

# **CHAPTER –I**

## **INTRODUCTION**

### **1.1 Background of the study**

Banks undertaking business with the objective of earning profits are commercial banks. Commercial banks pool scattered funds and channel it to productive use. Commercial banks can be of various forms such as Deposits banks, Saving banks, Industrial banks, Mixed banks Examin banks etc. commercial banks render a variety of services. In the absence of commercial banks, it will be impossible to meet the financial needs of the country. Commercial bank Act 1974 defines commercial banks: A commercial bank means bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions.

Now there are 32 Commercial Banks, 89 Development Banks, 77 Finance Companies, 22 Micro Credit Development Bank and 16 NRB permitted Co-operatives as on mid July 2012 (source: NRB). Commercial banks are the financial institution, which accepts the demand and time deposits from the business, institutions, and individuals and engages in both business and consumer lending. It must use fund raised from the public deposit providing loans to agriculture, commerce and industries with the prime objectives of profit maximization. It also provides technical and administrative assistant to the industries, trade and business.

Commercial banks play the important role in directing the affairs of the economy in various ways. The operations of commercial banks record the economy pulse of the entire economy. The size and composition of transactions mirror of commercial during the 1930's reflected the phenomenon of reserve global depression in the world. Commercial banks had played a vital role in giving a direction for the trade and industry in the nation. Upadhaya and Tiwari (1998) stress that the commercial bank is established with a view to provide short term debt necessary for trade and commerce of the country along with other

ordinary banking business such as collecting the surplus in the form of deposit, lending debts by discounting bills of exchange, accepting valuable goods in security, acting as an agent of the client etc. in the same way Abrol and Gupta (2002) explain that principally a commercial bank accepts deposits and provides loans primarily to business firm. On the other hand the broad concept of commercial bank holds that the commercial bank is the only institution other than central bank. The commercial bank is the only institution other than central bank permitted to accept demand and time deposits (Crosse, 1963).

Commercial banks are heart of financial system that holds the deposits of many person and government established business unit. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services for the producers to customers and the financial activities of the government. They provide the large portion of the medium of exchange and they are media through which monetary policy is affected. These facts show that the commercial banking system of nation is important to the functioning of the economy. (Read/Cotler/Will/Smith, 1976)

Commercial banks are also financial intermediaries they mediate people who save money and who want to secure the use of money by accepting the deposits, borrowing funds and advancing loans. In addition to these primary functions, commercial banks collect checks and bills, open letter of credit, guarantee on behalf of customers, undertake capital and other many activities, exchange foreign currencies etc.

## **1.2 Introduction Of Sample Banks**

Both the banks HBL and NBBL are joint ventures banks but SBL is not the joint venture bank. All three of the banks are operating in Nepal and all of them carry out their operation under Nepal Rastra Bank ACT-2012 and Commercial Bank Act 2013.

### **1.2.1 Introduction of Siddhartha Bank Limited**

SBL started its operation in the year 2002, led by a group of distinguished business personalities and respected Nepali citizens with the objective of providing excellence and professional banking services. The promoters and public are holding 70% and 30% stake of the bank respectively.

Directors of the bank are eminent personalities from various fields and they bring a wide gamut of experience and skills. The directors have contributed their professional knowledge, experience and expertise in their respective areas of specialization for the corporate governance model adopted by the bank, which among others, encompasses the principles of full disclosure and transparency, social responsibility and accountability. There are 21 branches of SBL Bank. SBL limited provides a wide variety of service facilities to its customers. Through, the use of modern and innovative tools and techniques it is always ahead to deliver its quality service. The services rendered by SBL are deposit product, trade finance, business loans ,remittance, personal and retail banking, treasury operation and others.

#### **1.2.1 .1 Capital structure of Siddhartha Bank limited**

SBL limited was established in 2001 as the 17<sup>th</sup> commercial bank of the country and has been expanding its activities throughout the country. Share capital structure of SBL limited is as follows:

**Table 1:** Capital structure of SBL

<b>Capital</b>	<b>Amount (In Rs.)</b>
Authorized capital	300,00,00,000
Issued capital	1,57,11,30,000
Paid-up capital	1,09,50,30,000

*Source: Annual Report of SBL-2011/12*

**Table 2:** Ownership share subscription structure of SBL

<b>Shareholders</b>	<b>Contribution (%)</b>
Organizations	8.56
Individuals	42.44
Public	49
<b>Total</b>	<b>100</b>

*(Source: Annual Report of SBL-2011/12)*

### **1.2.1.2 Vision, Mission and Objectives of Siddhartha Bank**

To be financially sound, operationally efficient and abreast with technological developments. The bank firmly believes in customer focus as its core value, shareholder prosperity is the primary priority, employee growth is a commitment and economic welfare is a sincere concern.

To be leader among the banks of its age in Nepal by fulfilling the interest of our stakeholders and providing total customer satisfaction by offering innovative products and developing and retaining highly motivated and committed staff. The bank directs all its efforts to move ahead with increased profit.

The objective is to consistent sustainable performance over the long-term period. Aspire to be primary bank for our customers, catering their entire banking requirement. Bank focus on building strong relationship with their customers and their ability in supporting them to achieve customer's needs and requirements.

### **1.2.2 Introduction of HBL**

HBL one of the reputed and widely recognized commercial bank was established in 1993 as joint venture with Habib Bank Limited of Pakistan. Himalayan Bank is also the first commercial bank of Nepal with most of shares held by the private sector of Nepal.

Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits. Legacy of Himalayan Bank lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL.

All Branches of HBL are integrated by Temenos 24 (T24) software, the single Banking software where the Bank has made substantial investments. This has helped the HBL provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. HBL is the biggest inward remittance handling Bank in Nepal. Being innovative, HBL has introduced many new banking products like Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, Credit Card, and fee and utility payment facilities. The customers have always been the focus of HBL and 'Think Customer' is the bank's main philosophy

The Himalayan Bank Limited holds a vision to become a '**Leading Bank of the country**' by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

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

To become 'the Bank of first choice' is the main objective of the Bank.

## Share Holding Composition of HBL

The ownership composition of the HBL as depicted in the figure below is; 51% owned by the promoters, 20% by Habib Bank Ltd, 14% by Employee Provident Fund and 15% by General Public

**Table No. 3**  
**Share Holding Composition of Himalayan bank limited**

<b>Shareholders</b>	<b>Contribution (%)</b>
Promoters Shareholders	51%
Habib Bank Ltd. Pakistan	20%
Financial Institution	14%
Nepalese Public Shareholder	15%
Total	100%

*Source: Annual Report of HBL-2011/12*

**Table No. 4**  
**Capital structure of Himalayan bank limited**

<b>Capital</b>	<b>Amount (In Rs.)</b>
<b>Authorized Capital</b>	<b>3,000,000,000</b>
<b>Issued Capital</b>	<b>2,000,000,000</b>
<b>Paid up Capital</b>	<b>2,000,000,000</b>

*Source: Annual Report of HBL-2011/12*

### **1.2.3 Introduction of NBBL**

NBBL was established in the year 1994 with IFIC Bank Ltd of Bangladesh with the goal to become “The Bank for everyone”. Over the years bank has been successful to increase the paid up capital to Rs 2 Billion. Its Head Office is situated at New Baneswor, Bijuli Bazar, and Kathmandu.

The prime objective of this bank is to render hospitality to the valued customer. With a network of 19 branches and a corporate office, bank has been providing the extensive services to the valued customer. To facilitate the valued customer bank had successfully install 16 ATMs and holiday banking for their convenience.

The bank has earned the glory of making available the services for almost all the top business houses. Top exporter and importers of the country have established banking relationship with the bank with a substantial volume of foreign business which has enhanced the bank’s popularity in the international trade front.

With the continuous support of our valued customers the bank has made all round progress in every sphere of its operation. This is the first bank to launch the special deposit product for women introducing “Grihini Bachat Khata”. We ensure our valued customer to deliver the innovative products and services as per requirement which will be highly beneficial to create the value.

NB banks holds a vision to become a leading bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the banks.

The bank mission is to provide their clients with the help of a skilled and dedicated workforce whose creative talents, innovative actions and competitive edge make unique position in giving quality services to all institutions and individuals.

To become a legend and first selection bank is the objective of the bank.

**Table no.5**

**Share subscription of Nepal Bangladesh bank limited**

<b>Shareholders</b>	<b>Contribution (%)</b>
Promoter Shareholders	26%
IFIC Bank, Pakistan	51%
Bangladeshi promoter Bank Asia	15%
Financial institution	8%
Total	100%

*Source: Annual Report of NBBL-2011/12*

**Table no. 6**

**Capital structure of Nepal Bangladesh bank limited**

<b>Capital</b>	<b>Amount (In Rs.)</b>
<b>Authorised Capital</b>	<b>3 ,000,000,000</b>
<b>Issued Capital</b>	<b>2 ,000,000,000</b>
<b>Paid Up Capital</b>	<b>1,860,315,000</b>

*Source: Annual Report of NBBL-2011/12*



### **1.3 Statement of Problem**

Nepal is the country which is made up of villages and rural areas mostly and where there is predominance of agriculture sector. It is very difficult to solve the problem of credit through commercial banks and very nominal population of the country is using banking facilities.

Presently, our economy is in critical phase due to political uncertainty, labor-management conflict, power crises and so on. In such a situation banking systems are facing different problems which has created to increase risks in the operation of banking and financial institutions. The problem like liquidity crisis, uncertain directives by NRB, increase in interest rates, fraud, etc.

The commercial banks are facing a huge burden due to excessive competition from rural banks, finance companies and local co-operatives, which provide loans to the local customers. In addition, the large numbers of commercial banks in the economy is the emerging challenges for commercial banks. Therefore, NRB should take every step very carefully to stabilize the economy and banking sector should take adequate decision to decrease risks.

The research seeks to fit out inefficiency and weakness of mentioned three banks i.e. Siddhartha Bank, Himalayan Bank and Nepal Bangladesh Bank with analysis of these bank's financial statements. Attempts are made shortly to answer the following questions:

- How far these three banks i.e. Siddhartha Bank, Himalayan Bank and Nepal Bangladesh Bank have been able to transfer monetary resources from savers to users?
- How sound are the operational results in relation to their profitability?

- How have these Banks i.e. Siddhartha Bank, Himalayan Bank and Nepal Bangladesh Bank been managing their position in relation to solvency and profitability?
- What is the impact of deposit and loan advance in liquidity?

#### **1.4 Objectives of the Study**

The main objective of the study is to analyze financial performance of and solvency position of this bank through use of different types of ratios other objective of this study are mention below:

- To point out the comparative financial strength and weakness of SBL, HBL and NBBL
- To evaluate the growth ratios of loan and advances and total investment with respective growth rated of total deposits and net profit of the company.
- To analyze the relationship between deposits and total investment, deposit and loans and advances and loan and advances and net profit of the company.

#### **1.5 Importance of the Study**

The present study deserve some significant of its own kind in this field. The study will be concise practically usable and valuable to the major parties interested in the performance of SBL , HBL and NBBL's shareholders, management, broker, financial institution, general public, depositor, stakeholders, creditors, etc.

Financial executive as well as those other policy-making bodies, which are concerned in banking, would also find useful. Teachers and students who are searching for the data's and articles will be facilitated from this study report.

#### **1.6 Limitation of Study**

The study can provide a guideline to the user of this report, but this report does have certain limitation. They are as follows;

- Though there are 32 commercial banks, this report study covers of only three banks: Siddhartha bank, Himalayan Bank and Nepal Bangladesh Bank.
- Study report is completely depending upon secondary data of five year from FY 2007/08 to FY 2011/12 of SBL, HBL and NBBL.
- A simple technique has been used in analysis.

The qualitative factors such as growth and expansion policy of the bank's quality and general economic condition have not been studied.

## **1.7 Organization of Study**

The whole study has organized into the following five chapters.

Chapter i. Introduction chapter includes the Background of the Study, Background of the company, Statement of the Problem, Objectives of the Study, Importance of the Study, Limitation of the Study and Organization of the Study itself. Chapter ii. Review of Literature chapter includes conceptual review, review of literature in field of financial analysis and research. It emerges knowledge about the concerned field. Chapter iii. Presentation and Analysis chapter deals with presentation and analysis of the data. It presents and analyzes the information by using various accounting, financing as well as statistical tools in specific form to meet the stated objectives of the study. Chapter iv. Summary, Conclusion and Recommendation chapter consist summary and researcher conclusion from the study, which is based on the result through data analysis. It provides important recommendation to the concerned organization for better improvement.

## **CHAPTER – II**

### **REVIEW OF LITERATURE**

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research.

#### **2.1 Conceptual Review**

Bank is a financial institution, which plays a significant role, in the development of a country. Banking institutions are inevitable for the resources mobilization and all round development of the country. It is resources mobilization and all round development of the country. It is resources for the economic development, it maintains economic confidence of various segments and extends credit to people. (Grywinshiki, 1993)

##### **2.1.1 Financial Analysis**

Financial analysis is that sort of calculation which is done with the help of annual report. And the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis. It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved, the related importance of the issue and on the nature and reliability of the information available. (Helfert, 1992).

Financial appraisal is a scientific evaluation of profitability and financial strength of any business concern. Financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis. A complete financial analysis and interpretation of financial statement involves the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired results(Khan & Jain,1996).

The Analysis and interpretation of financial statement depicts the actual position of a firm regarding the objectives of that firm within a specified period of time. Financial appraisal is a process of synthesis and summarization of financial and operative data with a view to get an insight into the operative activities of a business enterprise. It is a technique of X-raying the financial position as well as progress of a concern as observed by Wessel.

Financial statement analysis involves a comparison of firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weaknesses(Weston, 1996: 65).

Financial Performance Analysis is used primarily to gain insight into operating and financial problems confronting the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statements into their components on the basis of purpose in the one hand and establish relationships between these components and between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have

clear understanding of changing profitability and financial condition of the business organization (Hampton, 1998).

Much can be learnt about business performance and financial position through appraisal of financial statements, the appraisal or analysis of financial statements spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness that would have otherwise been buried in a maze of details.

Financial Analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data.

Financial Statement Analysis involves the use of various financial statements. These statements perform several things. First, the balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment in time, usually the end of a year or a quarter. Next, the income statement summarizes the revenues and expenses of the firm over a particular period of time, again usually a year or quarter. While the balance sheet represents a snapshot of the firm's financial position at a moment in time, the income statement depicts a summary of the firm's profitability over time. From these two statements certain derivate statements can be produced, such as statement of retained earnings, a sources and uses of funds statements and a statement of cash flows etc (Van Horne, 1998).

Financial Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance (Metcalf, 1976)

Financial Statement Analysis allows managers, investors and creditors as well as potential investors and creditors to reach conclusion about the recent and current status of a corporation. The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning. Analyzing of what has happened should be of great value in improving the standards, techniques and procedures of financial control involved in carrying out finance function (Kuchhal, 1982).

The four basic statements contained in the annual report are the balance sheet, the income statement the statement of the retained earnings and the statement of cash flows. Investors use the information contained in these statements to form expectations about the future levels of earnings and dividends and about the risks of these expected values. Financial statement analysis generally begins with the calculation of a set of a financial ratios designed to reveal the relative strength and weakness of a company as compared to other companies in the same industry, and to show whether the firm's position has been improving or deteriorating over time. (Weston, 1996).

## **2.2 Review of Related Studies**

Under this, different articles have been reviewed for the purpose of clarification of financial statement and performance of the company.

**Thapa (1994)** explained on “Financial System of Nepal ” that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to high credit needs particularly by newly emerging industries, the bank still seems to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors. Out of all commercial banks (excluding two recently opened regional commercial banks), Nepal Bank Ltd. and Rastriya Banijya Bank are operating with a nominal profit, the later turning towards negative

from time to time. Because of growing competition and limitation of investment sectors, the spread between interest income and interest expenses is declining.

These banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected. On the other hand, the foreign joint venture banks have been functioning in an efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

The study concludes that by its very nature of the public sector, these two domestic banks couldn't compete with the private sector banks, so only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

**Pradhan (2004)** in his research paper "Role of Saving, Investment and Capital formation in Economic Development, A case of Nepal," has studied about the strong role and impact of saving, investment and capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has been collected for the period of 1974/75 to 2000/01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equations used in this study have been estimated at current prices as well as in real terms with the entire study period divided into different sub periods.

The results presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The results of the empirical analysis led to three important conclusions: First, saving, investment and capital formation have positive impact on economic development. Second, the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving and capital



formation on economic development while weak role -played by investment.

Poudel (2053) reveals that balance sheet, profit and loss a/c and accompanying notes are the most useful aspects of the banks . It needs to understood the major characteristics of bank's balance sheet and profit and loss a/c. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature ,are considered as off –balance sheet item

Dangol & Dangol (2061), interest parties in financial statements analysis are management, investors or shareholders or owner ,creditors, employees and trade union , bankers and lender and government etc. They pointed out that financial statement analysis technique answerers various questions regarding the performance of the past ,present and future.

### **2.3 Review Related thesis:**

**Shrestha, (1993)**, has conducted a study on “*Investment Planning of Commercial Banks in Nepal*”.

#### **His main objectives:**

- To evaluate the financial performance of commercial banks in Nepal.
- To examine the investment of commercial banks of Nepal with reference to securities, loans & advances.
- To establish the relationship of banks' portfolio variables with the national income and interest rates.

#### **His major findings:**

- The general trend of commercial banks asset holding is growing. Deposits have been a major source of funds. The excess reserve level of the banks allows idle money and loss of opportunity. Debt equity ratios are very high, greater than 100%.
- The return ratios are on the average higher for foreign joint venture banks than

for the Nepalese bank but return of asset found to be statistically some. Risk taking attitude is higher in foreign joint venture banks. The total management achievement index is higher in case of foreign banks in comparison to the Nepalese banks.

- The hypothesis that the commercial banks have non-professional style of decision making in investment has been accepted. The investment of commercial banks in shares and securities is normal and not found to have strategic decision towards investment in shares and securities. Yield from the security has been found to be satisfactory.

- Investment in various economic sectors shows industrial and commercial sector taking higher shares of loan till 1990 .

- Investment in various sectors has positive impact on the national income from their respective sectors.

- Lending in priority sector showed cottage and small industry sector sharing higher loans. Priority sector lending showed positive impact on the national income.

The secured loan analysis showed commercial loan as being very important followed by social and industrial loans. The loan loss ratio has been found to be increase with low recovery of loan. Demand of bank credit has been found to be affected by the national income and lending and Treasury bill rate . The investment of commercial banks on government securities has been observed to be affected by total deposit, cash reserve requirements and Treasury bill and lending rates. Interest rates, lending rate, deposit rate were found to constitute a set of significant variables affecting the bank portfolio composition.

**Kapadi (2002)** has conducted research on "*A Comparative Study on Performance of NABIL Bank Ltd and Standard Chartered Bank Limited.*" The study of this thesis is the descriptive analytical method. The core objective of this thesis is to analyze the financial performance of NABIL bank and SCBNL this includes the examining of liquidity capital structure and activity and profitability ratios of the ratio joint venture sample banks.

**His main objectives:**

- To examine the trend of deposits and loan and advances of NABIL bank and SCBNL.

- To study the liquidity profitability capital structure activity and capital adequacy position of NABIL bank and SCBNL.

- To suggest and recommended some measures by evaluating and finding financial performance of NABIL bank SCBNL on the basis of finding.

**His major findings:**

- Total debt to equity ratio of both the banks reveals that the claims of the outsider exceeds mere than that of the owner's over the bank asset. However NABIL bank seems to be more leveraged than SCBNL.

- Total debt to total assets ratio of both the banks has always been over 88, which indicates the excessively geared capital structure. Comparatively NABIL bank has used a little more debt financial than SCBNL. Long-term debt to total assets ratio of NABIL bank is seems to be greater as per mean, which shows more use of long-term debt by NABIL bank than by SCBNL.

- Long-term debt to net worth ratio of both the banks is following the fluctuating trend. The mean proportion of outsiders fund and owners fund employed in the total capitalization of NABIL bank is higher than that of SCBNL. This implies that it is following an aggressive strategy of higher risk higher return policy.

- The fixed asset to net worth ratio of NABIL bank is higher than that of SCBNL as per mean ratio. But the investment of owners' equity in fixed assets for both the banks are minimum as is commonly seen in various financial institutions.

**Shrestha, (2007)**in his thesis "*Financial performance analysis of Nepal Bangladesh bank ltd*" In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

**His main objectives:**

- To analyze the functions, objectives procedure and activities of the NB bank
- To analyze the lending practices and resources utilizations of NB bank.

- To determine the impact of growth in deposit on liquidity and lending practices.
- To examine the lending efficiency and its contribution to profit.
- To make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

The researcher found that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged.

**His major objectives:**

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

**Gautam (2006)**, has conduct research on "*A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangladesh bank Limited*" Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

**His main objectives:**

- To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.

- To access the debt servicing of the joint venture commercial bank.
- To examine the correlation and the signification of their relationship between different ratios related to capital structure.
- To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.
- To obtained the objectives, some financial, statistical and accounting tools.

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

#### **His major findings:**

- The research sample JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim.
- The on an average, NBBL bank constitutes 16.27 times of P/E ratio, which should be reduce as quickly as possible.
- The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks.
- The average ROE of JVB's i.e. SCBL and NBBL area 37.36% and 21.75% respectively. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits.

**Limbu, (2009)**, in his dissertation "*Credit Management of NABIL Bank Limited*" highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash

and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition

**His main objectives:**

- To evaluate various financial ration of the Nabil Bank.
- To analyze the portfolio of lending of selected sector of banks
- To determine the impact of deposit in liquidity and its effect on lending practices.
- To offer suitable suggestions based on findings of this study.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances.

**His major findings:**

- Assets management position of the bank shows better performance in the recent years. Non-performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank.
- In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio.
- In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances.
- Earning per share and The Price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. Its all

analysis indicates better future of concern bank.

## **2.4 Concluding Remarks**

After reviewing the literatures, the researcher is highly encourage to conduct the research on financial analysis of banks. The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, inventory management, financial performance and cash management of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. The past researches in measuring financial performance of bank have focused on the limit ratios, which are incapable of solving the problems. In this research various ratio are systematically analyzed and generalized. Past Researchers are not properly analyzed about lending and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature. Since the researcher have used data only five fiscal year but all the data are current and fact. Probably this will be the appropriate research in the area of financial performance of bank and financial institutions.

## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology has primarily sought the evaluation of the financial performance of Siddhartha Bank Ltd, Himalayan Bank Ltd and Nepal Bangladesh bank Ltd. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objectives of the research.

#### **3.1 Research Design**

Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research question and control variance. The plan mean now researcher investigator collect the data structure in term controlling the data in term of money and time.

A research design is the arrangement of the conditions ,for collectihg and analysis of the data in a manner that aims to combine relevance to the redsearch purpose with economy in procedures. (Chaire,Selliz and Others,1967)

In this study descriptive as well as analytical process has been followed. We can say that the research design is specific action of methods and procedures for acquiring the information needed. It is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control; variances. It is the overall operational pattern of framework of the projects that stipulates what information is to be collected from which sources by what purpose. A good design will ensure that the information obtained is relevant to the research question and that it was collected by objective and economically procedure.



The main objective of research design is to make comparative analysis of financial performance of commercial banks with reference to SBL HBL And NBBL. The research analyzes the financial performance of commercial banks in Nepal and provides valuable recommendation. In other words, this research is aimed at studying profit through analyzing financial ratio of SBL,HBL and NBBL. This will follow analytical and descriptive research design. It also analyzes the composition of trend of total deposit, total assets, investment and profitability condition of commercial banks. The design for this research is made by collection of information from different sources by using various financial statistical tools.

### **3.2 Population and Sample**

Population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. The researcher cannot normally survey everyone in the population so a small part of the total population is taken to represent the total population. Hence, a sample is a collection of items or elements from a population or universe. It comprises some observations selected from the population. Here Siddhartha Bank Limited, Himalayan Bank Ltd And Nepal Bangladesh Bank Ltd have been selected as sample for the present study among the 32 commercial banks.

### **3.3 Sources of Data**

There are two sources of data, primary and secondary. But only secondary data has been used in this search.

#### **Secondary Source:**

This refers to data that are already used and gathered by others. Secondary data are mostly used for this research purpose. So the major sources of secondary data for this research are as follows:

- Annual general report of SBL,HBL,NBBL from 2007/08 to 2011/12
- ❖ National newspaper, journals, magazine, and reports for Central Library of T.U., Library of Patan Campus.
- Internet and various website
  - ❖ NRB directives.

### **3.4 Methods of Data Analysis**

To make the study more specific and reliable, the researcher uses two types of tool for analysis.

#### **3.4.1 Financial Tools**

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

##### **3.4.1.1 Ratio Analysis**

A ratio is defined as “The indicated quotient of two mathematics exresio” and as the relationship between two or more things (Spring Mass & Merriam,1975:958)”

Ratio analysis is a widely used tool of financial analysis. A large number of ratios can be generated from the components of profit and loss account and balance sheet. It is a powerful tool of financial analysis. It helps to summarize the large quantities of financial data and to make quantitative judgments about the firm’s financial performance. They are sound reasons for selecting different kinds of ratios for different types of situations. For this study, ratios are categorized into the following major headings:

#### **A. Liquidity Ratio:**

Liquidity is the ability to meet anticipated and contingent cash needs. Cash needs arise from deposit withdrawals liability maturates and loans disbursals. Cash needs are met by increase in deposit and borrowings, loan repayment, investment maturates and the sale of assets

If the company has adequate liquidity strength, it can meet its short-term obligations. This ratio helps management to turn the company smoothly with high degree of creditability in the market and used to measure the companies short-term obligation with short-term resources available at given point of

time. Inadequate liquidity bears poor company image in the market and in such a case financial creditability term borrowing or overdraft may become problematic. In the worse case inadequate can lead to the insolvency of the institution. On the other hand excessive liquidity can tend to lease assets yields and contributes to poor earnings performance. This following rating is used as lease assets yields and contribute to poor earnings performance of the following ratios which are used to find out the short-term solvency. Following are *measure* under liquidity ratio.

### **B. Current ratio**

Current ratio reflects the strength of current assets available with company over its current into cash in one accounting year. This objective of this ratio is to measure the ability of the firm to meet its short-term obligation or it can also be taken as measure of creditors versus current assets. The current assets of a firm represent those assets which can be in ordinary course for business converted into cash within a short period of time normally not exceeding one year. It includes cash and bank balances, marketable securities and inventory of raw materials, debtors, bills receivables and prepaid expenses.

The current liabilities are short-term maturing obligation to be met within a year. It includes trade creditors' bills payable, bank credit, provision for taxation, dividend Payable and outstanding expenses. The current ratios and the ratio of total current assets to current liabilities current ratio measure the short-term solvency that is availability to meet short-term obligation measure of creditors versus current assets available for each rupee of current liabilities. Although there is no hard and fast rules through conventional rules. A Current assets twice the current liabilities is considered more satisfactory. The following formula can be used to ascertain this ratio:

i) Current ratio

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

Higher ratio indicates the strong short-term solvency position and vice-versa.

ii) Cash and Bank Balance to Current Asset Ratio

$$\text{Cash and bank balance to current asset ratio} = \frac{\text{cash \& bank balance}}{\text{Current assets}}$$

iii) Cash and Bank Balance to Total Deposit Ratio(Cash Reserve Ratio)

$$\text{Cash and bank balance to total deposit} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

### **C. Efficiency/ Activity/Turnover Ratio**

Efficiency or activity ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following are the various ratios relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

i) Loans and Advances to Fixed Deposit Ratio

$$\text{Loan and advances to fixed deposit ratio} = \frac{\text{loan \& advance}}{\text{Fixed Deposit}}$$

Loans and Advances to Saving Deposit Ratios

$$\text{Loan and advances to saving deposit ratio} = \frac{\text{loan \& advance}}{\text{Saving Deposit}}$$

iii) Loan and Advances to Total Deposits Ratio

$$\text{Loan and advances to total deposit ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposit}}$$

#### **D. Capital Structure/Leverage/Solvency Ratio:**

Financial leverage or capital structure ratio is calculated to judge the long – term financial position of the firm. These ratios indicate mix of funds provided by owners and lenders. Generally, there should be an appropriate mix of debt and owners equity in financing the firm’s assets. Administration of capital can smoothly be carried with the help of such ratios.

##### i) Debt-Equity Ratio

$$\text{Debt Equity ratio} = \frac{\text{Total Debt}}{\text{Shareholders Equity}}$$

##### ii) Debt-Assets Ratio

$$\text{Total debt to total assets ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

##### iii) Total Shareholder’s Equity to Total Assets Ratio

$$\text{Total shareholder's equity to Total Assets} = \frac{\text{Total Shareholders Equity}}{\text{Total Assets}}$$

#### **E. Profitability Ratio**

Profitability ratio is measure of efficiency and the search for it provides the degree of success in achieving desired profit. No organization can survive and grow over a long period of time without profit. It is thus an ultimate output of a company which will have in future if it fails to make sufficient profit. Shareholders, Bankers, government, Tax collections, employees are all concerned with the profitability of the company. Shareholders are interested with their rate of return, employees in the future prospects of the company, government in the company’s tax payment capacity and banker’s in the perspective of the company. Profitability ratios can be determined on the basis of either sales or investments. Through this ratios the lenders and the investors decide whether to invest in a particular business or not. Some of the important profitability ratios are as follows:

i) Return on Total Asset

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit after Tax (NPAT)}}{\text{Total Assets}}$$

ii) Return on Shareholder's Equity (Net Worth)

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit after Tax (NPAT)}}{\text{Total Assets}}$$

$$\text{Interest earned to Total Assets} = \frac{\text{Interest earned}}{\text{Total Assets}}$$

ii) Return on Total Deposit Ratio

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

## **F. Ownership Ratio**

i) Earnings Per Share (EPS)

ii) Dividend Per Share

$$DPS = \frac{\text{Earning paid to shareholders}}{\text{No of shares Outstanding}}$$

iii) Dividend Payout Ratio

$$DPR = \frac{\text{Dividend per share}}{\text{Total Dividend}} \times 100\%$$

Price – Earning Ratio (P/E ratio)

$$\text{Price Earning Ratio} = \frac{\text{Market value per share}}{\text{Earning per share(EPS)}}$$

**G. Capital Adequacy Ratio**

This ratio of selected banks measure of NPAT earned by using total deposits. This ratio shows how efficiently the management has utilized its deposits in profit generating activities. This ratio is a mirror for bank s overall financial performance as well as its success in profit generation. Because of the deposit made by its customer s is the major source of earning of the commercial banks. The higher ratio shows the higher degree of utilization of deposits in generating profit. This ratio is presented by following formula:

- i) Net Worth to Total Deposit Ratio

$$\text{Net worth to Total Deposit Ratio} = \frac{\text{Net Worth}}{\text{Total deposits}}$$

- ii) Net Worth to Total Assets Ratio

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

- iii) Net Worth to Total Credit Ratio

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

## H. Assets Quality Ratios

Assets Quality Ratio measures capability of covering risk in compare to the loss from the created loan loss provision. high the loan loss ratio high will be the risk.

- i) Loan Loss Coverage Ratio

$$\text{Loan Loss Coverage Ratio} = \frac{\text{Loan loss provision}}{\text{Total Risk Asses}}$$

- ii) Loan loss provision to Total Deposit Ratio

$$\text{Loan Loss Provision to Total Deposit Ratio} = \frac{\text{Loan loss provision}}{\text{Total Deposit}}$$



### 3.4.2 Statistical Tools

For supporting the study, statistical tool such as Mean, Standard Deviation, Coefficient of Variation, Correlation, Trend Analysis, Hypothesis and diagrammatic cum pictorial tools have been used under it.

- i) **Arithmetic Mean (Average):-**Arithmetic mean of a given set of observation is their sum divided by the number of observation. In general if  $X_1, X_2, X_3, \dots, X_n$  are the given observations, then arithmetic mean usually denoted by  $\bar{X}$  is given by:

$$\bar{X} = \frac{\sum X}{N}$$

Where,  $\bar{X} = \text{Arithmetic mean}$

$N = \text{Number of observations}$

$\sum X = \text{Sum of observations}$

#### ii) Standard Deviation

Standard deviation is absolute measure of dispersion, which is defined as the positive square root of the arithmetic mean of the square of deviation taken from their arithmetic means. It is measured an absolute term of dispersion depending upon unit of measurements. if  $X_1, X_2, X_3, \dots, X_n$  are the given observation, then standard deviation denoted by small sigma ( $\sigma$ ) is given by;

$$S.D. = \sqrt{\frac{\sum X^2}{N} - \left(\frac{\sum X}{N}\right)^2}$$

Where ,  $N = \text{number of observation in series X}$

$$\sqrt{\bar{X}} = \text{Sum of observation in series X}$$

$$\sqrt{\bar{x^2}} = \text{Sum of Squared observation in series X}$$

The relative measure of dispersion based on the standard deviation is known as the coefficient of standard deviation

### iii. Coefficient of Variation (CV)

Coefficient of variation is the relative measure of dispersion, comparable across distribution, which is defined as the ratio, of the standard deviation the mean express in percent (Rechard & Rubin, 1994, pg 114). It is used in such problem where we want to compare the variation which is greater and is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the other hand, the series for which co-efficient of variation is less and is said to be loss variable or more consistent, more uniform and more stable or more homogenous.

The coefficient of variation is given by,

$$C. V. = \frac{\sigma}{\bar{X}} \times 100\%$$

Where,

C.V. = Co-efficient of variation

$\bar{x}$  = Arithmetic mean

$\sigma$  = Standard deviation

### iv. Correlation Coefficient ( $\gamma$ )

Correlation is a statistical tool which studies the relationship between two variables and correlation analysis involves various methods and techniques used for studying and measuring extend for the relationship between the two variables. This helps in determining extend to which the two variables are correlated but it doesn't tell us about

the cause and effect relationship. Though, there is a high degree of correlation between two variables one cannot say which one is the cause and which one is the effect.

One of the widely and mathematical methods of calculating the correlation coefficient between the two variables is Karl Person's Correlation Coefficient. It is also known as Pearson's correlation coefficient. It is denoted by 'r'.

It is computed by using the following formula

$$r = \frac{\sum UV}{\sqrt{\sum U^2 \sum V^2}}$$

Where,

r = Co-efficient of correlation

$\sum UV$  = The total of the product of items in the two series

$\sum U$  and  $\sum V$  = The total of X and Y series respectively

$\sum U^2$  and  $\sum V^2$  = No. of observation in series X and Y

The coefficient of correlation always varies between the two limits of +1 and -1, when there is perfect positive correlation, its value is +1 and when there is effect negative correlation its value is -1. Its mid point is 0, which indicates absences of correlation. Lastly, the value of the coefficient of correlation is always between +1 and -1.

### **3.4.3 Diagrammatic and Graphical Representation**

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

## **3.5 Data Processing Procedure**

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

# **CHAPTER - IV**

## **DATA PRESENTATION AND ANALYSIS**

### **4.1 Introduction of Financial Analysis**

This chapter deals with the presentation, analysis and interpretation of relevant data of Siddhartha Bank in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. With the help of this analysis, efforts have been made to highlight financial performance of Siddhartha Bank as well as other cases or problems of Siddhartha Bank can be visualized. For analysis, different types of analytical methods and tools such as financial ratio analysis as well as statistical analysis are used.

### **Ratio Analysis**

Ratio analysis involves the methods of calculating and interpreting financial ratios in order to access the firm's performance and status. The basic input of ratio analysis is the firm's income and expenditure statement and balance sheet for the period to be examined. The ratios used to analyze the financial performance includes Liquidity ratios, Efficiency/Activity/Turnover Ratios, Profitability Ratios, Leverage, Capital Adequacy Ratios, Assets Quality Ratios and other indicators.

#### **4.1.1 Liquidity Ratio**

Liquidity refers to the ability of a firm to meet its short- term or current obligations. The liquidity of a business firm is measured by its ability to satisfy its short term obligation as they come due. Liquidity refers to the solvency of the firms overall financial position. To find-out the ability of the bank to meet their short-term obligations, which are likely to mature in the short period, the following ratios are developed under the liquidity ratios to identify the liquidity position.

**i) Current Ratio**

The current ratio one of the most commonly cited financial ratio, measures the firm's ability to meet its short term obligations. Current liabilities includes the sum of borrowings, current and call deposit liability, Bills payables, proposed dividend and other liabilities. Current assets include the cash balance, balance with NRB, money at call and short notice, loans, advances and bills purchase and other assets. It is expressed as follows:

**Table: 4.1**

**Current Ratio**

(Rs. in Millions)

Year	HBL			NBBL			SBL		
	C.A	C.L	Ratio	C.A	C.L	Ratio	C.A	C.L	Ratio
2007/08	22098.98	32802.54	0.67	7816.29	11582.47	0.67	10445.9	10600.01	0.98
2008/09	29634.74	35700.44	0.83	9602.92	10852.31	0.88	14646.7	16080.3	0.91
2009/10	33210.34	38777.91	0.86	10262.96	10397.47	0.99	19989.5	20971.1	0.95
2010/11	36778.77	42240.73	0.87	11318.99	11753.58	0.96	21499.8	22189.7	0.97
2011/12	43027.48	49232.42	0.87	16072.82	17215.79	0.93	25219.2	27397.6	0.92
<b>Mean</b>			<b>0.82</b>			<b>0.87</b>			<b>0.95</b>
<b>S.D.</b>			<b>0.085</b>			<b>0.13</b>			<b>0.03</b>
<b>C. V.</b>			<b>10.36</b>			<b>14.94</b>			<b>3.21</b>

Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

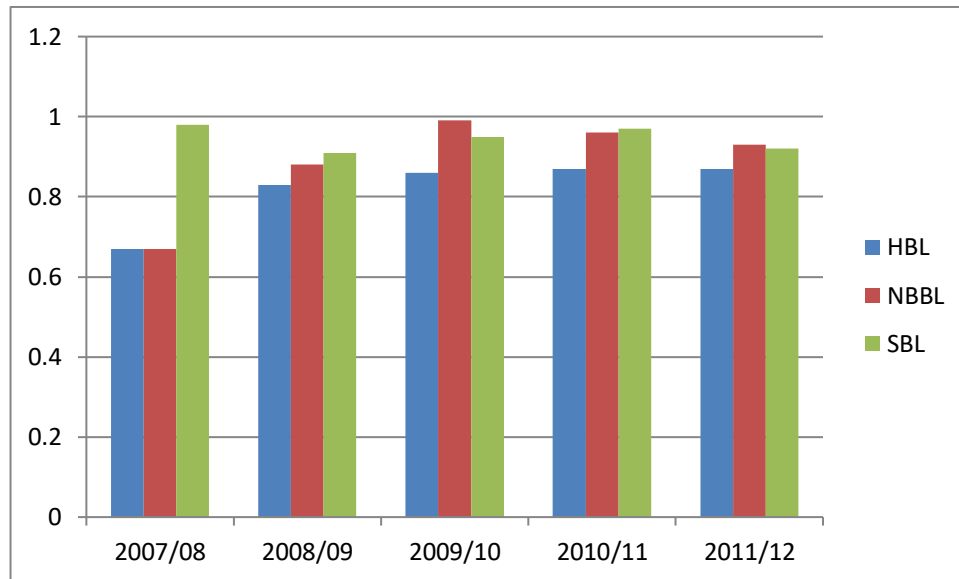
The above table shows that the current assets, current liabilities and current ratio of three banks. The highest current ratio of HBL Bank is Rs 0.87, its mean is 0.82 similarly standard deviation and C.V. is Rs 10.36 The highest current ratio of NBBL Bank is Rs 0.99, its mean is 0.87 similarly standard deviation and C.V. is Rs 14.94

The highest current ratio of SBL Bank is Rs 0.98, its mean is 0.95 similarly standard deviation and C.V. is Rs 3.21.

Though the ratio is fluctuating and is below the standard i.e. 2:1, it seems that banks are still able to meet its short term obligation. The table shows the average of current ratio for

the period to be 0.95. Acc to the ratio NBBL has the more fluctuation in ratios than others bank though all banks are able to meet the short term obligation.

**Figure: 4.1**  
**Current Ratio**



**ii) Cash and Bank Balance to Current Assets Ratio**

This shows the ratio between cash & bank balance to current Assets. The ratio shows the ability to pay total call made on current deposits. Cash and balance are highly liquid assets in current asstes proportion. So, the ratio utilizes higher liquidity position than current ratio. Cash & bank balance to current assets are expressed as;

**Table: 4.2****Cash and Bank Balance to Current Assets Ratio**

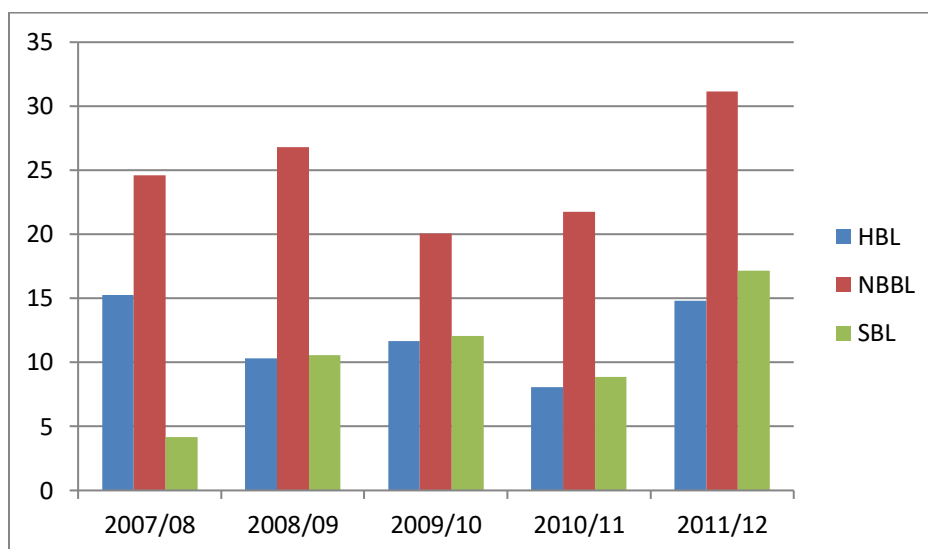
(Rs. in Million)

Year	HBL			NBBL			SBL		
	Cash & Bank Balance.	C.A	Ratio (Times)	Cash & Bank Balance.	C.A	Ratio (Times)	Cash & Bank Balance.	C.A	Ratio (Times)
2007/08	3372.99	22098.98	15.26	1922.84	7816.29	24.6	437.43	10445.9	4.19
2008/09	3048.53	29634.74	10.29	2571.42	9602.92	26.78	1547.68	14646.7	10.57
2009/10	3866.49	33210.34	11.64	2058.29	10262.96	20.06	2406.61	19989.5	12.04
2010/11	2964.65	36778.77	8.06	2464.92	11318.99	21.78	1905.68	21499.8	8.86
2011/12	6362.3	43027.48	14.79	5010.19	16072.82	31.17	4330.91	25219.2	17.17
<b>Mean</b>			<b>12.008</b>			<b>24.88</b>			<b>10.57</b>
<b>S.D.</b>			<b>3.04</b>			<b>4.36</b>			<b>4.73</b>
<b>C. V.</b>			<b>25.32</b>			<b>17.52</b>			<b>44.75</b>

Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

The above table shows that the Cash and bank balance to current assets ratio and the percentage shows that how much of current assets of the bank represent cash and bank balance. The highest ratio of 31.17 is carried out by NBBL which shows it has high liquidity maintain to meet the withdraw of deposits and the lowest ratio 4.19 is carried out by SBL Bank which shows SBL has diverted its fund in other assets. Both the banks HBL and SBL has the similar level of averag mean of Rs 12.008 and 10.57.



**Figure: 4.2****Cash and Bank Balance to Current Assets Ratio****iii) Cash and Bank Balance to Total Deposit Ratio**

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

**Table: 4.3****Cash and Bank Balance to Total Deposit Ratio**

(Rs. in Millions)

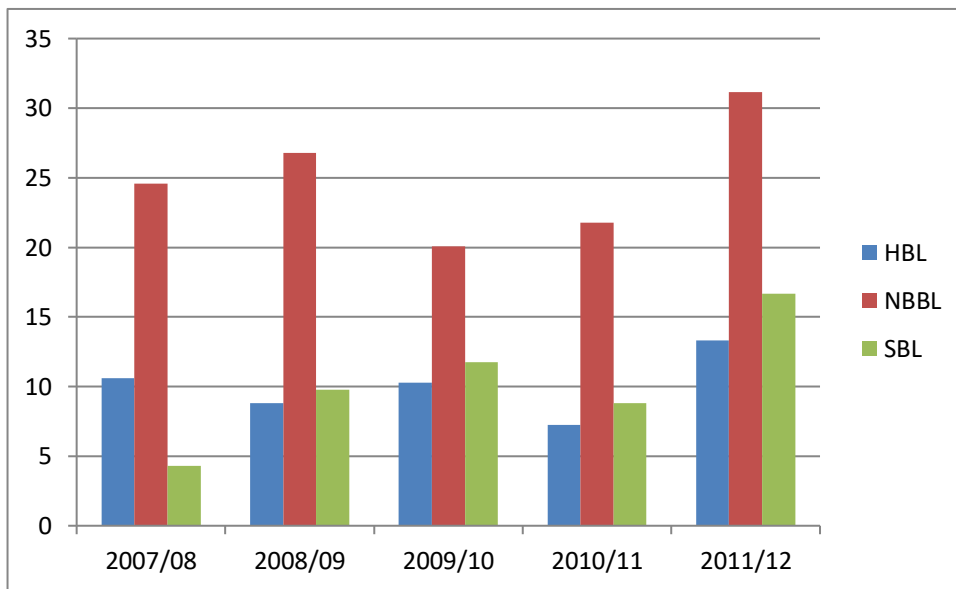
Year	HBL			NBBL			SBL		
	Cash & Bank Balance.	Total Deposit	Ratio	Cash & Bank Balance.	Total Deposit	Ratio	Cash & Bank Balance.	Total Deposit	Ratio
2007/08	3372.99	31842.79	10.59	1922.84	7816.29	24.6	437.43	10191.4	4.29
2008/09	3048.53	34681.34	8.79	2571.42	9602.92	26.78	1547.68	15854.8	9.76
2009/10	3866.49	37611.2	10.28	2058.29	10262.96	20.06	2406.61	20497	11.74
2010/11	2964.65	40920.6	7.24	2464.92	11318.99	21.78	1905.68	21575.7	8.83
2011/12	6362.3	47730.99	13.33	5010.19	16072.82	31.17	4330.91	25948.5	16.69
<b>Mean</b>			<b>10.05</b>			<b>24.88</b>			<b>10.26</b>
<b>S.D.</b>			<b>2.27</b>			<b>4.36</b>			<b>4.51</b>
<b>C. V.</b>			<b>22.59</b>			<b>17.52</b>			<b>43.96</b>

Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

The cash and bank balance to total deposit ratio reveals that the ability of banks to cover its short term deposits. NBBL avg mean is high in compare to SBL And HBL bank which implies the bank's has held cash and maintain balances along with increase in total deposit. The average of the ratio and standard deviation are 8.52% and 2.81% respectively.

**Figure: 4.3**

**Cash and Bank Balance to Total Deposit Ratio**



#### **4.1.2 Efficiency/ Activity/ Turnover Ratios:**

It is known as turnover or efficiency ratio or assets management ratio. It measures how efficiently the firm employs the assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales (Kulkarni, 1994). This ratio measures the degree of effectiveness in use of resources or funds by a firm. Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. Various ratios are examined under this heading.

**i) Loan and Advances to Fixed Deposit Ratio**

Loan and advances clearly state that it is the assets of the bank and fixed deposit is the liability. Fixed deposit are interest bearing long term obligation where as loans and advance are the major sources in generating income for commercial banks. This helps to show the ratio of Loan & advances to fixed deposit. We can also conclude that what part of the loan and advances is initiated against fixed deposits.

**Table: 4.4**  
**Loan and Advances to Fixed Deposit Ratio** (Rs. In Millions)

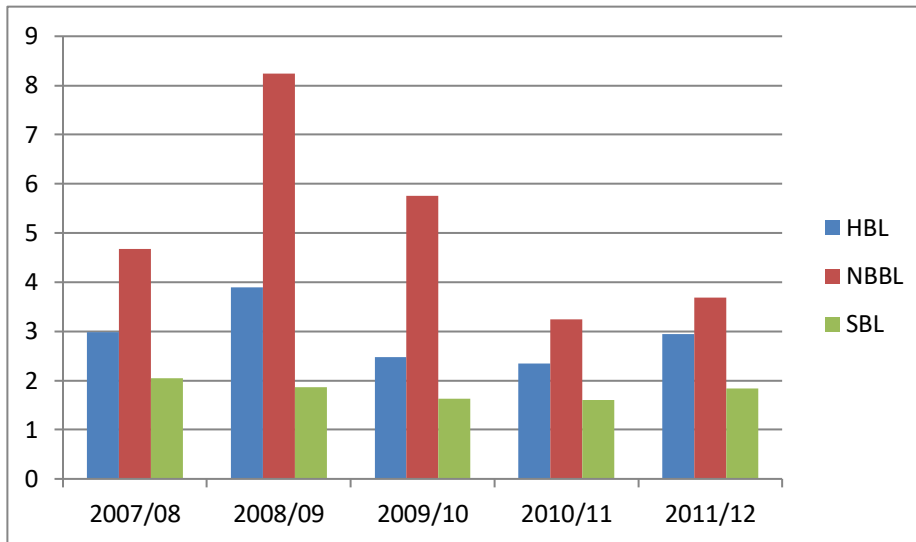
Year	HBL			NBBL			SBL		
	Loan and advances	Fixed Deposit	Ratio	Loan and advances	Fixed Deposit	Ratio	Loan and advances	Fixed Deposit	Ratio
2007/08	19497.52	6523.87	2.99	5458.81	1166.7	4.68	9335.59	4562.72	2.05
2008/09	24793.15	6377.13	3.89	6704.94	813.2	8.24	13328.6	7158.2	1.86
2009/10	27980.63	11328.63	2.47	7809.54	1357.32	5.75	16653.9	10202.7	1.63
2010/11	31566.98	13507.37	2.34	8452.74	2601.7	3.25	18384	11458.3	1.60
2011/12	34965.43	11866.68	2.95	10330.08	2795.64	3.69	20217.6	10966.9	1.84
<b>Mean</b>			<b>2.93</b>			<b>5.12</b>			<b>1.79</b>
<b>S.D.</b>			<b>0.61</b>			<b>1.99</b>			<b>0.18</b>
<b>C. V.</b>			<b>20.82</b>			<b>38.87</b>			<b>10.06</b>

*Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12*

The above table shows the loans and advances to fixed deposits. Both the banks HBL and SBL seems to have average ratio but NBBL has fluctuation ratio of 8.24 in 2009/2010 and 3.25 in the year 2010/2011. It shows that NBBL has flood more loan in compare to fixed deposit.

**Figure: 4.4**

**Loan and Advances to Fixed Deposit Ratio**



**ii) Loan and Advances to Saving Deposit Ratio**

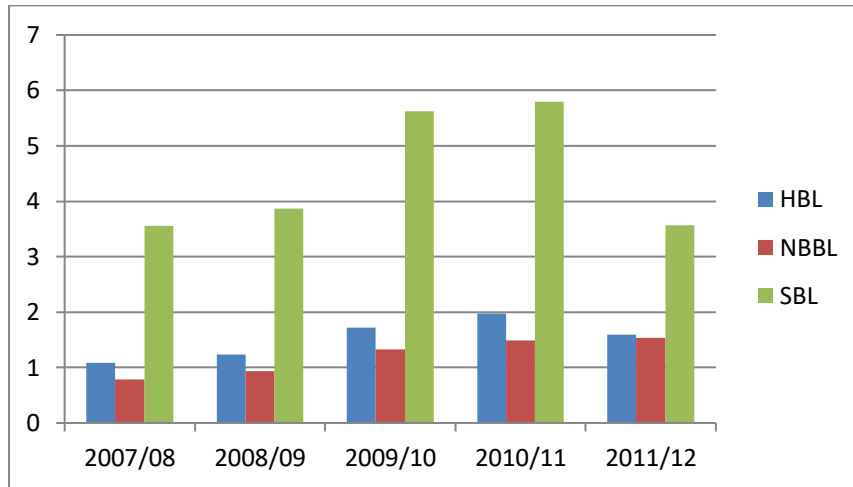
Saving deposits are interest bearing obligation for short term purpose where as loan and advances are long term investment for generating income. So the ratio indicates how money time's short term interest bearing deposits are utilized for income generating purpose. It is calculated as:

**Table: 4.5**  
**Loan and Advances to Saving Deposit Ratio** (Rs. In Millions)

Year	HBL			NBBL			SBL		
	Loan and advances	Saving Deposit	Ratio	Loan and advances	Saving Deposit	Ratio	Loan and advances	Saving Deposit	Ratio
2007/08	19497.52	17972.44	1.08	5458.81	6867.2	0.79	9335.59	2622.24	3.56
2008/09	24793.15	20061.04	1.23	6704.94	7099.3	0.94	13328.6	3445.69	3.87
2009/10	27980.63	16294.68	1.72	7809.54	5889.8	1.33	16653.9	2961.26	5.62
2010/11	31566.98	15994.56	1.97	8452.74	5652.42	1.49	18384	3169.66	5.80
2011/12	34965.43	21915.37	1.59	10330.08	6694.62	1.54	20217.6	5661.71	3.57
<b>Mean</b>			<b>1.52</b>			<b>1.22</b>			<b>4.48</b>
<b>S.D.</b>			<b>0.36</b>			<b>0.34</b>			<b>1.13</b>
<b>C. V.</b>			<b>23.69</b>			<b>27.87</b>			<b>25.22</b>

*Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12*

The above table shows the loans and advances to saving deposit of the bank for five fiscal years. It reveals the proportion of loans mobilized in terms of its saving deposits. The ratio seems in increasing trend of all banks during the entire study period standing. But SBL Bank seems to efficient holding the highest ratio of 5.8 in 2010/2011 .The mean & S.D of SBL is also high which are 4.48 and 1.13 but C.V of NBBL is 27.87.which is the highest ratio of all.

**Figure:4.5****Loan and Advances to Saving Deposit Ratio****iii. Loan and Advances to Total Deposit Ratio**

This ratio is calculated to find out the banks are successful utilizing the outsiders fund .i.e. total deposits for profit generating purpose in the form of extending loan and advances. Higher ratio shows higher efficiency to the utilization of outsider’s fund. It is calculated as:

**Table: 4.6****Loan and Advances to Total Deposit Ratio**

(Rs. In Millions)

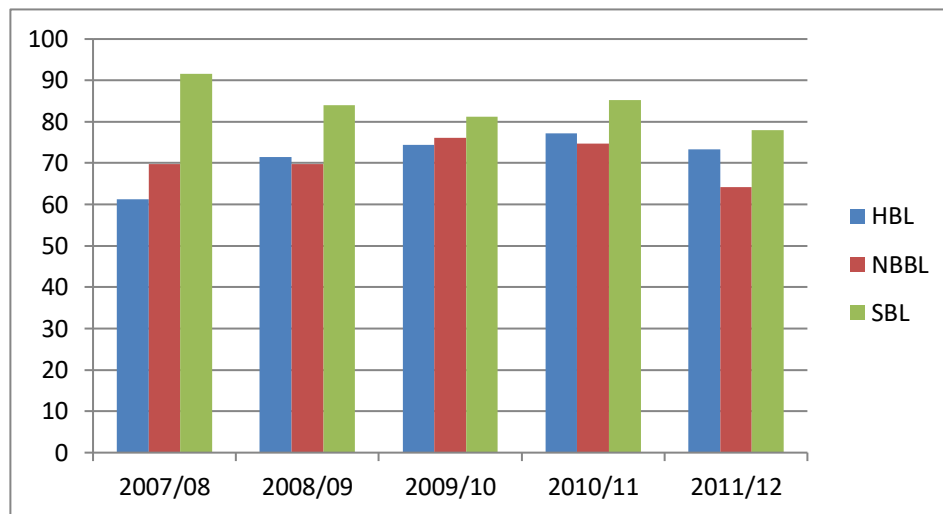
Year	HBL			NBBL			SBL		
	Loan and advances	Total Deposit	Ratio	Loan and advances	Total Deposit	Ratio	Loan and advances	Total Deposit	Ratio
2007/08	19497.52	31842.79	61.23	5458.81	7816.29	69.84	9335.59	10191.4	91.60
2008/09	24793.15	34681.34	71.49	6704.94	9602.92	69.82	13328.6	15854.8	84.07
2009/10	27980.63	37611.2	74.39	7809.54	10262.96	76.09	16653.9	20497	81.25
2010/11	31566.98	40920.6	77.14	8452.74	11318.99	74.68	18384	21575.7	85.21
2011/12	34965.43	47730.99	73.25	10330.08	16072.82	64.27	20217.6	25948.5	77.91
<b>Mean</b>			<b>71.5</b>			<b>70.94</b>			<b>84.01</b>
<b>S.D.</b>			<b>6.09</b>			<b>4.68</b>			<b>5.09</b>
<b>C. V.</b>			<b>8.52</b>			<b>6.59</b>			<b>6.06</b>

Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

The ratio helps to analyze whether the outsider's fund have been properly utilized. This implies the ratio of funds mobilization has been decreased despite of increase in total deposit of the bank. All the three banks ratio seems to be in increasing trend but in the year 2011/2012 there is reverse trend which shows the bank is maintain cash balance instead of giving loan.

**Figure: 4.6**

**Loan and Advances to Total Deposit Ratio**



#### **4.1.3 Leverage Ratio**

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

##### **i) Debt-Equity Ratio**

Total debt is the liability of the firm and it is payable toward its creditors. It indicates the relationship between the long term funds provided by the creditors and those provided by the firm's owners. Debt includes the value of deposits from customers, loan & advances payable, Bills payable and other liabilities. Equity is the share capital and reserves of the

firm. This ratio shows the comparison in between total debt and equity

**Table: 4.7**  
**Debt-Equity Ratio** (Rs. In Millions)

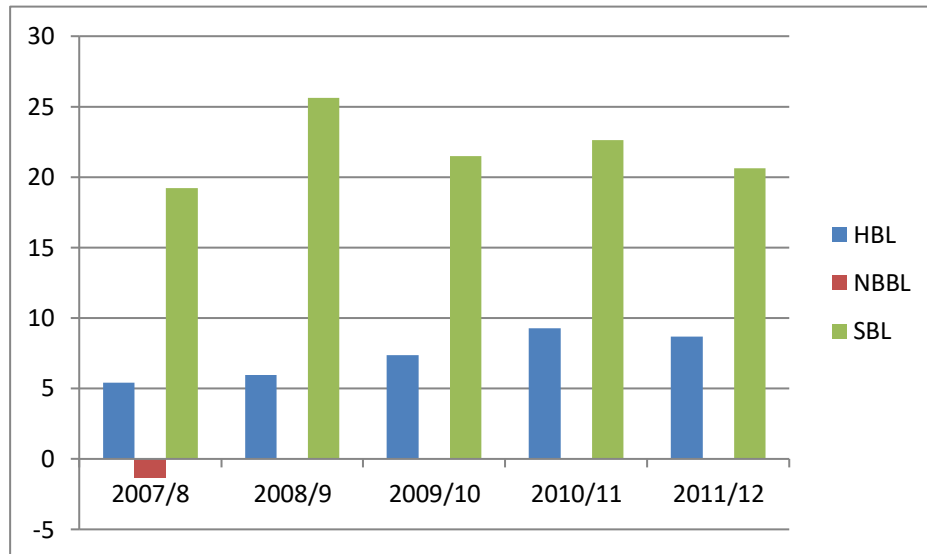
Year	HBL			NBBL			SBL		
	Total debt	Shareholder's equity	Ratio	Total debt	Shareholder's equity	Ratio	Total debt	Shareholder's equity	Ratio
2007/08	83.18	2512.99	3.31	30	-2191.45	-1.369	205.1	1068.35	19.20
2008/09	0	3119.88	0	0	1112.24	0	327.6	1278.74	25.62
2009/10	0	3439.2	0	0	2133.57	0	345	1603.54	21.51
2010/11	10	3995.48	0.25	0	2251.17	0	450	1988.4	22.63
2011/12	0	4632.01	0	0	2953.97	0	450	2182.72	20.62
<b>Mean</b>			<b>0.71</b>			<b>-0.27</b>			21.92
<b>S.D.</b>			<b>1.46</b>			<b>0.61</b>			2.42
<b>C. V.</b>			<b>205.63</b>			<b>225.93</b>			11.04

*Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12*

The above table shows that the debt to equity ratio varies from maximum of 22.63% in FY 2010//11 to minimum of 19.20% in FY 2007/08 during the study period of five years of SBL. The maximum debt to shareholders of HBL is 3.31 in the year 2007/8 and 0 in the 2008/9, 2009/10 and 2011/12. But the ratio of NBBL goes -1.369 in the year 2007/8 and 0 in the rest of the years. This analysis indicates that the debt-equity ratio is positive with the increase in net worth and decreases in loan borrowing by the bank. Higher debt brings a higher cost to the bank.



**Figure: 4.7**  
**Debt-Equity Ratio**



**ii) Debt-Assets Ratio:**

A metric used to measure a company's financial risk by determining how much of the company's assets have been financed by debt. In general, creditors prefer a low debt ratio & owner prefer a high debt ratio in order to magnify their earning on one hand and to maintain their concerned control over the firm on the other hand. This ratio exhibits the relationship between creditor's fund and owner's capital. It is calculated as follows:

**Table: 4.8**  
**Debt-Assets Ratio**

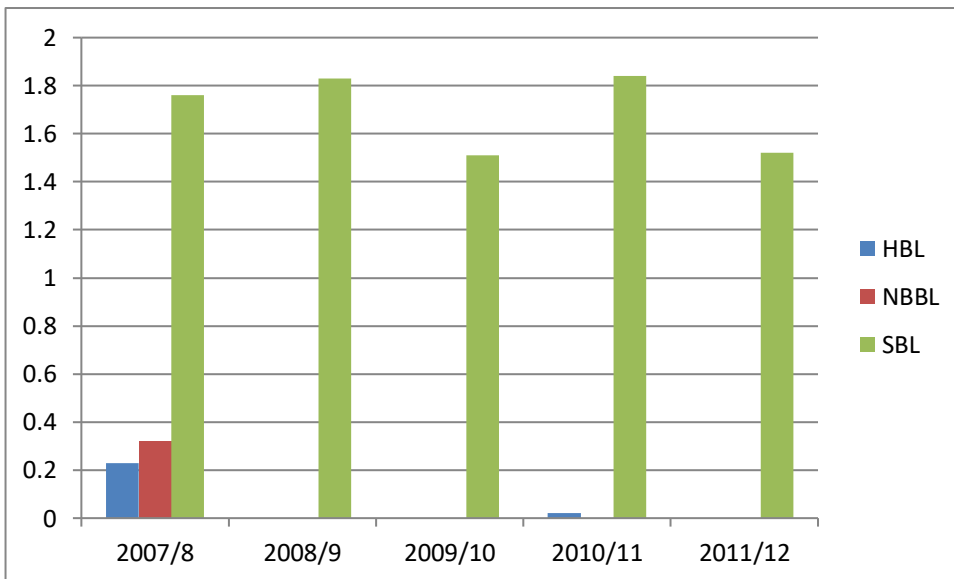
(Rs. In Millions)

Year	HBL			NBBL			SBL		
	Total debt	Total Assets	Ratio	Total debt	Total Assets	Ratio	Total debt	Total Assets	Ratio(Ti mes)
2007/08	83.18	36175.53	0.23	30	9391.03	0.32	205.13	11668.4	1.76
2008/09	0	39330.13	0	0	11964.55	0	327.6	17881.8	1.83
2009/10	0	42717.12	0	0	12531.04	0	345	22802.4	1.51
2010/11	10	46736.2	0.02	0	14004.76	0	450	24405.9	1.84
2011/12	0	54364.43	0	0	20169.76	0	450	29628.7	1.52
<b>Mean</b>			<b>0.05</b>			<b>0.064</b>			<b>1.69</b>
<b>S.D.</b>			<b>0.101</b>			<b>0.14</b>			<b>0.16</b>
<b>C. V.</b>			<b>202.00</b>			<b>218.75</b>			<b>9.46</b>

Source: Annual Report of SBL,HBL and NBBL 2007/08-2011/12

Total debt includes the loan from inter-bank and financial institution and from NRB. The above table shows that debt to total assets is high of SBL in compare to HBL and NBBL. The highest ratio of SBL is 1.84 in the year 2010/11, which shows high debt in compare to assets. The average mean of HBL,NBBL and SBBL is 0.05,0.064 and 1.69. Similarly its standard deviation is 0.1,0.14 and 0.16.

**Figure: 4.8**  
**Debt-Assets Ratio**



### iii. Total Shareholder's Equity to Total Assets Ratio

Shareholders' equity to total assets ratio indicates proportion of assets which is financed from ownership capital of the firm. The ratio also exhibits the relationship between shareholders fund and owners capital. This ratio shows the share of shareholders on the total assets. It can be expressed as follows

**Table: 4.9**

**Total Shareholder's Equity to Total Assets Ratio** (Rs. In Millions)

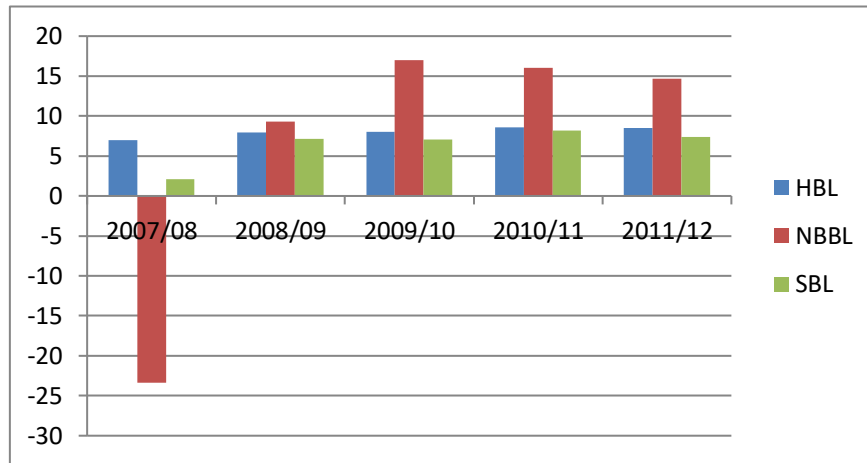
Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

Year	HBL			NBBL			SBL		
	Total shareholder's equity	Total Assets	Ratio	Total shareholder's equity	Total Assets	Ratio	Total shareholder's equity	Total Assets	Ratio
2007/08	2512.99	36175.53	6.95	-2191.45	9391.03	-23.34	240.34	11668.4	2.06
2008/09	3119.88	39330.13	7.93	1112.24	11964.55	9.29	1278.74	17881.8	7.15
2009/10	3439.2	42717.12	8.05	2133.57	12531.04	17.03	1603.54	22802.4	7.03
2010/11	3995.48	46736.2	8.55	2251.17	14004.76	16.07	1988.4	24405.9	8.15
2011/12	4632.01	54364.43	8.52	2953.97	20169.76	14.65	2182.72	29628.7	7.37
<b>Mean</b>			<b>8</b>			<b>6.74</b>			<b>6.35</b>
<b>S.D.</b>			<b>0.65</b>			<b>17.09</b>			<b>2.44</b>
<b>C. V.</b>			<b>8.12</b>						<b>38.42</b>

The above table shows that the shareholders equity to total assets of the bank varies from maximum of 8.15% in the FY 2010/11 to minimum of 2.06% in the FY 2007/08 during the study period of five years of SBL. Similarly that the shareholders equity to total assets of the bank varies from maximum of 17.03% in the FY 2009/10 to minimum of -23.34% in the FY 2007/08 during the study period of five years of NBBL and that of HBL maximum ratio 8.55% in the year 2010/11 and minimum of 6.95%. The ratio shows the total asset of the bank is financed through equity capital and remaining from debt capital.

**Figure: 4.9**

**Total Shareholder's Equity to Total Assets Ratio**



**4.1.4 Profitability Ratio:**

Profit is the difference between total revenue and total expenses over a period of time. It is an important factor that determines the firm's expansion and diversification. A required level of profit is necessary for the firm's growth and survives in the competitive environment. Profitability ratios have been employed to measure the operating efficiency of the sample banks. There are many measures of profitability. Each relates the return of the firm to its sales, assets, and equity or share value. As a group, these measures allow the analyst to evaluate firms earning with respect to given level of sales, a certain level of assets, the owners investment or share value.

Profit of a commercial bank is unlimited and it will have no future if it fails to make sufficient profits. Therefore the financial manager continuously evaluates the efficiency of the bank in terms of profits. The profitability ratios in this study are calculated to measure the operating efficiency and performance of Siddhartha bank Ltd. Following are the measure profitability ratios are calculated:

**i) Return on Assets**

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

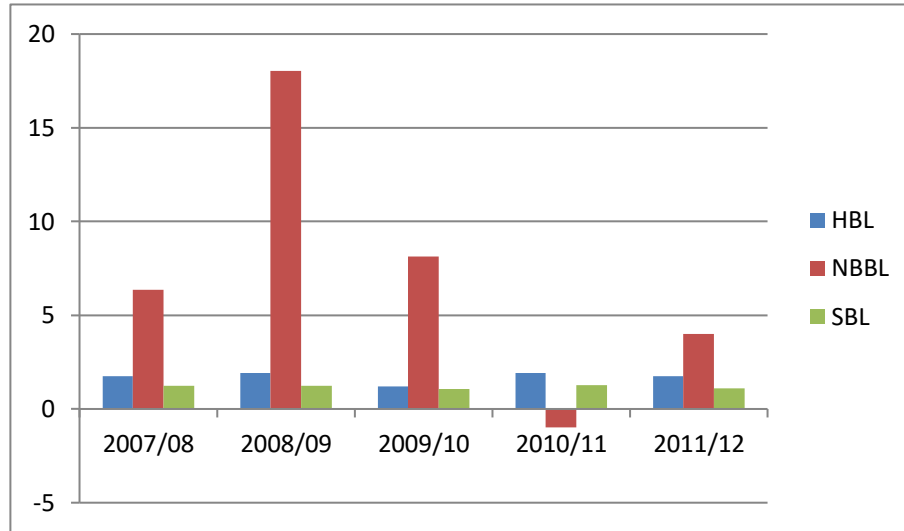
**Table: 4.10**  
**Return on Assets (ROA)** (Rs. In Millions)

Year	HBL			NBBL			SBL		
	Net Profit After tax	Total Assets	Ratio	Net Profit After tax	Total Assets	Ratio	Net Profit After tax	Total Assets	Ratio
2007/08	635.87	36175.53	1.76	596.49	9391.03	6.35	143.17	11668.4	1.23
2008/09	752.83	39330.13	1.91	2158.1	11964.55	18.04	217.92	17881.8	1.22
2009/10	508.79	42717.12	1.19	1021.38	12531.04	8.15	240.85	22802.4	1.06
2010/11	893.11	46736.2	1.91	-138.16	14004.76	-0.99	311.42	24405.9	1.28
2011/12	958.64	54364.43	1.76	809.47	20169.76	4.01	329.9	29628.7	1.11
<b>Mean</b>			<b>1.71</b>			<b>7.11</b>			<b>1.18</b>
<b>S.D.</b>			<b>0.29</b>			<b>7.006</b>			<b>0.09</b>
<b>C. V.</b>			<b>16.96</b>			<b>98.54</b>			<b>7.63</b>

*Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12*

The above table shows that the net profit to total assets ratio of the HBL and SBL is increasing throughout the period but decrease in the year of 2011/12. This reveals that the ratio is in satisfactory level. But the ratio of NBBL fluctuates a lot the ratio of NBBL is very high in the year 2008/09 but goes negative in the year 2010/11 and slightly improves in the year 2011/2012.

**Figure: 4.10**  
**Return on Assets (ROA)**



**ii) Return on net worth/ shareholder's equity**

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

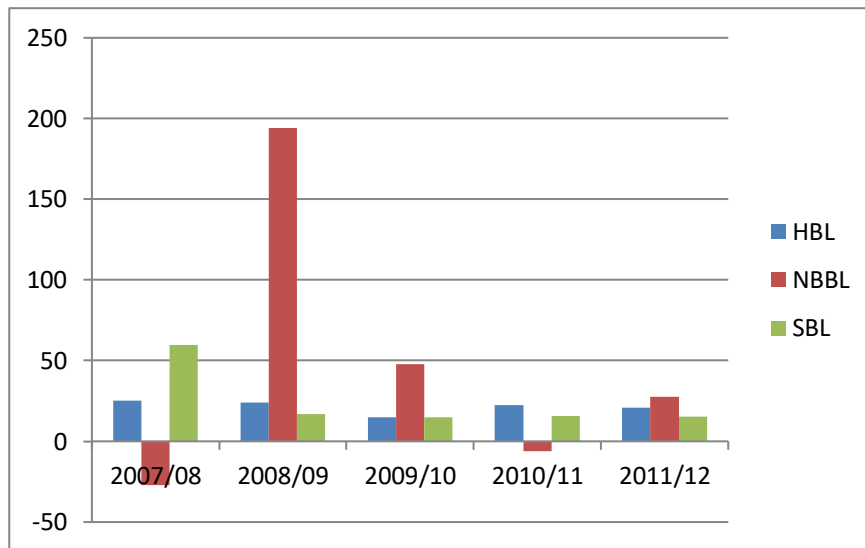
**Table: 4.11**  
**Return on Net worth (Shareholder's Equity)** (Rs. In Millions)

Year	HBL			NBBL			SBL		
	Net Profit After tax	Net Worth	Ratio	Net Profit After tax	Net Worth	Ratio	Net Profit After tax	Net Worth	Ratio
2007/08	635.87	2512.99	25.30	596.49	-2191.45	-27.22	143.17	240.34	59.57
2008/09	752.83	3119.88	24.13	2158.1	1112.24	194.04	217.92	1278.74	17.04
2009/10	508.79	3439.2	14.79	1021.38	2133.57	47.87	240.85	1603.54	15.02
2010/11	893.11	3995.48	22.35	-138.16	2251.17	-6.14	311.42	1988.4	15.66
2011/12	958.64	4632.01	20.69	809.47	2953.97	27.40	329.9	2182.72	15.11
<b>Mean</b>			<b>21.45</b>			<b>47.19</b>			<b>24.48</b>
<b>S.D.</b>			<b>4.16</b>			<b>87.09</b>			<b>19.63</b>
<b>C. V.</b>			<b>19.39</b>			<b>184.55</b>			<b>80.19</b>

*Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12*

Here net worth refers to the shareholders equity. While comparing all three banks the increasing and decreasing ratio of HBL and SBL seems to be same leading the avg mean of 21.45 and 24.48 with s.d. of 19.39 and 80.19. But due to the return to net worth of NBBL seems to be negative in the year 2007/2008 and 2010/11 and seems to be improving in 2011/2012.

**Figure: 4.11**  
**Return on Net worth (Shareholder's Equity)**



### iii) Interest earned to Total Assets Ratio

Interest earning is the major sources of a commercial bank. This ratio is calculated to find out percentage of the interest earned in comparison to total assets. The ratio can be calculated by using the following formula;

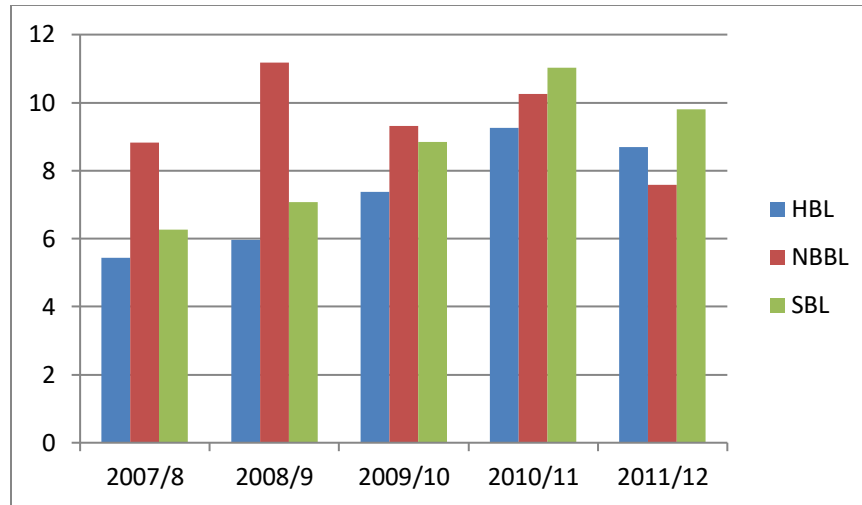
**Table: 4.12**  
**Interest Earned to Total Assets Ratio** (Rs. In Millions)

Year	HBL			NBBL			SBL		
	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio
2007/08	1963.64	36175.53	5.43	828.27	9391.03	8.82	729.87	11668.4	6.26
2008/09	2342.19	39330.13	5.96	1337.11	11964.55	11.18	1265.58	17881.8	7.08
2009/10	3148.61	42717.12	7.37	1167.63	12531.04	9.32	2018.29	22802.4	8.85
2010/11	4326.14	46736.2	9.25	1436.68	14004.76	10.26	2690.29	24405.9	11.02
2011/12	4724.89	54364.43	8.69	1529.04	20169.76	7.58	2906.26	29628.7	9.81
<b>Mean</b>			<b>7.34</b>			<b>9.43</b>			<b>8.60</b>
<b>S.D.</b>			<b>1.66</b>			<b>1.37</b>			<b>1.95</b>
<b>C. V.</b>			<b>22.62</b>			<b>14.53</b>			<b>22.67</b>

*Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12*

The above table shows the interest earned to total assets of NBBL seems to be fluctuating a lot. In the year 2008/9, 11.18 the ratio 11.18 is very high and then the ratio goes down to 7.58 in 2011/12. But the ratio of HBL and SBL is in increasing trend which implies the rise in the interest income of the bank along with total assets portfolio.





#### iv) Return on Total Deposit Ratio

The collected deposits are mobilized in investment and loans to get profit. This ratio indicates the percentage of profit earned by using the total deposit. It is calculated by dividing the amount of net profit by the amount of total deposits which is presented as:

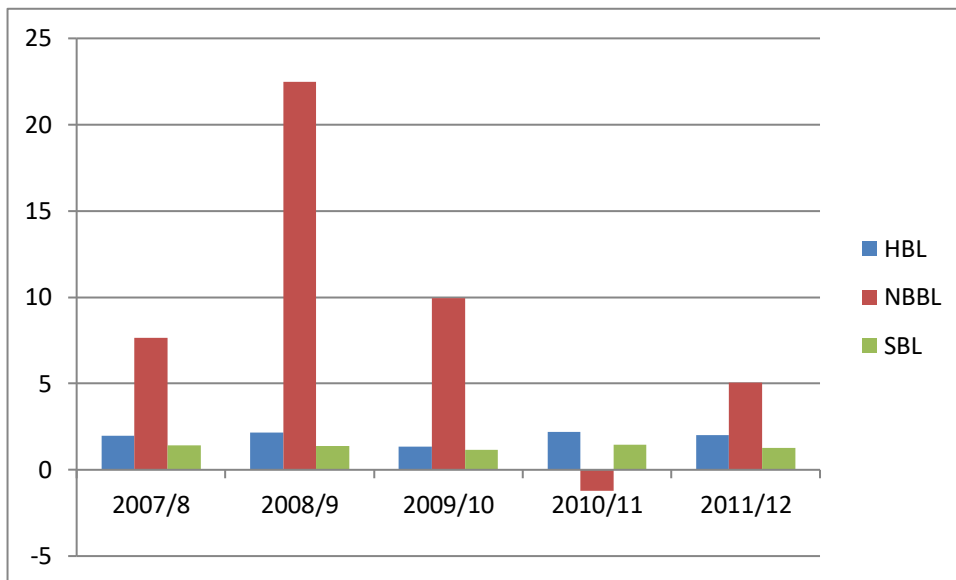
**Table: 4.13**  
**Return on Total Deposit Ratio** (Rs. In Millions)

Year	HBL			NBBL			SBL		
	Net Profit After tax	Total Deposit	Ratio	Net Profit After tax	Total Deposit	Ratio	Net Profit After tax	Total Deposit	Ratio
2007/08	635.87	31842.79	1.99	596.49	7816.29	7.63	143.17	10191.4	1.40
2008/09	752.83	34681.34	2.17	2158.1	9602.92	22.47	217.92	15854.8	1.37
2009/10	508.79	37611.2	1.35	1021.38	10262.96	9.95	240.85	20497	1.17
2010/11	893.11	40920.6	2.18	-138.16	11318.99	-1.22	311.42	21575.7	1.44
2011/12	958.64	47730.99	2.01	809.47	16072.82	5.04	329.9	25948.5	1.27
<b>Mean</b>			<b>1.94</b>			<b>8.77</b>			<b>1.33</b>
<b>S.D.</b>			<b>0.34</b>			<b>8.72</b>			<b>0.11</b>
<b>C. V.</b>			<b>17.53</b>			<b>99.43</b>			<b>8.27</b>

Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

The above table shows the percentage of net earnings over the total deposit because of the different problem in NBBL Bank the profit is negative so in the year 2010/11 the ratio is also negative -1.22. HBL seems to be successful utilizing deposits than NBBL and SBL .Because of negative ratio mean ,S.D of NBBL is high with 8.77 and 8.72.

**Figure: 4.13**  
**Return on Total Deposit Ratio**



#### 4.1.5 Ownership Ratio

Unlike creditor, the owners of the business firms are common stockholders, who invest their money in the firm because of their expectation of the future returns. The common stockholders are referred as residual owner, who receives what is left after all other claims on the firm's income and assets have been satisfied. As a result of this generally uncertain position, the common stockholder expected to be compensated with adequate dividends and ultimately capital gains. From the point of view of the shareholder, the following financial ratios indicate the financial performance of the firm in a given period of time.

- Earnings per share (EPS)
- Dividend per share (DPS)

- Dividend payout ratio (DPR)
- Price earnings ratio

Therefore these financial ratios have been included in this study to make the research effective and conclusive.

### i) Earning per Share (EPS)

The firms earning per share is generally of interest to present or prospective stockholders and management. The EPS represents the amount earned on the behalf of each outstanding share of common stock. They are closely watched by investing public and are considered an important indicator of the firm's success. EPS is calculated as follows:

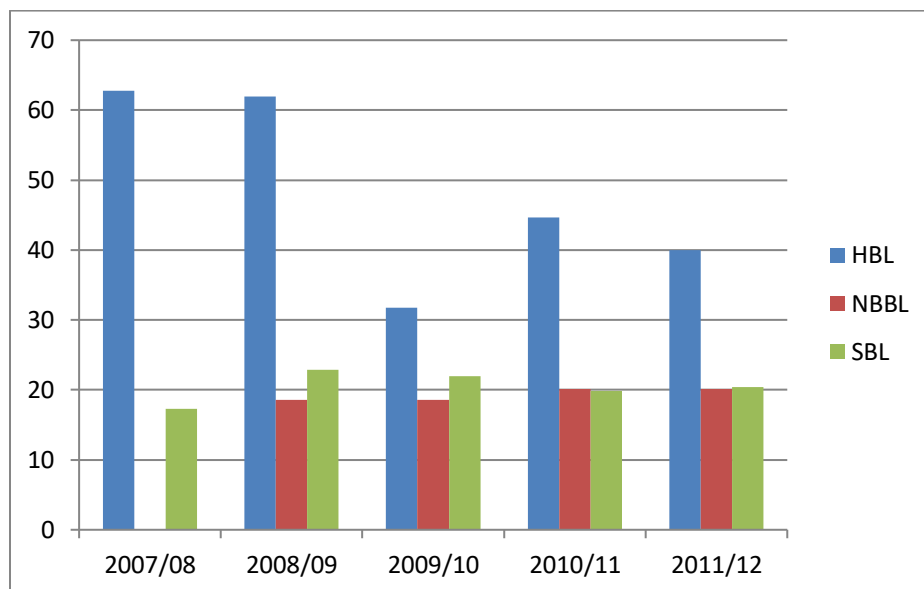
**Table: 4.14**  
**Earnings per share (EPS)** (Rs. In Millions)

Year	HBL			NBBL			SBL		
	Net Profit After tax	No of shares outstanding	EPS(in Rs)	Net Profit After tax	No of shares outstanding	EPS(in Rs)	Net Profit After tax	No of shares outstanding	EPS(in Rs)
2007/08	635.87	10.13	62.77	596.49	0	0	143.17	8.28	17.29
2008/09	752.83	12.16	61.91	2158.1	18.6	116.03	217.92	9.52	22.89
2009/10	508.79	16	31.79	1021.38	18.6	54.91	240.85	10.95	21.99
2010/11	893.11	20	44.66	-138.16	20.09	-6.88	311.42	15.71	19.82
2011/12	958.64	24	39.94	809.47	20.09	40.29	329.9	16.19	20.38
<b>Mean</b>			<b>48.21</b>			<b>40.87</b>			<b>20.47</b>
<b>S.D.</b>			<b>13.69</b>			<b>49.49</b>			<b>2.16</b>
<b>C. V.</b>			<b>28.39</b>			<b>121.09</b>			<b>10.55</b>

Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

The above table shows that EPS of the bank varies from maximum of Rs. 22.89 in the year 2008/09 to the minimum of Rs 17.29 in the year 2007/08 during the study period of five years period. which reflects an average of Rs. 20.47 and s.d of 2.16. The maximum ratio of HBL is Rs 62.77 in the year 2007/8 to the minimum of Rs 31.79 with mean of 48.21 and S.D. of 13.69 Similarly the maximum ratio NBBL is 116.03 and minimum of -6.88 with mean of 40.87 and s,d of 49.49

**Figure: 4.14**  
**Earnings per share (EPS)**



**ii) Dividend Per Share (DPS)**

Dividend per share is calculated to know proposition of the earning distributed to the shareholder per share. DPS is calculated with the help of following formula:

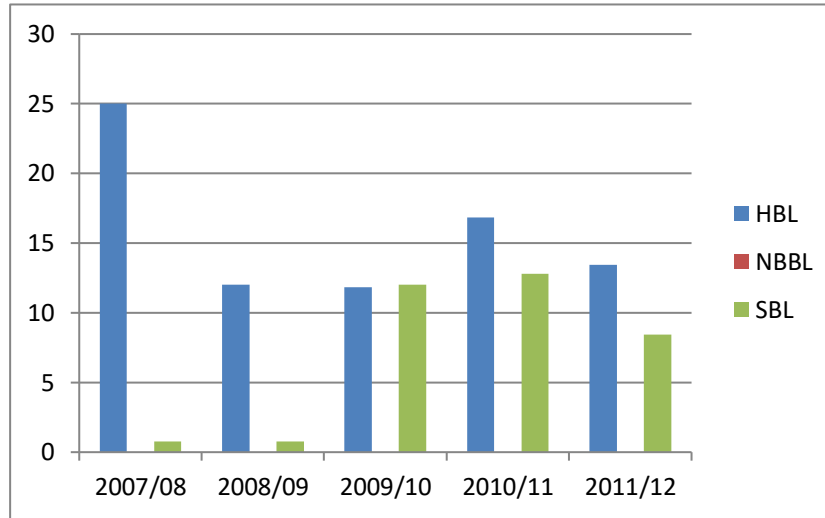
**Table: 4**  
**Dividend per share (DPS)** (Rs. In Millions)

Year	HBL			NBBL			Dividend paid	SBL	
	Dividend paid	No of shares outstanding	DPS(in Rs)	Dividend paid	No of shares outstanding	DPS(in Rs)		No of shares outstanding	DPS(in Rs)
2007/08	253.38	10.13	25.01	0	0	0	6.54	8.28	0.79
2008/09	145.94	12.16	12.00	0	18.6	0	7.52	9.52	0.79
2009/10	189.47	16	11.84	0	18.6	0	131.46	10.95	12.01
2010/11	336.84	20	16.84	0	20.09	0	200.94	15.71	12.79
2011/12	322.11	24	13.42	0	20.09	0	136.36	16.19	8.42
<b>Mean</b>			<b>15.82</b>			<b>0</b>			<b>6.96</b>
<b>S.D.</b>			<b>5.52</b>			<b>0</b>			<b>5.87</b>
<b>C. V.</b>			<b>34.89</b>			<b>0</b>			<b>84.34</b>

*Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12*

The above table reveals the return to the shareholders in the form of dividend that has been generated by their investment. The DPS in the FY 2007/8 and 2008/9 is the same ratio of 0.79 as the SBL distributed same dividend out of total profit incurred. The DPS of the bank increases in 2009/10 and 2010/11 showing increasing return to shareholders but decreases in 2011/12. The ratio DPS of HBL is very high with the ratio of 25.01 in the year 2007/8 and slowly it seems to be decreasing but from the year 2009/10 it pick up its way and starts increasing .But no dividend is paid of NBBL so the ratio is nil over the five years of study.

**Figure: 4.15**  
**Dividend per share (DPS)**



**iii) Dividend Payout Ratio**

This ratio represents the percentage of the profits distributed as dividend and the percentage retained as revenue and surplus for the growth of the bank. It is determined by dividend per share (DPS) by earning per share (EPS) as expressed below:

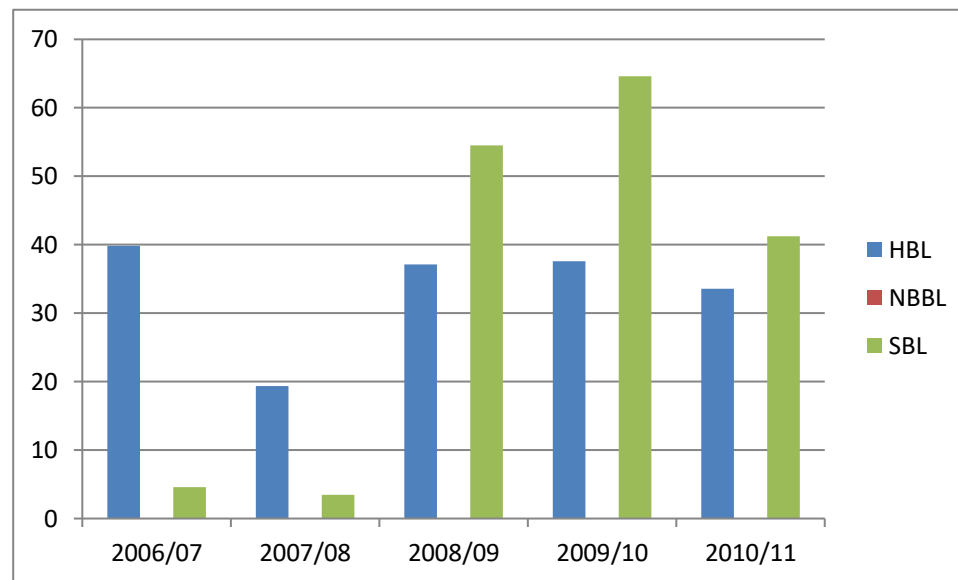
**Table: 4.16**  
**Dividend Payout Ratio (DPR)** (Rs. In Millions)

Year	HBL			NBBL			SBL		
	DPS (in Rs)	EPS (in Rs)	DPR(in %)	DPS (in Rs)	EPS (in Rs)	DPR(in %)	DPS (in Rs)	EPS (in Rs)	DPR(in %)
2007/08	25.01	62.77	39.87	0	0	0	0.79	17.3	4.57
2008/09	12.00	61.91	19.39	0	116	0	0.79	22.9	3.45
2009/10	11.84	31.79	37.11	0	54.91	0	12	22	54.55
2010/11	16.84	44.66	37.58	0	20.09	0	12.8	19.8	64.65
2011/12	13.42	39.94	33.58	0	20.09	0	8.42	20.4	41.27
<b>Mean</b>			<b>33.51</b>			<b>0</b>			<b>33.69</b>
<b>S.D.</b>			<b>8.21</b>			<b>0</b>			<b>28.34</b>
<b>C. V.</b>			<b>24.50</b>			<b>0</b>			<b>84.12</b>

Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

The above table shows that dividend payout ratio of the bank in initial period is very low during first three years. It was because though the bank was able to generate net income, the bank did not distribute the profit till 2008/09. From the third year it started to distribute more dividend which leads to increase in dividend payout ratio i.e. 54.55 & 64.65 in the FY 2009/10 & 2010/11 respectively. The ratio of HBL seems to be very high over the period of study but has decreases in the year 2008/9 with 19.39 which shows that it distribute high dividend in compare to three banks .NBBL distribute no dividend and stands in nil.

**Figure: 4.16**  
**Dividend Payout Ratio (DPR)**



#### iv) Price Earning Ratio

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

**Table: 4.17****Price Earnings Ratio (P/E ratio)**

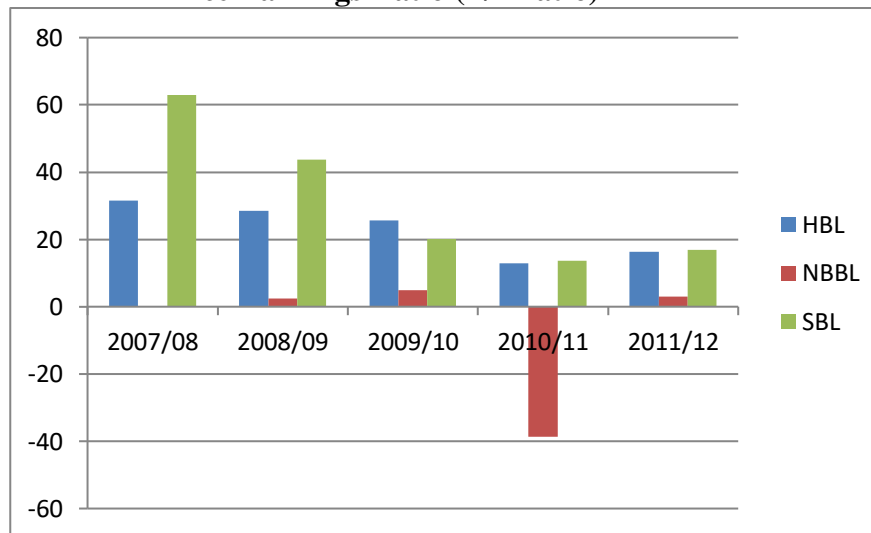
(Rs. In Millions)

Year	HBL			NBBL				SBL	
	Market Value Per Share	EPS (in Rs)	Ratio (%)	Market Value Per Share	EPS (in Rs)	Ratio (%)	Market Value Per Share	EPS (in Rs)	Ratio (%)
2007/08	1980	62.77	31.54	1001	0	0	1090	17.3	63.005
2008/09	1760	61.91	28.43	280	116	2.41	1000	22.9	43.67
2009/10	816	31.79	25.67	265	54.91	4.83	444	22	20.18
2010/11	575	44.66	12.88	266	-6.88	-38.66	270	19.8	13.64
2011/12	653	39.94	16.35	121	40.29	3.003	345	20.4	16.91
<b>Mean</b>			<b>22.97</b>			<b>-5.68</b>			<b>31.48</b>
<b>S.D.</b>			<b>8.002</b>			<b>18.52</b>			<b>21.22</b>
<b>C. V.</b>			<b>34.84</b>			<b>-326.06</b>			<b>67.41</b>

Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

The above table shows the P/E ratio of the bank for the five years period. In compare to three banks SBL has high ratio in the year 2007/8 and in decreasing trends similarly as the HBL but NBBL ratio is 0 in the year 2007/8 and also negative in the year 2010/11.

**Figure: 4.17**  
**Price Earnings Ratio (P/E ratio)**





#### 4.1.6 Capital Adequacy Ratio

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

##### i) Net Worth to Total Deposit Ratio

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

**Table: 4.18**  
**Net Worth to Total Deposits Ratio** (Rs in millions)

Year	HBL			NBBL			SBL		
	Net Worth	Total Deposit	Ratio	Net Worth	Total Deposit	Ratio	Net Worth	Total Deposit	Ratio
2007/08	2512.99	31842.79	7.89	-2191.45	7816.29	-28.04	240.34	10191.4	2.36
2008/09	3119.88	34681.34	8.99	1112.24	9602.92	11.58	1278.74	15854.8	8.06
2009/10	3439.2	37611.2	9.14	2133.57	10262.96	20.79	1603.54	20497	7.82
2010/11	3995.48	40920.6	9.76	2251.17	11318.99	19.89	1988.4	21575.7	9.22
2011/12	4632.01	47730.99	9.70	2953.97	16072.82	18.38	2182.72	25948.5	8.41
<b>Mean</b>			<b>9.09</b>			<b>8.52</b>			<b>7.17</b>
<b>S.D.</b>			<b>0.75</b>			<b>20.75</b>			<b>2.74</b>
<b>C. V.</b>			<b>8.25</b>			<b>243.54</b>			<b>38.21</b>

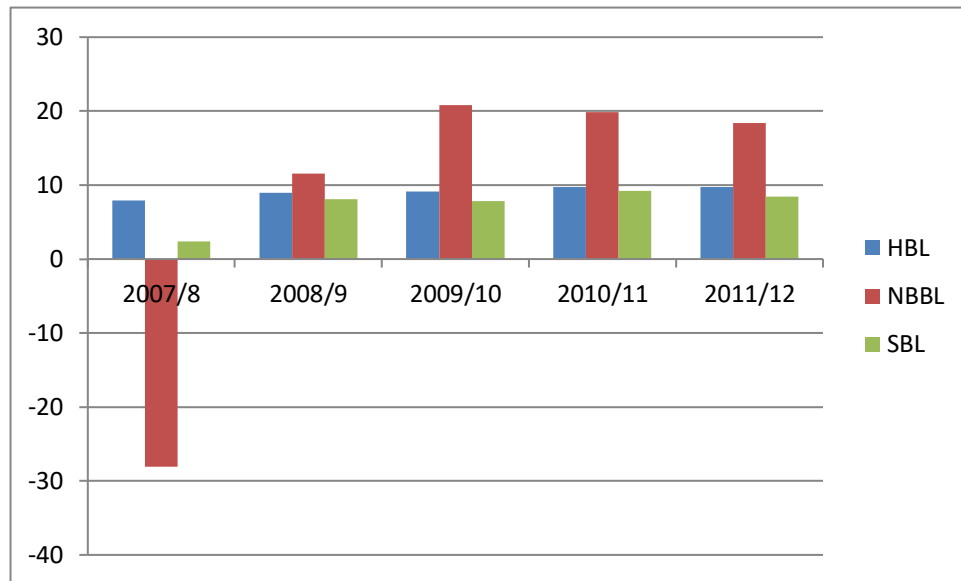
Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

The above table shows that the net worth to total deposit of the HBL is in increasing trend starting from the ratio of 7.89 in the year 2007/8 upto year 2010/11 and slightly

reduction in the year with 9.70 in the year 2011/12 same as the SBL and the ratio of NBBL is negative of 28.04 in the year 2007/8 and also in decreasing trend.

**Figure: 4.18**

**Net Worth to Total Deposits Ratio**



**ii) Net Worth to Total Assets Ratio**

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

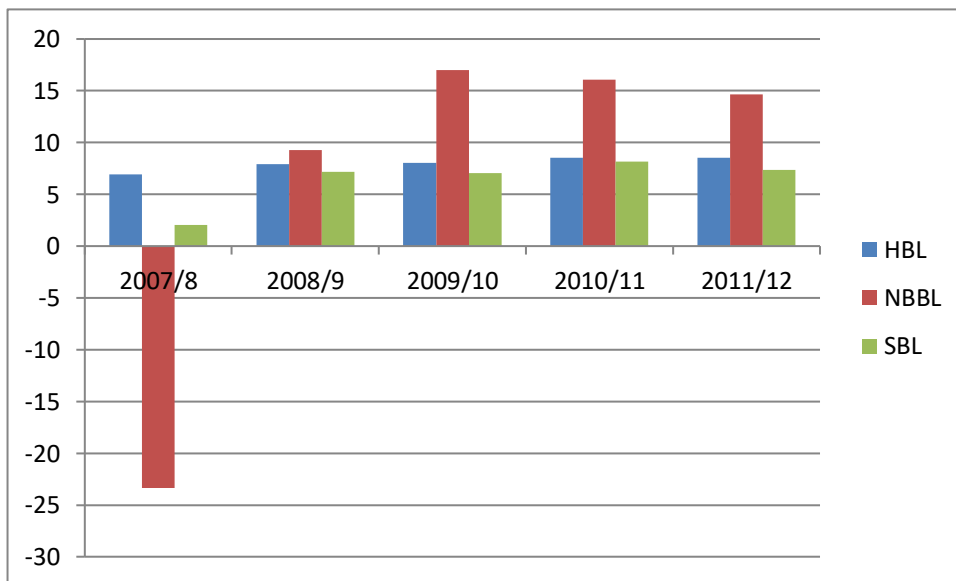
**Table: 4.**  
**Net Worth to Total Assets Ratio** (Rs. In Millions)

Year	HBL			NBBL			SBL		
	Net Worth	Total Assets	Ratio	Net Worth	Total Assets	Ratio	Net Worth	Total Assets	Ratio
2007/08	2512.99	36175.53	6.95	-2191.45	9391.03	-23.34	240.34	11668.4	2.06
2008/09	3119.88	39330.13	7.93	1112.24	11964.55	9.29	1278.74	17881.8	7.15
2009/10	3439.2	42717.12	8.05	2133.57	12531.04	17.03	1603.54	22802.4	7.03
2010/11	3995.48	46736.2	8.55	2251.17	14004.76	16.07	1988.4	24405.9	8.15
2011/12	4632.01	54364.43	8.52	2953.97	20169.76	14.65	2182.72	29628.7	7.37
<b>Mean</b>			<b>8</b>			<b>6.74</b>			<b>6.35</b>
<b>S.D.</b>			<b>0.65</b>			<b>17.08</b>			<b>2.44</b>
<b>C. V.</b>			<b>8.13</b>			<b>253.41</b>			<b>38.43</b>

*Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12*

The above table shows that the shareholders equity to total assets of the bank varies from All the ratio of all the banks seems to be fluctuating a lot. The NBBL has the negative ratio of 23.24 in the year 2007/8. The ratio of HBL seems to be increasing and of SBL is decreasing

**Figure: 4.19**  
**Net Worth to Total Assets Ratio**



**iii) Net Worth to Total Credit Ratio**

The ratio measures the relative portion of the shareholders fund with respect to the total credit. It is calculated as:

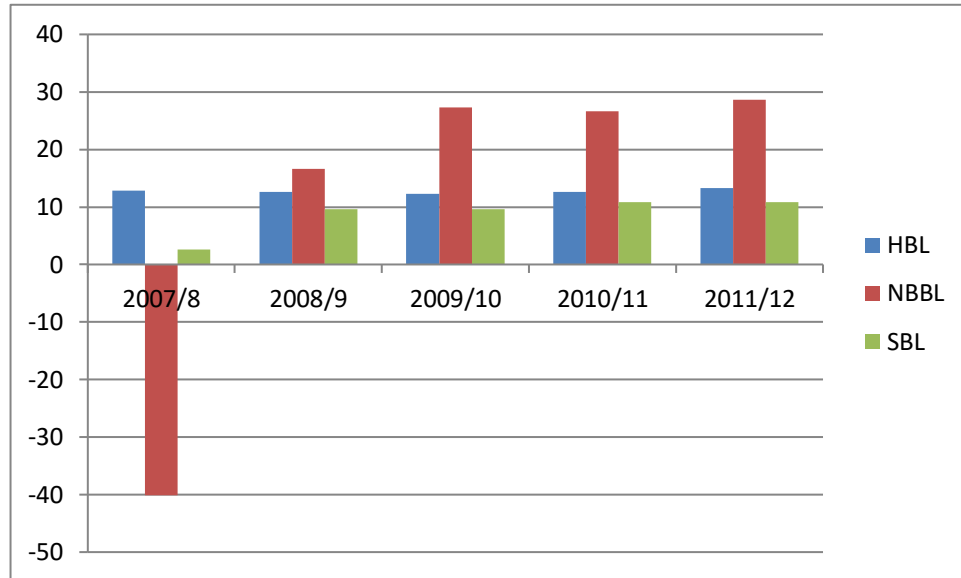
**Table: 4.20**  
**Net Worth to Total Credit Ratio** (Rs. In Millions)

Year	HBL			NBBL			SBL		
	Net Worth	Total Credit	Ratio	Net Worth	Total Credit	Ratio	Net Worth	Total Credit	Ratio
2007/08	2512.99	19497.52	12.89	-2191.45	5458.81	-40.15	240.34	9335.59	2.57
2008/09	3119.88	24793.15	12.58	1112.24	6704.94	16.59	1278.74	13328.6	9.59
2009/10	3439.2	27980.63	12.29	2133.57	7809.54	27.32	1603.54	16653.9	9.63
2010/11	3995.48	31566.98	12.66	2251.17	8452.74	26.63	1988.4	18384	10.82
2011/12	4632.01	34965.43	13.25	2953.97	10330.08	28.59	2182.72	20217.6	10.79
<b>Mean</b>			<b>12.73</b>			<b>11.79</b>			<b>8.68</b>
<b>S.D.</b>			<b>0.36</b>			<b>29.43</b>			<b>3.47</b>
<b>C. V.</b>			<b>2.75</b>			<b>249.53</b>			<b>39.86</b>

Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

The above table shows that the shareholders equity to total credit (loan and advances) of the three banks. The avg mean of HBL, NBBL and SBL is 12.73, 11.79 and 8.68 high shareholders portion in shareholders equity to total credit.

**Figure: 4.20**  
**Net Worth to Total Credit Ratio**



#### 4.1.7 Assets Quality Ratios

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

##### i) Loan Loss Coverage Ratio

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

**Table: 4.21****Loan Loss Coverage Ratio**

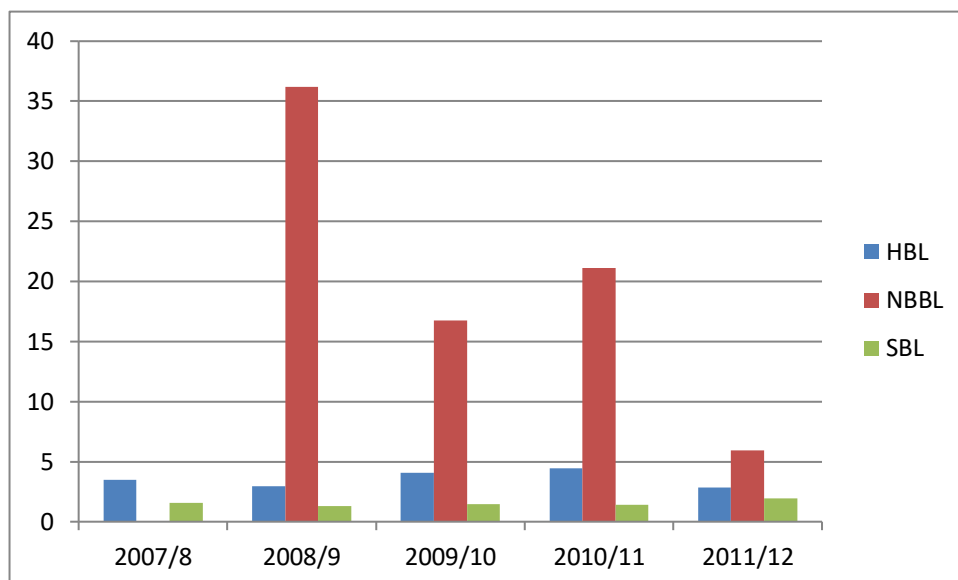
(Rs. In Millions)

*Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12*

Year	HBL			NBBL			SBL		
	Loan loss provision	Total risk assets	Ratio	Loan loss provision	Total risk assets	Ratio	Loan loss prov	Total risk assets	Ratio
2007/08	682.09	19497.52	3.49	0	5458.81	0	145.19	9335.59	1.56
2008/09	726.36	24793.15	2.93	2425.56	6704.94	36.18	176.17	13328.6	1.32
2009/10	1143.12	27980.63	4.08	1309.55	7809.54	16.77	241.49	16653.9	1.45
2010/11	1401.29	31566.98	4.44	1784.72	8452.74	21.11	263.16	18384	1.43
2011/12	1003.04	34965.43	2.87	613.08	10330.08	5.93	389.71	20217.6	1.93
<b>Mean</b>			<b>3.56</b>			<b>15.99</b>			<b>1.54</b>
<b>S.D.</b>			<b>0.69</b>			<b>14.07</b>			<b>0.24</b>
<b>C. V.</b>			<b>19.38</b>			<b>87.93</b>			<b>15.58</b>

The above table shows the percentage of loan loss provision to total risk assets. The loan loss provision is the separation of fund for those loans disbursed according to their category. The ratio among the three bank NBBL seems to have high risk in loan. The ratio is very high with maximum of 36.18 in 2008/9. HBL has the mean of 3.56, NBBL is 15.99 and that of SBL is 1.54, which shows NBBL in risky position.

**Figure: 4.21**  
**Loan Loss Coverage Ratio**



**ii) Loan Loss Provision to Total Deposit Ratio**

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

**Table: 4.22**

**Loan Loss Provision to Total Deposit Ratio**

(Rs. In Millions)

Year	HBL			NBBL			SBL		Ratio
	Loan loss provision	Total Deposits	Ratio	Loan loss provision	Total deposits	Ratio	Loan loss provision	Total deposits	
2007/08	682.09	31842.79	2.14	0	7816.29	0	145.19	10191.4	1.42
2008/09	726.36	34681.34	2.09	2425.56	9602.92	25.26	176.17	15854.8	1.11
2009/10	1143.12	37611.2	3.04	1309.55	10262.96	12.76	241.49	20497	1.18
2010/11	1401.29	40920.6	3.42	1784.72	11318.99	15.77	263.16	21575.7	1.23
2011/12	1003.04	47730.99	2.11	613.08	16072.82	3.81	389.71	25948.5	1.50
<b>Mean</b>			<b>2.56</b>			<b>11.52</b>			<b>1.29</b>
<b>S.D.</b>			<b>0.63</b>			<b>10.007</b>			<b>0.17</b>
<b>C. V.</b>			<b>24.61</b>			<b>86.89</b>			<b>13.08</b>

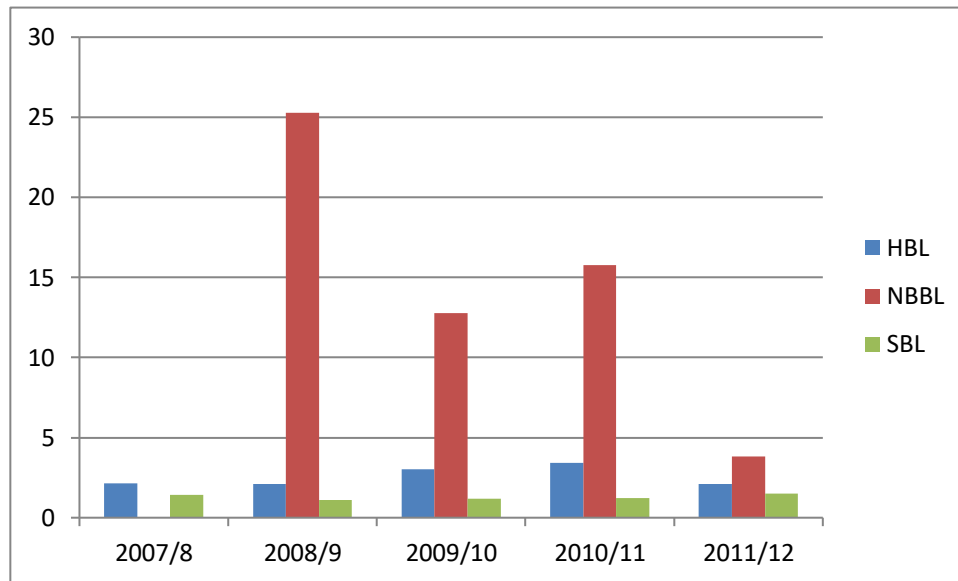
Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

The above table shows the percentage of loan loss provision to total deposits. The loan

loss provision is the separation of fund for those loans disbursed according to their category. The ratio of HBL is 2.14,2.09,3.04,3.42and 2.11 from the year 2007/8 to 2011/12 which increament from 2.09 and decrease in 2011/12 with ratio of 2.11. the loan loss provision of NBBL is 0 in the year 2007/8 so the ratio is 0 .due to high risk high is the ratio of NBBL. In compare to three banks SBL has low ratio .

**Figure: 4.22**

**Loan Loss Provision to Total Deposit Ratio**



## 4.2 Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson’s co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan and advances, deposit and total investment, total assets and net profit ,total investment and net profit and also analyze the correlation of total deposit, total investment ,loan and advances and net profit of SBL using Karl Pearson’s coefficient of correlation and value of them are analyzed.



#### a. Coefficient of Correlation between Total Deposits and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y).

The following Table No. 4.23 shows the coefficient correlation between deposits and total investments during the study period.

**Table No. 4.23**  
**Correlation between Deposit and Total Investment**

Year	HBL		NBBL		SBL	
	Total Deposit	Total Investment	Total Deposit	Total Investment	Total Deposit	Total Investment
2007-2008	31805.3	13340.18	10883.7	1389.9	10191.44	1150.09
2008-2009	34681	8710.69	9997.69	2222.43	15854.79	2176.43
2009-2010	37609.4	8444.91	10052.2	2112.75	20497.03	2452.48
2010-2011	40920.6	8771.15	11511.7	2378.27	21575.65	2537.91
2011-2012	47730.99	10032.79	16952.7	3868.95	25948.5	3393.86
<b>r</b>	<b>-0.19</b>		<b>0.52</b>		<b>0.9</b>	

*Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12*

From the above Table, the researcher found that the coefficient of correlation between total deposit and total investment of SBL is 0.9 and NBBL is 0.52. It shows the high degree positive correlation in SBL and satisfactory correlation in NBBL. But in HBL there is negative figure. It means there is negative correlation between deposit and investment. It refers that there is significant relationship between total deposit and total investment of SBL and NBBL but insignificant relationship of HBL.

**a. Correlation Coefficient between Deposit and Loan and Advances**

Deposit have played very important role in performance of a commercial banks and similarly loan and advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable(X) and loan and advances are dependent variable (Y). The main objectives of computing “r” between these two variables is to justify whether deposit are significantly used as loan and advances in proper way or not.

**Table No. 4.24**  
**Correlation between Deposit and Loan and Advances**

Year	HBL		NBBL		SBL	
	Total Deposit	Loan and advances	Total Deposit	Loan and advances	Total Deposit	Loan and advances
2007-2008	31805.3	19497.52	10883.7	5458.81	10191.44	9335.59
2008-2009	34681	24793.15	9997.69	6704.94	15854.79	13328.62
2009-2010	37609.4	27980.63	10052.2	7809.54	20497.03	16653.85
2010-2011	40920.6	31566.98	11511.7	8452.74	21575.65	18384.03
2011-2012	47730.99	34965.43	16952.7	10330.08	25948.5	20217.58
<b>r</b>	<b>0.48</b>		<b>0.38</b>		<b>0.11</b>	

*Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12*

From the above table, it is found that coefficient of correlation between deposits and loan and advances of HBL is 0.48, NBBL is 0.38 and SBL is 0.11. It is shows that they all

have the positive relationship. It refers that deposit and loan and advances of HBL, NBBL and SBL move together very closely but not proportionately.

**b. Co-efficient of Correlation between Loan and advance and Net Profit**

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variables. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit loan and advance through the coefficient of determination. The following table shows the Co-efficient of correlation between total assets and net profit.

**Table No. 4.25**

**Correlation between Net profit and Loan and Advances**

Year	HBL		NBBL		SBL	
	Net Profit After tax	Loan and advances	Net Profit After tax	Loan and advances	Net Profit After tax	Loan and advances
2007-2008	635.87	19497.52	596.49	5458.81	143.17	9335.59
2008-2009	752.83	24793.15	2158.1	6704.94	217.92	13328.62
2009-2010	508.79	27980.63	1021.38	7809.54	240.85	16653.85
2010-2011	893.11	31566.98	-138.16	8452.74	311.42	18384.03
2011-2012	958.64	34965.43	809.47	10330.08	329.9	20217.58
<b>r</b>	<b>0.34</b>		<b>0.32</b>		<b>0.99</b>	

Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12

Above Table shows correlation coefficient between, Loan and advance and net profit of HBL is 0.34, NBBL is 0.32 and SBL 0.99. It refers that there are positive correlation

between these two variables. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P. Er.

**c. Coefficient of Correlation between Total Investment and Net Profit**

Coefficient of correlation between total investment and net profit measures the degree of the relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation during the fiscal year 2007/08 to 2011/12.

**Table No. 4.26**  
**Correlation between Net Profit and Total Investment**

Year	HBL		NBBL		SBL	
	Net Profit After tax	Total Investment	Net Profit After tax	Total Investment	Net Profit After tax	Total Investment
2007-2008	635.87	13340.18	596.49	1389.9	143.17	1150.09
2008-2009	752.83	8710.69	2158.1	2222.43	217.92	2176.43
2009-2010	508.79	8444.91	1021.38	2112.75	240.85	2452.48
2010-2011	893.11	8771.15	-138.16	2378.27	311.42	2537.91
2011-2012	958.64	10032.79	809.47	3868.95	329.9	3393.86
<b>r</b>	<b>-0.06</b>		<b>0.57</b>		<b>0.93</b>	

*Source: Annual Report of SBL, HBL and NBBL 2007/08-2011/12*

Above Table shows, correlation coefficient between total investment and net profit of HBL is -0.06, NBBL is 0.57 and SBL is 0.93 which implies there is positive correlation between total investment and net profit of SBL and NBBL and are found to be significant but there is negative correlation coefficient between total investment and net profit and is insignificant.

### 4.3 Major Findings

The following findings have been derived from the analysis and interpretation of data.

- Current ratio of all banks showed slightly fluctuation trend. All the banks couldn't maintain the conventional standard of 2:1 which means the current ratio of all the sample banks is below the standard ratio. It is clear that HBL, SBL has slightly more liquid than NBBL.
- NBBL has more liquid to serve its depositors in time with enough cash in hand in compare to SBL as it has high mean of 24.88. But both the other banks has the similar mean which reveals that they should maintain cash to meet the range of deposits.
- Cash and bank balance to current assets ratio implies that NBBL maintain cash balance in respect to current assets in compare to HBL and SBL. However HBL seems to maintain more cash balance than that of SBL. Cash balance are the liquid assets than other current assets.
- Loan and advances of fixed deposit indicates the turnover of fixed deposits in the form of loan and advances NBBL has the higher ratio than that of HBL and SBL which shows proper utilizing of assets in terms of fixed deposits.
- Loan and advances to total deposits indicates the utilizing of total deposits in terms of loan. In this ratio SBL seems to utilize deposits than that of NBBL and HBL. HBL is little less and NBBL is in the last position of utilizing the total deposit in term of loan.
- According to debt to shareholder's equity ratio, NBBL has the negative ratio that means it has low variability in compare to HBL and SBL.
- The ratio of shareholders equity to total assets shows the utilization or financed from the equity capital and the remaining from debt. The ratio of NBBL shows negative in the starting year but it starting from the second . The ratio of HBL and SBL seems to be similar.
- In different years by mobilizing the overall assets of the banks ,HBL seems to be better than NBBL and SBL. It mobilizes the assets with respect to net profit to total assets ratio.
- Return on assets of both HBL and SBL seems to be satisfactory but NBBL seems to be fluctuating a lot going some year very high and sometime below the boundary line to the negative line.

- Interest earned to total assets seems to be increasing of both the banks HBL and SBL. Both the banks are effectively mobilizing the total assets to earned interest in compare to NBBL.
- .Earning per share of HBL is in better position in compare to SBL and NBBL. But SBL.EPS of SBL is also satisfactory but that of NBBL is unsatisfactory. HBL is successful in generating EPS in compare to NBBL with low CV.
- . Increasing trend of distributing dividend is continued by HBL and SBL upto the year 2010/11 and seems to decrease n the year 2011/12 of both banks and due to the loss there is no distribution of dividend by NBBL
- SBL seems to maintain P/E ratio and EPS as market value of share and this trend is followed by HBL with slightly less average mean , NBBL seems to remain negative with the negative in year 2010/11.
- Earning made by HBL and SBL has more mobilizing the total deposits of the bank in different sectors than NBBL which is cleared by comparision of all banks in above with low C.V. in HBL ,SBL than NBBL.
- In different years by mobilizing the overall asssets of the banks ,HBL and SBL is in better position than NBBL is show to mobilize the assets with respect to net profit to total assets ratio.
- Loan loss coverage ratio of NBBL is high as the major portion of loan is risky in compare to HBL and SBLBoth HBL and SBL are also not in the position of afe side.It is the separation of funds for those loans according to the catagories of the loan.
- With the negative correlatin between deposit and investment of HBL ,it is not mobilizing the deposits successfully in respect to investment .But there is positive correlation between deposit and investment of SBL and NBBL.SBL and NBBL has significant correlation but HBL has Insignificant correlation.
- HBL, NBBL and SBL are successful to mobilize the deposit and loan and advance which refers as a positive coefficient of correlation of them. They all are significant between deposit and loan and advances.
- All the banks seems to earned profits mobilizing loan ad advancs which refers to the positive coefficient of correlation of them.They all are significant between correlation.
- NBBL seems not earning in terms of investment in compare to HBL and SBL.
- There is negative correlation between net profit and total investment of NBBL which shows insignificant correlation but there is significant correlation of HBL and SBL.

# **CHAPTER V**

## **SUMMARY, CONCLUSION AND RECOMMENDATION**

This chapter is very essential for the research because it is the extract of all the previously discussed chapters. It is the backbone for the research because this chapter is the complete suggestive package. This chapter consists of mainly three parts: Summary, Conclusion and Recommendations. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendations part, suggestion and recommendations are made based on the result and experience of thesis. Recommendations are made for improving the present situation to the concerned parties as well as further research.

### **5.1 Summary**

A bank is an institution which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services. To the greater extent, economic growth rate is based on the banks and other financial institutions performance in an economy. Many researchers have revealed that banks and economic conditions are two wheels of the same chariot. Nowadays, banking activities are spreading all over the world. In the beginning of this thesis, there were 32 commercial banks operating in Nepal, licensed by NRB up to mid-April, 2012. Besides some other development banks are in the process of their conversion into commercial banks. This has led to the intense competition in the banking business. Only those banks, providing better services and having a greater profit margin would survive in the long run.

Commercial banks of course contribute a lot to the development of the economy of the country. Thus, to remain in the front line of the great contributor of the economy, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must have reasonable profitability.

The primary objective of the study is to highlight the hidden implications of the financial figures portrayed in the balance sheet and other financial data of SBL by interpreting their cause-effect relationship with regard to its financial performance and to identify its contribution in the national economy. This analysis also helps to provide package of suggestion and possible guidelines to improve the banking operation in order to maximize the values of its shareholders based on the finding of the study.

Under this study, the researcher has tried to cover the financial aspects of HBL, NBBL and SBL starting from FY 2007/08 to FY 2011/12. In the first introductory chapter, the study report has tried to give history and introduction of banking and its relation to the economy, brief profile of the concerned bank, the statement of problems, objective of the study and its limitation. During the research work, extensive review of various literature books, past thesis, journals have been studied and consulted. And as per requirement, internet materials from relevant websites are also visited. These works are compiled in the second chapter titled “Review of Literature” of this report.

For this study, the researcher has gathered the required data basically from annual reports published by the concerned bank for the last five years. And also internet website of HBL, NBBL and SBL which is used for necessary data to analyze the financial performance of the bank. Financial ratios are used to calculate various ratios. Statistical tools such as mean, standard deviation, coefficient of variation and correlation are followed for this research work in third chapter titled “Research Methodology”.

Data relating to activities of the bank have been collected and presented in figures and tabular as far as possible are to be interpreted in the study report in logical ways. Data are them analyzed applying various financial and statistical tools and findings of the study have been listed in a systematic manner. All these works are compiled in the fourth chapter titled “Data Presentation and Analysis” of the study.

Finally, the summary, conclusion and recommendation made by research are presented in the current chapter titled “Summary, Conclusion and Recommendation”



## 5.2 Conclusion

From the above study, the researcher has been able to draw certain conclusion that bank has different financial situation.

Liquidity position of the banks seems to be satisfactory to some extent to meet the short-times is an average. It indicates the margin of safety is going to be maintained in satisfactorily. The average of the cash and bank balance to current assets ratio of SBL is moderate and NBBL is more efficient than HBL. The ratio for loan and advance to total deposits revealed that more than 85.25 percent of total deposit of SBL has been lent to the customer as loan and advances that of HBL is 77.14 and NBBL is 76.68 .In other word, from working capital point of view the bank SBL seems following aggressive working capacity policy. However, the bank must seriously think maintaining enough liquid assets to pay short-term obligation.

ROA shows the management's capability to generate profit on using assets and it is gradually fluctuating with increasing trend over the period. Return on common equity during the fiscal year is dramatically increased in second fiscal year i.e. FY 2007/08. It is in decreasing trend after FY 2008/09. The ratio shows better operating efficiency of a firm. It is analyzed that the bank's interest earning in terms of total assets is also in increasing trend throughout the period. According to the ROA HBL and SBL is in good condition rather than NBBL as it has loss in the year 2010/11.

Net income to total deposit ratio is in an average of both HBL and SBL and they can be analyzed that the banks have not been able to mobilized the deposit to its fullest or generate incomes from mobilised fund in satisfactory way. But NBBL because of negative value of net income it is below the level maintain by Nepal Rastra Bank.

Debt to equity ratio of the bank is satisfactory of HBL and NBBL because they are relying mainly on own equity rather than borrowed fund. But SBL borrowing is higher than both the banks. From the view point of various researchers the companies relying on their own equity are doing well and establishing a strong legacy. Further the total debt to assets ratio of the bank is also in fluctuating trend which is due to decrease in borrowings and increase in total assets.

Finally, it can be concluded that bank had utilized their resources in proper order in profit generation sector. Therefore, there is no doubt that bank has been operating smoothly and succeed in becoming the pillar of economic system of the country. The economic development of the country cannot be imagined without the development of commerce and industry. The role of commercial banks in the economic growth of the nation can be prominent. Commercial banks of course contribute a lot to the development of the economy, the bank have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must ensure reasonable profitability.

### **5.3 Recommendations**

After the analysis of financial performance, of HBL ,NBBL and SBL, the following recommendations are given to the bank to overcome its weakness and inefficiency to improve its financial performance in better way.

- Based on the liquidity ratio analysis ,current ratio of all the banks are below than the normal standard to 2:1. Overall NBBL liquidity position seems to be slightly better than HBL and SBL. Services provided by all three banks are similar to other commercial banks. Therefore it is recommended to formulate new schemes and techniques in order to attract more and more customers towards the bank. They should invest the idel deposits in productive sectors to develop their own standard ratio.
- Excessive use of debt which is risky factor may cause solvency of the bank. There seems that all the banks are leverage highly with using more debt. The credit

worthiness of debtors must be evaluated on overall aspects of the borrower well before granting them loans.

- It is strongly recommended that all the banks should invest their deposits in profit generating sector i.e. manufacturing , trade and commerce etc. It is also better to open the branches in other cities as well as rural areas analyzing the proper customers in order to find the profitable opportunities for better turnover.
- The banks should try to collect more non-interest bearing deposits.
- The earning per share is the indicator for the share prices of the economy. Higher earning per share attracts the investors and makes the investors more confident on the investment of the company. Earning per Share of SBL is not so good. As compare to HBL But Earning per share of NBBL is very bad. Therefore, the banks are recommended to use its new strategies to make earning per share increase.
- All the banks are suggested to establish contact with more and more institutions to extend their transactions. They are also recommended to review their investment policies to see if there is any better mix than the present one
- . Banks should avoid weakness by applying appropriate financial policy, which will help to maintain its status in term of financial performance in future.
- Without profit, we cannot imagine the firms life. So to survive for the long time commercial banks should utilize the resources i.e. deposits, interest income, commission and other service charges are income more effectively and efficiently in profit generating sectors. Profitability position HBL and SBL are in satisfactory position in compare to NBBL. Hence ,they are strongly recommended to find out the alternatives courses to invest the customers capital to earn profit as well as also the reputation of the banks in itself.
- In the present contest ,it is the utmost important to provide security and the reliability. So the banks should focus on the security concern in order to make the customer feel that they are most secured in investing banks whether that is HBL, NBBL or SBL.
- NBBL is in critical situation so, Nepal Rastra Bank should should undertake the power and move it towards betterment.

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## APPENDIX-I

### Balance Sheet of Siddhartha Bank From Fiscal Year 2007/08 to 2011/12

(In Millions)

S.N	Capital and Liabilities	2007/08	2008/09	2009/10	2010/11	2012/12
1.	Share Capital	828.00	952.20	1310.44	1618.26	1619.24
2.	Reserves and surplus	240.35	326.54	293.11	370.14	564.03
3.	Debentures and Bonds	-	227.78	227.77	227.77	627.70
4.	Borrowings	205.13	327.60	345.00	45.00	45.00
5.	Deposit Liabilities	10191.44	15854.79	20197.03	21575.65	25948.50
6.	Bills Payables	15.88	17.88	35.70	2.69	7.72
7.	Proposed dividend & Div. Payables	6.54	7.52	131.46	200.94	136.36
8.	Income Tax Liabilities	11.16	4.85	7.44	15.66	27.47
9.	Other Liabilities	169.86	162.59	254.49	349.76	603.10
	<b>Total Liabilities</b>	<b>11668.36</b>	<b>17881.75</b>	<b>22802.43</b>	<b>24405.87</b>	<b>29579.20</b>

(In Millions)

S.N	Assets	2007/08	2008/09	2009/10	2010/11	2011/12
1.	Cash Balance	149.01	270.95	326.87	491.25	813.18
2.	Balance with NRB	270.22	984.98	1027.47	1222.41	2925.08
3.	Balance with Banks & Fin. institution	18.19	291.76	1052.28	192.02	553.63
4.	Money at Call & Short Notice	584.74	484.84	699.04	882.78	647.48
5.	Investment	1150.09	2176.43	2452.48	2537.91	3393.87
6.	Loan, Advances & Bills Purchased	9335.59	13328.62	16653.85	18384.03	20217.58
7.	Fixed Assets	72.39	17.22	360.43	368.17	358.71
8.	Non-Banking Assets	-	-	-	-	
9.	Other Assets	88.10	172.02	230.02	327.29	669.66
	<b>Total Assets</b>	<b>11668.36</b>	<b>17881.75</b>	<b>22802.43</b>	<b>24405.87</b>	<b>29579.20</b>

## APPENDIX-II

### Balance Sheet of Himalayan Bank From Fiscal Year 2007/08 to 2011/12

(In millions)

S.N	Capital and Liabilities	2007/08	2008/09	2009/10	2010/11	2011/12
1.	Share Capital	1013.51	1600	2000	2400	2760
2.	Reserves and surplus	1499.48	1519.88	1439.2	1595.78	1872.01
3.	Debentures and Bonds	860	500	500	500	500
4.	Borrowings	83.17	-	-	10	-
5.	Deposit Liabilities	31842.79	34682.31	37611.20	40920.6	47730
6.	Bills Payables	102.67	31.84	216.16	31.65	19.00
7.	Proposed dividend & Div. Payables	253.38	162.10	189.47	336.84	322.10
8.	Income Tax Liabilities	19.13	10.16			
9.	Other Liabilities	491.69	823.84	761.08	941.60	1160.31
	<b>Total Liabilities</b>	<b>36175.82</b>	<b>39330.1</b>	<b>42717.11</b>	<b>46736.20</b>	<b>54364.42</b>

(In millions)

S.N	Assets	2007/08	2008/09	2009/10	2010/11	2011/12
1.	Cash Balance	278.18	473.76	514.22	632.05	951.33
2.	Balance with NRB	935.84	2328.40	2604.8	1390.63	3979.16
3.	Balance with Banks & Fin. institution	234.12	246.36	747.48	941.78	1431.80
4.	Money at Call & Short Notice	518.53	1170.69	308.84	734	264.6
5.	Investment	13340.18	8710.69	8444.91	8769.94	10031.58
6.	Loan, Advances & Bills Purchased	19497.52	24793.15	27980.63	31566.98	34965.43
7.	Fixed Assets	726.07	952.20	1061.87	1187.49	1305.36
8.	Non-Banking Assets	10.31	22.69			
9.	Other Assets	634.78	632.07	1054.38	1513.14	1435.15
	<b>Total Assets</b>	<b>36175.82</b>	<b>39330.01</b>	<b>42717.11</b>	<b>46736.20</b>	<b>54364.42</b>



## APPENDIX-III

### Balance Sheet of Nepal Bangladesh Bank From Fiscal Year 2007/08 to 2011/12

(In millions)

S.N	Capital and Liabilities	2007/08	2008/09	2009/10	2010/11	2011/12
1.	Share Capital	1860.31	1860.31	1860.31	2009.39	2009.39
2.	Reserves and surplus	-215.78	-748.07	273.27	241.78	944.57
3.	Debentures and Bonds	-	-	-	-	-
4.	Borrowings	-	-	-	-	-
5.	Deposit Liabilities	9785.52	9997.69	10052.18	11511.68	16952.70
6.	Bills Payables	-	12.63	15.40	14.13	27.93
7.	Proposed dividend & Div. Payables	-	-	-	-	-
8.	Income Tax Liabilities	33.30	6.73	-	-	-
9.	Other Liabilities	2112.62	835.25	329.88	227.78	235.16
<b>Total Liabilities</b>		<b>13575.65</b>	<b>11964.55</b>	<b>12531.04</b>	<b>14004.76</b>	<b>20169.76</b>

(In Millions)

S.N	Assets	2007/08	2008/09	2009/10	2010/11	2011/12
1.	Cash Balance	1714.20	459.40	422.01	533.06	569.92
2.	Balance with NRB	-	1869.82	1423.26	1563.17	4093.78
3.	Balance with Banks & Fin. institution	-	242.20	213.03	368.70	346.49
4.	Money at Call & Short Notice		10.00			
5.	Investment	2647.24	2222.43	2112.75	2378.27	3868.95
6.	Loan, Advances & Bills Purchased		6704.94	7809.54	8452.74	10330.08
7.	Fixed Assets	139.48	139.20	155.33	307.5	227.99
8.	Non-Banking Assets					
9.	Other Assets	1497.01	325.56	395.12	401.32	732.54
<b>Total Assets</b>		<b>13575.65</b>	<b>11964.55</b>	<b>12531.04</b>	<b>14004.76</b>	<b>20169.76</b>

