Review of Total Capital Fund

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	10.76	9.87	9.07	9.46	8.77	9.59	0.69	7.24
NABIL	%	10.46	13.86	13.05	13.56	12.44	12.67	1.21	9.53
HBL	%	8.01	11.56	10.93	10.65	11.01	10.43	1.25	11.95
EBL	%	10.70	12.90	13.10	11.07	13.50	12.25	1.14	9.31
NIBL	%	14.10	15.90	8.81	11.18	11.58	12.31	2.46	19.94
Mean		10.81	12.82	10.99	11.18	11.46			
Std. Deviation		1.94	2.04	1.85	1.34	1.59			
CV		17.94	15.94	16.84	11.94	13.84			

Source: Annual Report, 2001/02 to 2005/06

From the computation using scientific calculator, the average mean of Total Capital Fund of SCBNL, NABIL, HBL, EBL and NIBL is 9.59, 12.67, 10.43, 12.25 and 12.31 respectively. Similarly the CV is 7.24, 9.53, 11.95, 9.31 and 19.94 respectively. So considering the above table, it shows that the average total capital fund of NABIL had higher value than other banks i.e. 12.67. It means NABIL had strong total capital fund. Also considering the combined mean of different banks in different banks, the average of total capital fund is 10.81, 12.82, 10.99, 11.18 and 11.46 respectively. This shows that different banks had strong total capital fund in the year of 2002/03 in comparison to other financial year. But the CV is more consistent in the year of 2004/05. Figure 4.8 makes it more obvious.

Figure 4.8: Total Capital Fund



4.4.2 Interest Expenses to Total Deposit Ratio

This ratio is analyzed to find out how the banks were successful to generate cheaper fund.

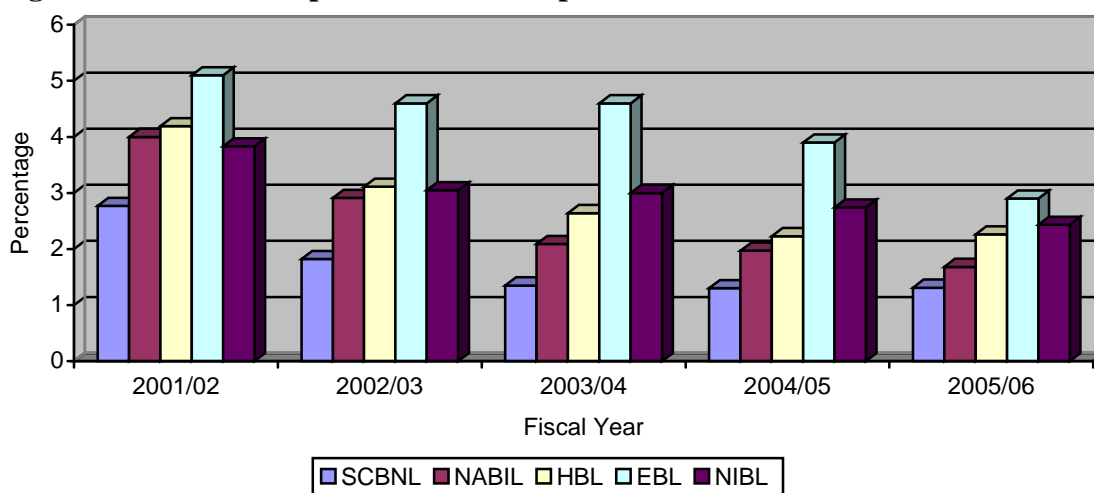
Table 4.12: Comparative Review of Interest Expenses to Total Deposit Ratio

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	2.77	1.82	1.35	1.30	1.31	1.71	0.56	33.01
NABIL	%	4.00	2.91	2.09	1.97	1.68	2.53	0.84	33.23
HBL	%	4.19	3.11	2.64	2.23	2.26	2.89	0.73	25.15
EBL	%	5.10	4.60	4.60	3.90	2.90	4.22	0.76	18.07
NIBL	%	3.83	3.05	3.00	2.74	2.43	3.01	0.47	15.46
Mean		3.98	3.10	2.74	2.43	2.12			
Std. Deviation		0.75	0.89	1.09	0.87	0.56			
CV		18.76	28.61	39.68	35.84	26.51			

Source: Annual Report, 2001/02 to 2005/06

From the computation, the average of such ratio of SCBNL seems lower than other banks i.e. 1.71. It means SCBNL had ability to generate cheaper fund than other banks. The average ratio of NABIL, HBL, EBL and NIBL is 2.53, 2.89, 4.22 and 3.0 respectively. EBL has higher average ratio that means the EBL fails to quote their fund. On the basis of CV, it seemed that SCBNL's ratio is more consistent than other banks due to lower CV. Similarly, from the computation of combined mean of different banks in different years, the average Interest Expenses to Total Deposit Ratio is 3.98, 3.10, 2.74, 2.43 and 2.12 respectively. It shows that the banks had succeeded to generate cheaper fund in the year of 2005/06. But on basis CV, such ratio was more consistent in the year of 2001/02 i.e.18.76. The CV is 28.61, 39.68, 35.84 and 26.51 in the year of 2002/03, 2003/04, 2004/05 and 2005/06 respectively. Figure 4.9 makes it more obvious.

Figure 4.9: Interest Expenses to Total Deposit Ratio



The above chart shows that all banks had decreasing trend in nature. It is good sign for generating cheaper fund.

4.5 Market Value Analysis

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

4.5.1 Earning Per Share

The earning per share shows the profitability of the bank on per share basis. It shows the earning available to each shareholder out of the total earning. The calculation of EPS made over the years indicate whether the banks earning power on per share basis and changed on not.

Table 4.13: Comparative Review of EPS

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	Rs.	126.88	141.13	149.30	143.30	143.93	140.91	7.51	5.33
NABIL	Rs.	59.26	55.25	84.66	92.61	105.49	79.45	19.35	24.35
HBL	Rs.	93.57	60.26	49.45	49.05	47.91	60.05	17.35	28.89
EBL	Rs.	31.56	32.91	29.90	45.58	54.22	38.83	9.49	24.43
NIBL	Rs.	33.18	33.59	39.96	51.70	39.50	39.59	6.69	16.90
Mean		68.89	64.63	70.65	76.45	78.21			
Std. Deviation		36.70	39.82	43.44	37.54	40.14			
CV		53.27	61.62	61.48	49.11	51.32			

Source: Annual Report, 2001/02 to 2005/06

From the computation using scientific calculator, it shows that the EPS of SCBNL shows higher value than other banks i.e. 140.91. The average EPS of NABIL, HBL, EBL AND NIBL is 79.45, 60.05, 38.83 and 39.59 respectively. This shows that the EPS of SCBNL was far higher than other banks. This means SCBNL earned more profit on per share basis. It also indicates that the greater profitability available to each shareholder out of total earnings than average sample banks. On the basis of CV, it seemed that SCBNL ratio is more consistent than other banks due to the lower CV. Similarly, from the computation of combined mean of different banks in different years, the average EPS of in the year of 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 is 68.89, 64.63, 70.65, 76.45 and 78.21 respectively. It shows that the average EPS in the year of 2005/06 had greater value than other years i.e. 78.21. It means at that period the banks had strong EPS. Considering the above table, it is clear that

the banks had increasing nature in EPS from 4th year. On the basis of CV, it indicates that such ratio was more consistent in the year of 2004/05. Figure 4.10 makes it more obvious.

Figure 4.10: Earning Per Share

4.5.2 Price-Earning Ratio

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

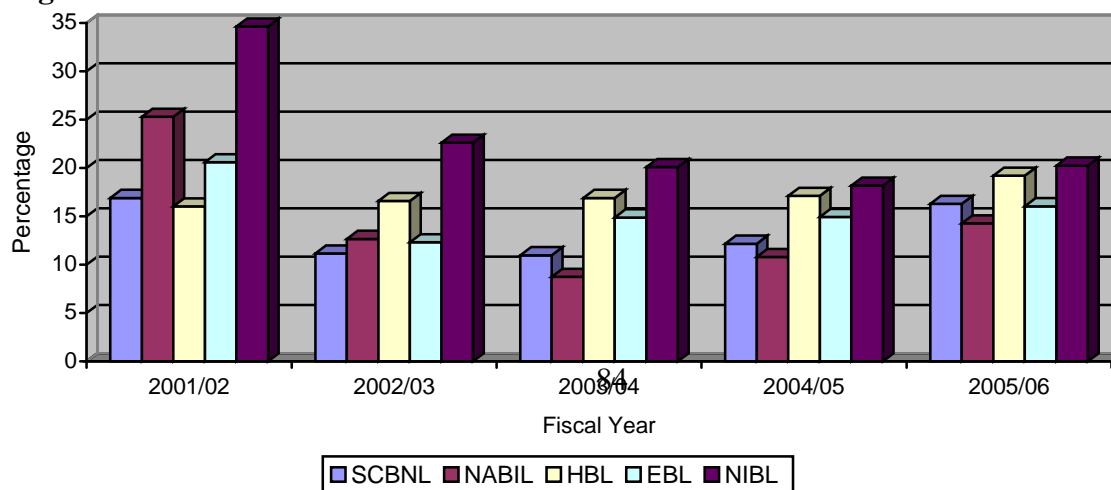
Table 4.14: Comparative Review of P-E Ratio

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	16.90	11.16	10.98	12.16	16.29	13.50	2.57	19.02
NABIL	%	25.31	12.67	8.74	10.80	14.27	14.36	5.78	40.25
HBL	%	16.03	16.59	16.91	17.12	19.20	17.17	1.08	6.29
EBL	%	20.59	12.31	14.88	14.93	16.04	15.75	2.71	17.22
NIBL	%	34.65	22.62	20.10	18.18	20.25	23.16	5.92	25.54
Mean		22.70	15.07	14.32	14.64	17.21			
Std. Deviation		6.81	4.19	4.07	2.82	2.19			
CV		30.03	27.83	28.40	19.24	12.75			

Source: Annual Report, 2001/02 to 2005/06

From the computation, the average P-E ratio of NIBL shows higher value than other banks i.e. 23.16. In spite of the increasing trend, HBL have lower value than the sample average. The average P-E ratio of SCBNL, NABIL, HBL and EBL is 13.50, 14.36, 17.17 and 15.75 respectively. On the basis of CV, it can be say that HBL P.E. ratio was more consistent than other bank's ratio due to higher CV. Similarly, from the computation of different banks in different years, the average of P-E ratio in the year of 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 is 22.70, 15.07, 14.32, 14.64 and 17.21 respectively. It shows that the banks had strong P-E ratio in the year of 2001/02. On the basis of CV, such ratio was more consistent in the year of 2005/06. However the P.E. ratio in the year of 2005/06 was also satisfactory in comparison to other financial year. Figure 4.11 makes it more obvious.

Figure 4.11: P.E. Ratio



The above chart shows that the PE ratio of HBL is increasing. Similarly, the PE ratio of EBL is increasing slightly only after the year of 2003/04. But the remaining banks show fluctuate nature in P-E ratio.

4.5.3 Cash Dividend on Share Capital

This ratio measures the market value or profitability of the bank on dividend per equity share. In general, higher the ratio, better it is and vice-versa. Generally two components affect this ratio:

- a. Amount of earning distributed as dividend, and
- b. No. of equity /common shares outstanding.

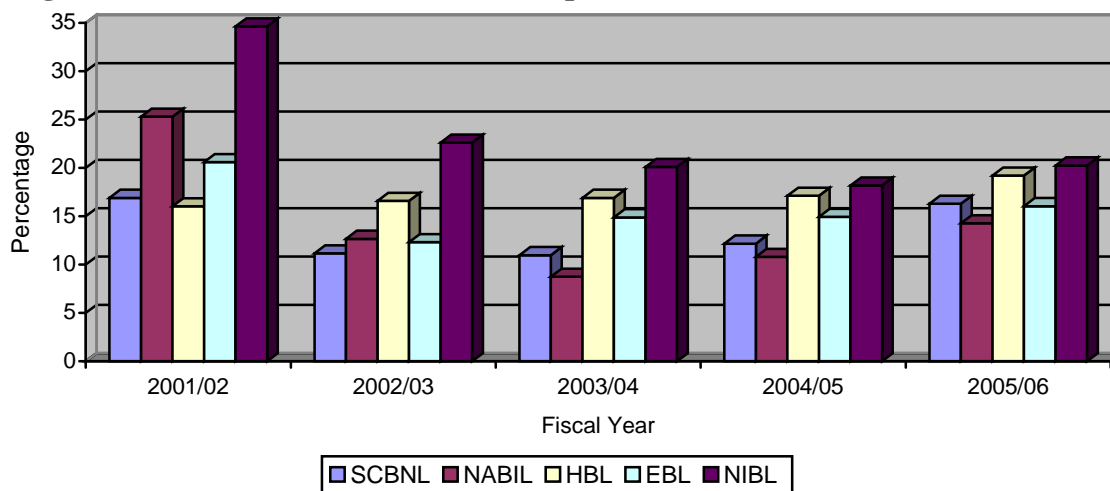
Table 4.15: Cash Dividend on Share Capital

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	0.00	0.00	20.00	20.00	0.00	8.00	9.80	122.47
NABIL	%	100.00	100.00	110.00	110.00	120.00	108.00	7.48	6.93
HBL	%	40.00	30.00	50.00	65.00	70.00	51.00	14.97	29.35
EBL	%	27.50	25.00	1.32	0.00	11.58	13.08	11.50	87.95
NIBL	%	0.00	0.00	20.00	15.00	12.50	9.50	8.12	85.52
Mean		33.50	31.00	40.26	42.00	42.82			
Std. Deviation		36.72	36.66	38.19	40.32	45.66			
CV		109.63	118.26	94.87	96.00	106.64			

Source: Annual Report, 2001/02 to 2005/06

Considering the above table, it seems that the average cash dividend ratio of NABIL is higher than other banks i.e. 108.00. The average Cash Dividend ratio of SCBNL, HBL, EBL and NIBL is 8.00, 51.00, 13.08 and 9.50 respectively. On the basis of CV, it seemed that NABIL Cash Dividend ratio is more consistent. Similarly, from the computation of different banks in different years, the average cash dividend in the year of 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 is 33.50, 31.00, 40.26, 42.00 and 42.82 respectively. It shows that the banks had contributed more cash dividend in the year of 2005/06. On the basis of CV, such ratio was seemed more consistent in the year of 2003/04. Figure 4.12 makes it more obvious.

Figure 4.12: Cash Dividend on Share Capital



The above chart shows that Cash Dividend on Share Capital ratio of HBL is increasing only after the year of 2003/04, whereas the ratio of NABIL is jumping increasing in nature. The first and two year hold constant. The SCBNL, EBL, AND NIBL have not seen providing the dividend in each year.

4.5.4 Dividend (Including Bonus) on Share Capital

Table 4.16: Dividend (Including Bonus) on Share Capital

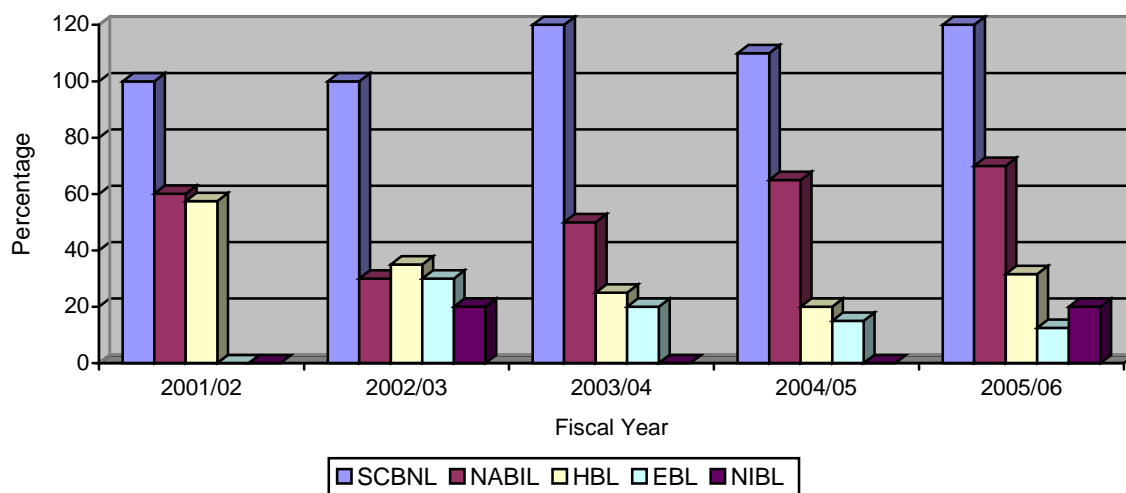
Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	100.00	100.00	120.00	110.00	120.00	110.00	8.94	8.13
NABIL	%	60.11	30.00	50.00	65.00	70.00	55.02	14.15	25.72
HBL	%	57.50	35.00	25.00	20.00	31.58	33.82	12.93	38.24
EBL	%	0.00	30.00	20.00	15.00	12.50	15.50	9.80	63.21
NIBL	%	0.00	20.00	0.00	0.00	20.00	8.00	9.80	122.47
Mean		43.52	43.00	43.00	42.00	50.82			
Std. Deviation		38.60	28.91	41.67	40.32	39.86			
CV		88.68	67.24	96.90	96.01	78.43			

Source: Annual Report, 2001/02 to 2005/06

From the computation using scientific calculator, the average of such ratio of SCBNL shows higher value than other banks i.e. 110.00. The average of such ratio of NABIL, HBL, EBL and NIBL is 55.02, 33.82, 15.50 and 8.00 respectively. It indicates that the shareholders of SCBNL are more satisfied. Similarly, from the computation of combined mean of different banks in different years, the average Dividend including bonus share in the year of 2001/02,

2002/03, 2003/04, 2004/05 and 2005/06 is 43.52, 43.00, 43.00, 42.00 and 50.82 respectively. It shows that the banks had contributed more cash dividend in the year of 2005/06 in comparison to other years. Considering the above table it is concluded that such ratio has fluctuating nature. On the basis of CV, such ratio is seemed more consistent in the year of 2002/03 than other financial year. Figure 4.13 makes it more obvious.

Figure 4.13: Dividend (Including Bonus) on Share Capital



The above chart shows that the Dividend (including bonus) on Share Capital of SCBNL is almost increasing except the year of 2004/05. NABIL also holds the same trend after the year of 2003/04. Remaining banks show fluctuate nature. It also seems that EBL AND NIBL are not provided the dividend each year.

4.6 Other Relevant Ratios

To make more analytical and best presentation of comparative performance analysis, it is also necessary to computed following relevant ratios.

a. Staff Expenses to Total Operating Ratio

Table 4.17: Comparative Review of Staff Expenses to Total Operating Ratio

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	12.74	20.49	18.48	19.51	22.53	18.75	3.29	17.54
NABIL	%	16.51	19.48	30.34	29.43	31.50	25.45	6.20	24.34
HBL	%	46.00	48.00	39.00	40.00	41.95	42.99	3.47	8.06
EBL	%	8.20	8.80	8.50	10.30	12.40	9.64	1.56	16.16
NIBL	%	28.28	33.01	36.20	37.52	34.65	33.93	3.20	9.44
Mean		22.35	25.96	26.50	27.35	28.61			
Std. Deviation		12.39	12.26	10.44	10.16	9.33			

CV	55.45	47.23	39.37	37.16	32.62
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Source: Annual Report, 2001/02 to 2005/06

From the computation, the average of such ratio of HBL seems higher than other banks i.e. 42.99. It indicates that HBL has been paying more benefit and allowances as staff expenses out of total operating expenses. The average of such ratio of SCBNL, NABIL, EBL and NIBL is 18.75, 31.50, 9.64 and 33.93. It seems that NIBL holds the 2nd position in providing staff benefit and allowances i.e. 33.93 near to the SCBNL. The CV of SCBNL, NABIL, HBL, EBL and NIBL is 17.54, 24.34, 8.06, 16.16 and 9.94. On the basis of CV, it can be say that the ratio of HBL is more consistent than other banks due to lower CV. Similarly, from the computation of combined mean of different banks in different years, the average mean of banks in the year of 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 is 22.35, 25.96, 26.50, 27.35 and 28.61 respectively. It shows that the bank's staff expenses to total operating expenses had higher in the year of 2005/06. On the basis of CV, such ratio is also seemed more consistent in the same year. Figure 4.14 makes it more obvious.

Figure 4.14: Staff Expenses to Total Operating Expenses



The above chart shows that all banks have increasing trend up to 2nd year simultaneously. At the 3rd year, the trend seems decreased in nature of SCBNL HBL and EBL. Considering all the trends, it may be concluded that they may be facing the effect of crisis of economy at the year of 2003/04.

b. Staff Bonus to Total Staff Expenses

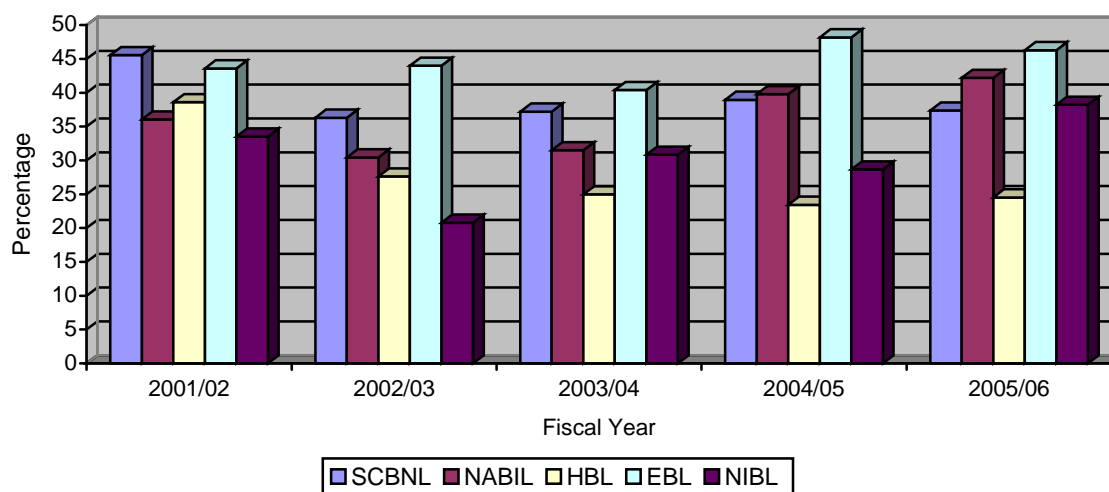
Table 4.18: Comparative Review of Staff Bonus to Total Staff Expenses

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	45.56	36.32	37.22	38.96	37.38	39.09	3.35	8.56
NABIL	%	36.06	30.45	31.51	39.78	42.20	36.00	4.55	12.65
HBL	%	38.60	27.63	24.98	23.45	24.53	27.84	5.55	19.95
EBL	%	43.60	44.00	40.40	48.20	46.30	44.50	2.64	5.93
NIBL	%	33.53	20.80	30.85	28.66	38.22	30.41	5.77	18.97
Mean		39.47	31.84	32.99	35.81	37.73			
Std. Deviation		4.51	7.87	5.36	8.75	7.32			
CV		11.43	24.71	16.25	24.44	19.41			

Source: Annual Report, 2001/02 to 2005/06

From the computation, the average Staff Bonus to Total Staff Expenses ratio of EBL shows higher value on the last five year than other banks i.e. 44.50. The average of such ratios of SCBNL, NABIL, HBL and NIBL is 39.09, 36.00, 27.84 and 30.41 respectively. Considering the above table, it may be concluded that the average of SCBNL, NABIL also have near value to EBL. But the remaining two banks (HBL & NIBL) are less satisfactory in comparison with each other. Similarly, from the computation of combined mean of different banks in different years, the average Staff Bonus to Total Staff Expenses in the year of 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 is 39.47, 31.84, 32.99, 35.81 and 37.73 respectively. It shows that the average of such ratio provided by the banks had greater in the year of 2001/02. On the basis of CV, such ratio is seemed more consistent in the same year. Figure 4.15 makes it more obvious.

Figure 4.15: Staff Bonus to Total Staff Expenses



The above chart shows that the Staff Bonus to Total Staff Expenses ratio of all the banks seem fluctuates in nature.

c. Weighted Average Interest Rate Spread

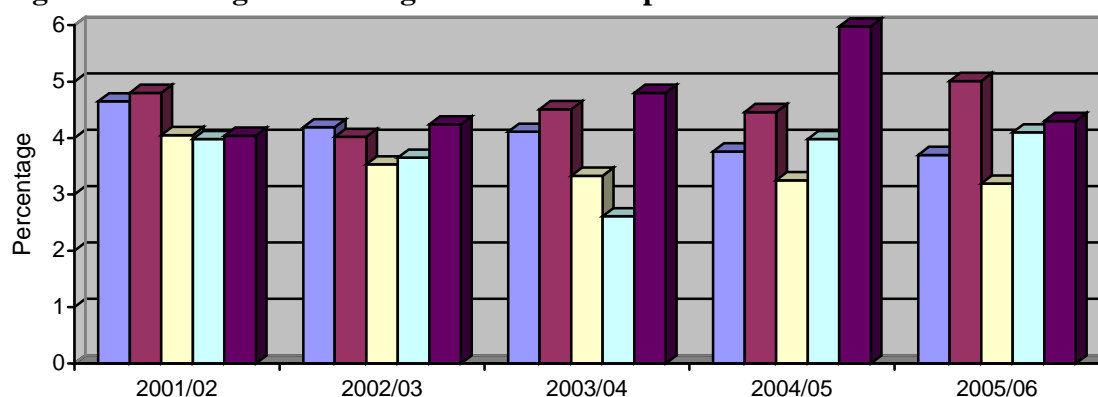
Table 4.19: Comparative Review of Weighted Average Interest Rate Spread

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	4.65	4.19	4.11	3.76	3.70	4.08	0.34	8.38
NABIL	%	4.80	4.02	4.51	4.46	5.01	4.56	0.34	7.37
HBL	%	4.05	3.53	3.33	3.25	3.19	3.47	0.31	8.99
EBL	%	3.98	3.65	2.61	3.98	4.10	3.66	0.55	14.95
NIBL	%	4.04	4.24	4.80	5.98	4.30	4.67	0.70	14.99
Mean		4.30	3.93	3.87	4.29	4.06			
Std. Deviation		0.35	0.29	0.80	0.93	0.61			
CV		8.08	7.29	20.70	21.75	14.97			

Source: Annual Report, 2001/02 to 2005/06

From the computation, the average of such ratio of HBL seems lower value than other banks i.e. 3.47. The average of such ratio of SCBNL, NABIL, EBL and NIBL are 4.08, 4.56, 3.66 and 4.67 respectively. Such ratios of the remaining banks have seen much scattered than HBL. It indicates that they all are performing more competitive to each other. The CV of SCBNL, NABIL, HBL and NIBL is 8.38, 7.37, 8.99, 14.95 and 14.99 respectively. On the basis of CV, the NABIL ratio is more consistent than other banks due to lower CV i.e. 7.37. Similarly, from the computation of combined mean of different banks in different years, the average of Weighted Average Interest Rate Spread in 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 is 4.30, 3.93, 3.87, 4.29 and 4.06 respectively. It shows that the average of Interest Rate Spread was higher in the year of 2001/02. It means at that period the banks had greater interest rate spread. It means the banks were charged more interest rate on their loan than the deposit. On the basis of CV, such ratio is seemed more consistent in the year of 2002/03. Considering the above table, it is concluded that the Interest Rate Spread of banks were fluctuating nature. Figure 4.16 makes it more obvious.

Figure 4.16: Weighted Average Interest Rate Spread



The above chart shows that the Weighted Average Interest Spread of SCBNL and HBL are in decreasing in nature. It means they have been maintaining lower Interest Rate Spread on interest rate charged or offered by the banks. It is really a good trend in the view point of customer satisfaction and liberalized environment.

d. Exchange Gain to Total Income

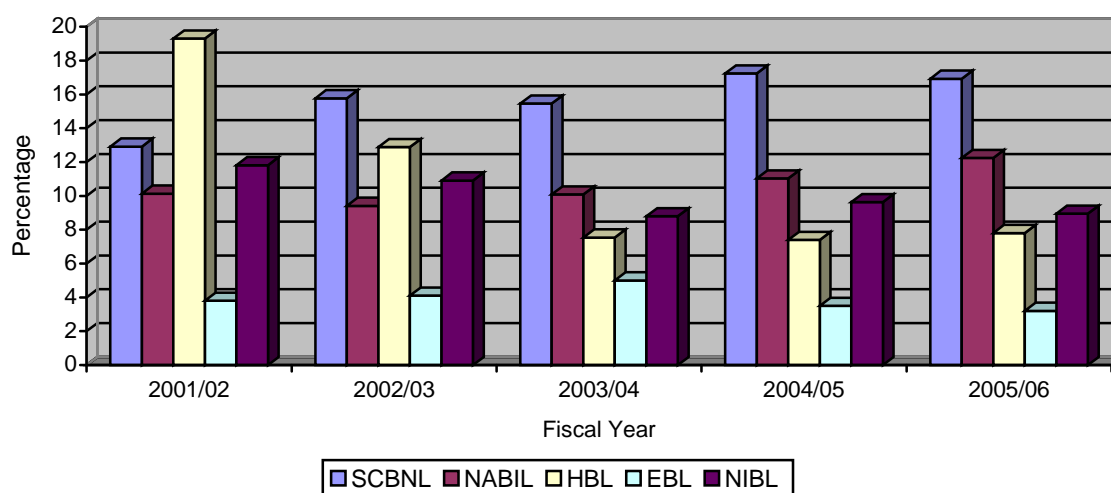
Table 4.20: Comparative Review of Exchange Gain to Total Income

Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	12.92	15.77	15.46	17.24	16.93	15.66	1.53	9.75
NABIL	%	10.13	9.41	10.09	11.03	12.24	10.58	0.98	9.23
HBL	%	19.30	12.89	7.54	7.40	7.80	10.99	4.64	42.23
EBL	%	3.80	4.10	5.00	3.50	3.20	3.92	0.62	15.76
NIBL	%	11.82	10.91	8.80	9.63	8.95	10.02	1.17	11.65
Mean		11.59	10.62	9.38	9.76	9.82			
Std. Deviation		4.98	3.89	3.47	4.52	4.58			
CV		42.97	36.66	37.05	46.35	46.66			

Source: Annual Report, 2001/02 to 2005/06

From the computation, the average Exchange of NABIL, HBL, EBL and NIBL is 10.58, 10.99, 3.92 and 10.02 respectively. It indicates that SCBNL is in satisfactory level in foreign exchange gain whereas EBL is in unsatisfactory level due to its far lower average in comparison with other banks. The CV of SCBNL, NABIL, HBL, EBL and NIBL is 9.75, 9.23, 42.23, 15.76 and 11.65 respectively. So on the basis of CV it seems that NABIL ratio is more consistent whereas SCBNL, NIBL, EBL and HBL are simultaneously consistent. Similarly, from the computation of combined mean of different banks in the different years, the average Exchange gain to total income in the year of 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 is 11.59, 10.62, 9.38, 9.76 and 9.82 respectively. It shows that the average Exchange Gain to Total Income in the year of 2001/02 was higher than other financial year. It means at that period the banks were succeeded to gain from foreign exchange. On the basis of CV, such ratio is seemed more consistent in the year of 2002/03. Figure 4.17 makes it more obvious.

Figure 4.17: Exchange Gain to Total Income



The above chart shows that all the banks seem fluctuating in nature. The table shows that the exchange gain ratio of EBL seems lower value than other.

4.7 Non - Performing Assets

Table 4.21: Comparative Review of NPA

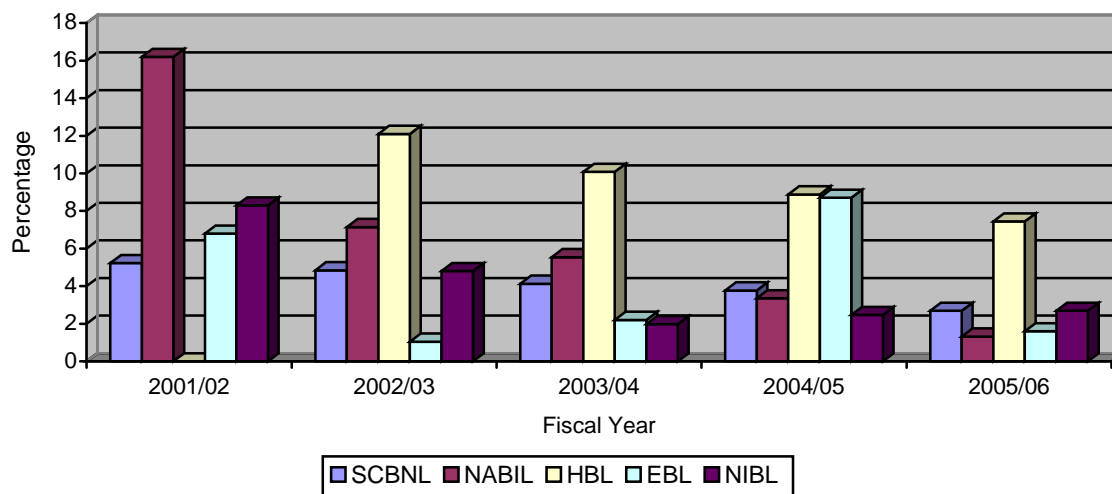
Banks	Unit	Fiscal Year					Mean	Std. Deviation	CV
		2001/02	2002/03	2003/04	2004/05	2005/06			
SCBNL	%	5.23	4.84	4.13	3.77	2.69	4.13	0.89	21.42
NABIL	%	16.20	7.14	5.54	3.35	1.32	6.71	5.14	76.56
HBL	%	0.00	12.10	10.08	8.88	7.44	7.70	4.14	53.79
EBL	%	6.79	1.04	2.20	8.70	1.60	4.07	3.09	75.90
NIBL	%	8.29	4.80	1.98	2.47	2.69	4.05	2.33	57.62
Mean		7.30	5.98	4.79	5.43	3.15			
Std. Deviation		5.25	3.63	2.95	2.77	2.22			
CV		71.95	60.67	61.69	51.02	70.43			

Source: Annual Report, 2001/02 to 2005/06

From the computation, the average of NPA of NIBL seems comparatively lower than other banks i.e. 4.05. The average NPA of SCBNL, NABIL, HBL and EBL is 4.13, 6.71, 7.70 and 4.07 respectively. This shows that SCBNL and EBL also have lower value of NPA on an average. But the NABIL and HBL seem comparatively higher which is not good. The CV of SCBNL, NABIL, HBL, EBL and NIBL is 21.42, 76.56, 53.79, 75.90 and 57.62 respectively. On the basis of CV, it can be say that the variable of SCBNL is more consistent in maintaining NPA than other banks. Similarly, from the computation of different banks in different years, the average NPA in the year of 2001/02, 2002/03, 2003/04, 2004/05 and

2005/06 is 7.30, 5.98, 4.79, 5.43 and 3.15 respectively. It shows that the average NPA of banks in the year of 2005/06 is lower. It means the banks are more success to control the NPA in comparison to other financial year. Considering the above table, it is concluded that the NPA has decreasing nature. Off course it is good sign to the banks for the point of view of non-banking assets. On the basis of CV, such ratio is seemed more consistent in the year of 2004/05. Figure 4.18 makes it more obvious.

Figure 4.18: Non-Performing Assets



The above chart shows that the SCBNL AND HBL are in decreasing trend except the 5th year i.e.2004/05. Other remaining banks were in fluctuating nature.

4.8 Findings

i. Liquidity Analysis: Analysis of liquidity (CRR) indicates better liquidity managed by all the banks except EBL over the five years period. EBL was unable to maintain the liquidity (CRR) as per the directives of central bank. It obviously indicates EBL was failure to meet short-term obligations.

ii. Profitability Analysis:

- a. Review of Net Profit Margin indicates satisfactory in comparison over the five years period to each other. SCBNL, HBL and NABIL had increasing NPM. EBL and NIBL had least ratio.

- b. Review of ROA indicates SCBNL and NABIL have higher than other banks i.e. they effectively using the total fund supplied by the owners and creditors. They also have successful to get higher return on the assets used in business.
 - c. Review of Interest Income on Loan and Advances indicates all the top five banks earned high rate of interest income on loan and advances over the study period. It means they had high utilization of loan and advances.
 - d. Review of operating ratio indicates NIBL is more successful to minimize the operating ratio whereas SCBNL have holds comparatively second position. But, EBL ratio is unsatisfactory.
- iii. Activity Ratio Analysis: Review of Credit Deposit ratio indicates EBL had higher value over the study period or in over all average too. NIBL holds 2nd position. Similarly, NABIL AND HBL had moderate value where as SCBNL had least. It means SCBNL did not make profit by lending or utilizing the deposits by charging a high rate interest to the borrower than they pay the depositors.
- iv. Market Value Analysis:
- a. Review of Earning per Share (EPS) indicates SCBNL and NABIL had higher ratio. They hold first and second position respectively. HBL and EBL had moderate ratio where as NIBL had least. It means NIBL had least profitability on per share basis in comparison to top four banks.
 - b. Review of P.E. ratio indicates NIBL had higher value than other banks. SCBNL, NABIL, HBL and EBL had getting more competitive value. This shows they all had better P.E. ratio.
 - c. Review of Cash Dividend on Share Capital indicates NABIL had higher value and it have been providing greater cash dividend on share capital to its shareholders. HBL had moderate value where as SCBNL, EBL and NIBL had least value.
 - d. Review of Dividend including bonus on Share Capital indicates that SCBNL had higher value than others. NABIL had moderate value. It means SCBNL had been providing over the hundred percent dividends including bonus on share capital, where NIBL had least on an average and not providing such dividend in each year for the study period.

v. Solvency Analysis:

- a. Review of Capital Adequacy ratio indicates all the banks had lower capital adequacy ratio in terms of core capital except SCBNL. SCBNL is successful to maintaining capital adequacy ratio as per the directives of central bank. However, NABIL, EBL and NIBL had not significant differences as per the directives i.e. 11% should be maintained. HBL had least ratio. Off course it is inappropriate in terms of lowered return of lowered solvency point of view.
- b. Review of Interest Expenses to Total Deposit ratio indicates SCBNL had ability to generate cheaper fund than other banks. NABIL, HBL and NIBL had moderate ratio among them where EBL had comparatively higher ratio among them. It means EBL fails to generate cheaper fund among them.

vi. Other Relevant Ratios:

- a. Review of Staff Expenses to Total Operating ratio indicates HBL and NIBL had contributed more staff expenses in total operating expenses. NABIL holds moderate value, whereas SCBNL and EBL had least value. It means EBL had not been contributing more staff expenses in total operating expenses. It means EBL has not been providing sound salary and other allowances in comparison with HBL, NIBL, NABIL and SCBNL.
- b. Review of Staff Bonus to Total Staff Expenses indicates EBL had higher value whereas SCBNL, NABIL and NIBL had moderate value. HBL had lower value. It means HBL has been providing lower staff bonus to its staff with comparison among top five banks.
- c. Review of Weighted Average Interest Rate Spread indicates NIBL, NABIL and SCBNL had higher average value respectively. EBL and HBL had moderate spread. It means weighted average interest rate spread of NIBL, NABIL and SCBNL had almost same spread whereas HBL and EBL had comparatively lower.
- d. Review of Exchange Income/Gain indicates SCBNL had higher average value than other banks. NABIL, HBL and NIBL had moderate average value. EBL had least value with comparison to them. It means SCBNL has been gaining more income from foreign exchange income where as EBL has not been gaining satisfactory among top five banks.

- vii. Non-Performing Asset(NPA): Review of NPA indicates NIBL, EBL and SCBNL had comparatively lower average of such ratio. NABIL and HBL had comparatively high

average. But SCBNL has been maintaining in consistency manner whereas EBL has inconsistency.

CHAPTER – V

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Summary

As a financial intermediary commercial banks may give greater contribution to GDP for economic development. Of course, they play an imminent role in the financial system whereas our economic structural moved to 48.8% in 2042 to 61.1% in 2059.

There is no doubt; commercial banks are the real intermediaries who transfer saving to the borrowers so that the money can use in the productive sector. The overall situation of the country did not improve in this year too. Due to the reason, economic sector has been badly affected. The growth rate(at factor cost) of agriculture and non-agriculture sector (before adjusting bank service charges) is estimated to be 2.8% and 1.6% respectively there by 2% of economic growth rate.

The total GDP at current producers price is estimated to reach at Rs. 529 billion compared to Rs. 495 billion in the last year (grew by 6.9% over the last year, previous year it was 8.8%) and the per capital GDP (at current producers price) is estimated to be Rs 20,912 (previous year Rs. 2030).

Total deposits of commercial banks increased by 11.8 percent and reached to Rs. 2423 billion. Total loans and advances of the commercial banks increased by 15.2 percent and reached to Rs. 2530 billion. Loans to private sector increased by 13.5 percent compared to 9.1 percent rise in the same period of last year.

The research work entitled the comparative performance analysis of top five commercial banks includes the following banks:

- 1) Standard Chartered Bank Ltd.
- 2) NABIL
- 3) Himalayan Bank Ltd.
- 4) Everest Bank Ltd.
- 5) Nepal Investment Bank Ltd.

The research work is conducted to reach the destiny where we satisfy with the queries of research problem which was specified in the statement of the problem in the introductory chapter. To conduct the research work, the researcher consulted mainly the secondary sources such as documents published by concerned banks and also consulted the personalities of the related banks as primary sources where as necessary. Before presenting and analyzing the data, there was also need to review of related books, prior research on the topic. Obviously, it helped the researcher to construct conceptual framework and to analyze and interpret the secondary data according to objective set forth previously. Then the research work was analyzed and interpreted by financial tools such as cash reserve ratio, net profit margin, return on assets, earning per share, P-E ratio and non-performing assets (NPA) as well as statistical tools such as mean, standard deviation, CV and F-test (two-way ANOVA).

In this way, the researcher analyzed and presented the 4th chapter which was the main body of the research work. On the basis of data analysis and presentation, the researcher extracted some major findings. It has been explained along with the data analysis and presentation. So, on the basis of major findings the researcher reached in the conclusions keeping in the previously set objectives in mind. Ultimately, the researcher will recommend on the research problem to its stakeholders.

To know the real performance of banks, the researcher observed and analyzed the comparative performance analysis of top five commercial banks for five years period. It is hoped that the comparative performance analysis of top five commercial banks will give a rational result and represent the overall banking scenario in terms of performance analysis.

To analyze the liquidity position, only cash reserve ratio had calculated. Considering the overall data presented for five years period, it seems that the banks have been maintaining the CRR as per the directives of central bank except Everest Bank Ltd. In profitability, NPM, ROA, Operating ratio has been calculated. All ratios show at satisfactory level. In view point of assets utilization ratio, credit deposit ratio is calculated. It shows increasing trend. In market value analysis, EPS, P-E ratio, cash dividend on share capital has calculated. This shows also in increasing trend except first year. The NPA analysis is also decreasing. In the review of statistical tools, F-test ratio shows there is significant relationship among five banks variances.

5.2 Conclusions

After the analysis of relevant data of top five commercial banks, following conclusions are extracted based on the findings:

- a. EBL fails to maintain cash reserve as per the directives of NRB. Obviously EBL has facing the problem to meet short – term obligations.
- b. EBL and NIBL have been getting lower net profit out of total income with comparison to all the banks.
- c. EBL comparatively fails to maintain operating ratio on total assets whereas NIBL did best.
- d. HBL, EBL and NIBL have been suffering from ineffectively using the total fund. So, they are getting lower return than SCBNL and NABIL.
- e. All top five commercial banks have been earning sufficient interest income on loan and advances. It means they have been high utilizing the loan and advances.
- f. EBL is successful comparatively in utilizing the deposits by charging higher rate of interest to the borrowers than pay to the depositors. But in the case of SCBNL, it comparatively unsuccessful to utilizing the deposits by charging higher rate of interest, while remaining banks are in satisfactory level.
- g. To the view point of Earning per Share, SCBNL and NABIL have getting comparatively more EPS than other banks, whereas SCBNL get in consistency manner too. EBL has unsatisfactory EPS but its variables indicate consistency in some extent.
- h. NIBL has better P-E ratio but it shows inconsistency to some extent, however HBL shows consistency in nature in spite of moderate P-E ratio. Investors of NIBL have more expectations to the view point of market appraisal of the performance of the bank.
- i. NABIL has been providing comparatively greater cash dividend on share capital in a consistency manner too. SCBNL and NIBL have been providing lower cash dividend in inconsistency manner.
- j. SCBNL has been providing Dividend (including bonus) on share capital comparatively greater than other banks in a consistency manner. SCBNL provides over the 100 percent over the study period. In this view point, NABIL has also been providing better dividend in a consistency manner to some extent too. As a lower

average, NIBL has not provided dividend (including bonus) on share capital. NIBL shows greater inconsistency too.

- k. Except SCBNL, all remaining banks have been maintaining lower capital adequacy ratio as per the directive of central bank.
- l. SCBNL is successful to generate cheaper fund, whereas EBL is unsuccessful to generate cheaper fund. So, EBL earns less profitability on generating loan and advances.
- m. Having strong EPS than others, SCBNL has not been bearing sound salary and other allowances expenses in total operating expenses. EBL also shows least ratio.
- n. HBL has not been comparatively focusing to provide staff bonus rather it bears sound salary and allowances benefit than other banks.
- o. HBL and EBL have charging comparatively lower spread, whereas HBL shows more consistency than EBL.
- p. There is no need to pay more attention towards exchange gain to SCBNL. But an EBL effort towards exchange gain is less satisfactory than other while remaining banks are comparatively satisfactory level.
- q. Performance of all banks in maintaining NPA is satisfactory, whereas HBL and NABIL's performance is comparatively not sound.

5.3 Recommendations

On the basis of analysis and findings of the study, following recommendations have been forwarded.

- a. There has been communication gap between the banks and this is more surprising because they are on the same business. Banks need to develop a mechanism for inter bank transparency, a committee which will help the better understanding of the various types of risk, disseminate information regarding bad debts and fraud cases, minimize customer misleads and practice fair competition.
- b. The ratio of non-interest bearing deposit to total deposit NABIL is the lowest and as a result of this it has highest ratio in interest expense to total deposits. There is high propensity to grow in loan and advances. Therefore, this bank is suggested to reduce the interest rate. Consequently the volume of interest bearing deposit in its deposit

mix will reduce and as a result the gap between interest income and interest expenses will increase which will provide new lending opportunities.

- c. The low percentage of non-performing loan and low provision of loan loss of Everest is not entirely due to proper lending and investment policy of the bank. The portfolio of the bank has low deposit cost, increased foreign currency deposits and high portion of fee based income and exchange earning due to fluctuation is the main source of its income and has contributed comparatively less in the core function of the bank.
- d. The low ratio of loan and advances and investment to total deposit indicates that NABIL has not been properly mobilizing its fund. The lending functions have not been fully utilized. Therefore it is suggested to invest the funds as an idle deposit is a cost to the bank. The bank with the marketing efforts should increase its facilities on credit. As a result of increase in lending activities, its profitability will further increase.
- e. The commercial bank with the marketing efforts should increase its facilities on credit. As a result of increase in lending activities, its profitability will further increase.
- f. Based on the analysis, interpretation and conclusions of the research work, certain recommendations can be advanced to overcome the weakness and inefficiency and to improve the performance to its stakeholders. This effort may give insights to its stakeholders too.
- g. To meet short-term obligations, it is strongly recommended to EBL to maintain CRR as per the directives of central bank. Other wise EBL will suffer from liquidity crunch and will lose creditors confidence.
- h. It is recommended to HBL, EBL and NIBL to effective utilization of total fund (assets) so as to make more profitability.
- i. Interest income on loan and advances is at satisfactory, so it is recommended to give continuity as previous.
- j. It will be sound competitive to EBL to maintain Operating ratio on Total assets comparatively lower.
- k. It will be sound effective while SCBNL utilize the deposits by charging higher rate of interest to the borrowers than the depositors as a view point of effective management of assets.

- l. It is recommended to EBL to pay more attention about profitability (EPS). It will be still sound effort while giving continuity to maintain as previous by SCBNL and NABIL.
- m. It is recommended to NIBL to give consistency in P.E. ratio.
- n. It is recommended to SCBNL and NIBL to give contribution on cash dividend in a consistency manner than dividend (including bonus) on share capital.
- o. Except SCBNL, it is strongly recommended to all banks to maintain capital adequacy ratio as per the directives of central bank.
- p. It is strongly recommended to EBL to generate cheaper fund by bearing favorable lower interest rate on deposits.
- q. It will be better to SCBNL and EBL to bear comparatively sound contribution towards staff expenses out of total operating expenses at view point of employee satisfaction and their effective utilization.
- r. It is recommended to HBL to pay more attention towards staff bonus to be competitive among top five banks.
- s. It is recommended to EBL and HBL to pay more attention towards interest rate spread.
- t. It is recommended to EBL to pay more attention towards exchange of foreign currencies. It will give contribution to total income too.
- u. It is recommended to HBL to conscious about the NPA in recent years.

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