A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE ANALYSIS OF COMMERCIAL BANKS

(With Special Reference to NABIL, NIBL and NSBI Banks)

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Background of Study

The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy. The banking sector has now reached to most remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy

Banks are institutions whose debits-usually referred to as "bank deposits" are commonly accepted in final settlement of other people's debt. Bank is also defined as an institution, which accepts deposits from the public and in turn advances loan by creating credit. It is different from other financial institutions in the sense that they cannot create credit through they may be accepting deposits and making advances. Banking institution is in dispensable in a modern society. It plays a pivotal role in the economic development of a country and forms the core of the money market in the advanced country.

Various types of banking institutions are performing different functions. There is for instance the central bank, which controls the entire currency and credit of the country. It is the organ of government that under takes the major financial operations and by other means influences the behavior of financial institutions so as to support the economic policy of the government. Similarly, commercial banks also perform different functions by accepting the deposits and advancing loans etc. but in modern times, commercial banks are concentrated in their activities of fulfilling the financial needs of their customers. The commercial banks have become the heart of financial system as they hold the deposit of the people, government and business units and investing activities to individuals, business firm and government.

Financial statement analysis applies analytical tools and techniques to general purpose financial statements and related data to derive to estimates and interferences useful in business decisions. It is a screening tool in selecting investment or merger candidates and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financing, investing and operating activities and is an evaluation tool for managerial and other business decision.

Financial statements of a firm mainly include income statement and the balance sheet. They are important source of financial information regarding the firm's operations and its financial position. To analyze the financial performance, strength, and weakness of the firm, many types of tools and techniques are used. Ratio analysis is one of the very popular and widely used tools of financial analysis. Ratio analysis is done with different ratios. Which are calculated from the accounting data contained in the financial statement? It is the primary tool for examining the firm's financial position and performance. Ratios are used as yardstick for evaluating the financial condition and performance of the firm.

Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting them into productive channels commercial banks expand and appreciate the value of aggregate economic activity in the economy.

The researcher has attempted to analysis the comparative financial performance of NABIL, NIBL and NSBI and their individual strength on the basis of their internal reports and published annual reports. For the purpose, different tools and techniques have been applied to judge the performance of these organizations, drawn out the strength and weakness of the firms and try to prescribe measures to improve the performance of these three banks.

Financial intermediaries play significant role to the development of national economy. They influence savings and surpluses considerably, which results investments. Financial intermediaries collect financial resources and supply them to the productive sectors that boosts the trade and industry and at last development of the country's economy. 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, burrowing funds and advancing loans. In addition to these primary functions, commercial banks, collect checks and bills, open later of the credit, guarantee on behalf of customers, undertake capital and other many activities, exchange foreign currencies etc.

Statement of the Problem

In modern days, especially in Nepal, Banks are being considered not as dealers of money transaction but also dealers of investment in the country. Banks are the active players of money market and capital market as well.

In fact, economic liberalization and privatization policy adopted by the government has open up the opportunity and threat as to the banking sectors. As a result, we see a rapid growth in the numbers of commercial banks in the country and of course, the rapid increment in numbers of commercial banks in small kingdom like Nepal has created tough and bottle neck competition among bankers. This study attempts to evaluate the financial performance of selected commercial banks of Nepal by using various measuring financial and statistical tools such as financial ratios, income and expenditure statement analysis and other necessary analysis. It gives the answer to these issues:

- What are the comparative liquidity, profitability, efficiency, and leverage position among selected three commercial banks?
- Is the NPA maintained by these banks below the industry average?
- Do the banks follow the NRB direction in keeping the safe capital adequacy?
- To what extent is the bank distributing the dividend?

Objectives of the Study

The Primary objective of this study is to make comparative analysis of the financial performance of three commercial banks namely NABIL, NIBL and NSBI and to recommended suggestion for the improvement of state of affairs. Some of other objectives are:

- To analyze and compare the liquidity, profitability, efficiency and leverage positions among three commercial banks.
- To examine the position of NPA in the banks.
- To examine the relationship between net profit and loan and advances, investment and total deposits

Significance of the Study

Analysis of financial performance of any company is very important. Actually, on the basis of the financial analysis we can say that the concerned company is strong or not. The financials published by the banks gives the meaningful picture to the public regarding the financial position of the banks. Thus, the analysis of these statements is necessary in order to give the full and clear-cut position and performance of the banks. This study is mainly compare the financial performance of NABIL, NIBL and NSBI which compare the position of selected bank under the study, which encourage to improve the different position and performance of the selected banks. From data presentation and analysis researcher finds different and weakness of the selective banks which is recommended to the banks for their further improvement.

Banking Institutions definitely contribute and play an important role for domestic resource mobilization, economic development and maintains economic confidence of various segments and extends credit to people.

- This study has multidimensional significance in particular area of concerned banks which have been undertaken that justifies for finding out important points and facts to researcher, shareholders, brokers, traders, financial institution, and public knowledge.
- This study helps and justify for finding out the financial performance of concerned selected commercial banks and Government of Nepal to make plans and policies.
- This study certainly input the policymakers of concerned selected banks for making plans and policies of the effective banking system.

Limitation of the Study

Every works have its own restriction and limitation due to the lack of time resources and knowledge. Despite the enough efforts of researcher, this thesis is not free from limitation. The study is presented just for the partial fulfillment of M.B.S. (Master's of Business Studied) degree. The researcher has come across many problems while presenting the thesis.

Following are the major limitations of this thesis.

- This thesis is based on secondary data collected from concerned banks. Thus, the result of the analysis depends on the information provided by them.
- This thesis covers three commercial banks only viz. NABIL, NIBL and NSBI only.
- The thesis is limited to analyze five years period i.e. from fiscal year 2007/08 to 2011/12.

- Standard normal performance level is not available especially in Nepalese context. So, interpretations of data are depended upon common sense. In thesis context, concerned experts are also consulted.
- The source of data i.e. published annual report and internet web site is assumed to be correct.

Organization of the Study

The study on the comparative financial analysis of NABIL, NIBL and NSBI has been divided into five chapters viz. Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Recommendation.

Chapter - I: Introduction

The introduction chapter briefly explains about the meaning and historical background of commercial bank in Nepal and also the joint venture banks. It describes the introduction of research study, which explains the focus of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

Chapter - II: Review of Literature

In this second chapter, the brief explanation of Ratio Analysis has been presented. The relevant and pertinent literature and various studies have also reviewed.

Chapter - III: Research Methodology

The third chapter briefly explains about the research methodology that has been used to evaluate the financial performance of the banks under consideration. This chapter consists of research design, sample and population, source of data and financial tools and techniques to measure the financial performance NABIL, NIBL and NSBI.

Chapter - IV: Presentation and Analysis of Data

In this fourth chapter, the data required for the study has been presented analyzed and interpreted by using various tools and techniques of financial management, accounts and statistics to present the result relating to the study in a very lucid manner.

Chapter - V: Summary, Conclusion and Recommendation

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to fetch out a conclusion of the study and attempts to offer various suggestion and recommendations for the improvement of the future performances of the three banks under review.

Finally, bibliography and appendix are represented at the end of the study.

Research Gap

A large number of research has been conducted on the topic, "A comparative analysis of financial performance of commercial Banks". However, the researcher will sustain gap by covering the relevant data and information from the year 2007/08 to 2011/12. Moreover, the researcher has selected three commercial banks of Nepal as sample banks i.e. NABIL Bank Limited, Nepal Investment Bank Limited and Nepal SBI Bank Limited. That itself demonstrates the gap of this research from the previous one because the researcher has not found any research done in these banks in collective form. Under this topics many researcher have been done but none of the researcher undertaken regarding the case study of financial performance between the NABIL, NIBL and NSBI.

NABIL, NIBL and NSBI are the leading commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing the economy of the country. Every year the financial performances are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the depth analysis of the financial performance which is the major concern of the shareholders and stakeholders. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial bank.

Research Methodology

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that we generally adopted by a researcher, studying his research problem among with the logic behind them.

The prime objective of this study is to compare, evaluate and assess the financial performance of selected commercial banks, i.e. NABIL Bank Limited (NABIL), Nepal Investment Bank Limited (NIBL) and Nepal SBI Bank Limited (NSBI). This chapter contains these methods that make convenience for comparison of the performance made, so far by these banks by analyzing the strength and weakness of the financial performance of these three commercial banks.

Research Design

Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. In other words research design is the frame work for a study that helps the analysis of data related to study topic. Research design is very important for scientific investigation. Research design gives the investigator a systematic direction to research work. Actually, research design in a plan for data collection and analysis. It presents a series of guideposts to enables the researcher to process in the right direction in order to achieve the goal.

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework of the project that stipulates what information to be collected from which sources by what procedures. There are various approaches of research design. For our convenience, in this thesis, a comparative analysis of financial performance of three commercial banks based on descriptive and analytical research design.

Sources of Data

This study is mainly based on secondary data. Secondary data are collected from their respective annual report especially from profit and loss account, balance sheet and other publications made by the banks. Also some data has been gathered from Nepal Stock Exchange's Website. Similarly, articles, journals related to the financial performance study, previous research report etc., have also taken into account while collecting information.

Populations and Sample

At present there are 31 commercial banks operating in Nepal under the guidance of Nepal Rastra Bank. For the purpose of convenience only, three commercial banks viz. NABIL bank Limited, Nepal Investment Bank Limited and Nepal SBI Bank Limited have been taken as sample of this study and rests of the commercial banks are considered as population. Five years data are taken to conduct the study from fiscal year 2007/08 to 2011/12. Following commercial banks have been selected for the study.

Data Collecting Procedure

Besides the above stated sources of data, a detailed review of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from Library of Shanker Dev Campus, Central Library of Tribhuvan University, Library of Nepal Commerce Campus and Library of Nepal Rastra Bank. Such data, information, facts and figures have been edited, tabulated and calculated before analysis. Then, results were concluded and interpretations were made.

Method of Data Analysis

For the purpose of the study, financial statements of the selected commercial banks are analyzed by using financial with the statistical tools.

Financial Tools

In this study, the following financial tools have been used to measure the strength and weakness of the sample banks. Financial analysis is the process of identifying the financial strength and weakness of firm establishing relationship between times of balance sheet and profit and loss account. Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating results and growth.

Liquidity Ratio

Liquidity ratios are used to judge a firm's ability to meet short-term obligation. It is the comparison between the short-term obligations and short-term resources available to meet these obligations. The liquidity ratio measures the ability of a firm to meet its short-term obligation. In order to ensure short-term solvency, the JVBs must maintain adequate liquidity. Liquidity ratio should neither be inadequate nor high. If the liquidity ratio of the bank is not enough, it will result in bad credit ratings, less creditors, confidence, eventually may lead to the bankruptcy. If the company has high degree of liquidity funds, it wills unnecessary tied up in current assets. Thus the banks should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding the risk of insolvency. The following ratios are used to find out the short-term solvency of the banks.

a. Current Ratio

The current ratio indicates bank's liquidity and short-term debt paying ability. It shows the relationship between current assets and current liabilities. It is calculated dividing the current assets by current liabilities.

Thus;

$$\text{Current Ratio X} \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current assets are those assets, which can be converted into cash with in short period of time. Normally, not exceeding one-year. Cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other interest receivable, debtors, bills purchased and discounted and miscellaneous are the examples of current assets. Similarly, current liabilities are those obligation which are payable with a short period. Sometimes it is called working capital ratio. Deposit and other short-term loan, bills payable, tax provision, staff bonus, dividend payables and miscellaneous are the examples of current liabilities.

Generally, the current assets of the company should be twice than current obligation to be technically solvent. For many types of business, 2:1 is considered to be an adequate ratio. If the current ratio of the firm less than 2:1, the solvency position of the firm is not good. A relatively high value of the current ratio is liquid and has the ability to pay its bill and vice-versa. Lastly, the widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstance in case of seasonal business ratio and the nature of business.

b. Cash Reserve Ratio

For the security of the deposit holders, NRB has made provision of making the cash reserve in NRB from the total deposit. The existing cash reserve requirement is 5.5%, while that till in previous year was 5.0%. Nonetheless, the reason for behind such requirement is to ensure good liquidity in bank.

$$R = \frac{\text{Cash balance at NRB}}{\text{Total Local Deposit}}$$

c. Cash and Bank Balance to Total Deposits

This ratio shows ability of bank's fund to cover their current margin call and saving deposits. It is calculated in order to see the position of cash and bank balance to make the payment of deposits when demanded. This ratio is calculated by the following formula:

$$\text{Cash and Bank Balance to Total Deposits X} \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Here, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposits, saving deposits, fixed deposits, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits and vice-versa. Moreover, too high ratio is unfit as capital will be tied-up and opportunity cost will be higher.

Leverage Ratio

Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of debt and equity in financing. Long-term creditors like debenture holders, financial institutions etc. are more interested to the firm's long-term financial strength. The capital structure ratios mainly highlight on the long-term financial health, debt servicing capacity and strength and weaknesses of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary, debt ratios tell us the relative proportions of capital contribution by creditors and by owners. The following ratios are used for analyzing long-term financial health debt servicing capacity and strengths and weakness of JVBs.

a) Debt-Equity Ratio

Debt-equity ratio examines the relative claims of creditors and owners against the banks' assets. Alternatively, the debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is computed by using the following formula:

$$\text{Debt-Equity Ratio X} \frac{\text{Total Debts}}{\text{Net Worth}} \text{x100}$$

Here, equity funds comprise shareholders capital, general reserve, general loan loss provisions, inappropriate profit and loss balance etc. This ratio helps to ascertain the measure stake in commercial bank between lenders and owner. If debt portion is too high, there is danger-tempting irresponsibility in the part of the owners.

b) Debt-Assets Ratio

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider.

This ratio is calculated by using the following formula:

$$\text{Debt-Assets Ratio X} \frac{\text{Total Debts}}{\text{Total Assets}} \text{x 100}$$

The numerator consists of short-term and long-term debt. Debt is that sum of money that must be payable. Creditors, bills payable debentures are the examples of debt. A high debt to total assets ratio represents a greater risk to creditors and shareholders and vice-versa. This ratio implies a commercial bank success in exploiting debt to be more profitable.

c) Net Worth to Total Assets Ratio

This ratio is concerned with the sufficiency of shareholders fund against the total assets. It is very essential for every financial institution to have a balance of required percentage of total assets at shareholders fund i.e. capital fund. This ratio is derived by dividing shareholders fund by total assets. This can be stated as,

$$\text{Net Worth to Total Assets Ratio} \; X \frac{\text{Net Worth}}{\text{Total Asset}} \; x\,100$$

Generally, this ratio measures the relative claims of owners of the commercial banks over the bank's assets. A high ratio indicates that out of total assets, shareholders have more controlled owner command and vice-versa.

Activity/ Efficiency Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratio is employed to evaluate the efficiency with the bank manages and utilizes funds. The following ratios are calculated under the activity ratio.

a) Loan and Advance to Total Deposits Ratio

This ratio is used to see extent to which the banks are successful to mobilize the outsider's funds. It is calculated to measure the percentage of total deposit invested in loan, advance and overdraft. It is the proportion of efficiency i.e. loan the advance among the total deposit of the commercial banks. This ratio is calculated by using the following formula:

$$\text{Loan and Advance to Total Deposits Ratio} \; X \frac{\text{Loan and Advances}}{\text{Total Deposits}} \, x100$$

Higher ratio shows the finance companies ability to provide the loan and advances to the people. A high ratio of loan and advances is considered to be the sign of efficient commercial bank and better mobilization of collected deposits and vice-versa.

b) Total Investment to Total Deposits Ratio

This ratio is calculated to see how efficiently the banks have mobilized the deposits on investment. This ratio is calculated by using the following formula:

$$\text{Total Investment to Total Deposits Ratio} = \frac{\text{Total Investment}}{\text{Total Deposits}} \times 100$$

The numerator consists of investment of government securities, investment on debenture and bonds, shares in subsidiary commercial bank share in other companies and other investment. A high ratio indicates that the commercial bank's efficiency is more investing on its deposits and low ratio indicates in ability to put its deposit for the lending activities.

c. Loan and Advance to Total Assets Ratio

Loan and Advances to total assets ratio reflects the extent to which the bank is successful in mobilizing its total assets on loan and advance for the purpose of income generating. It is calculated by dividing loan and advances by total assets.

$$\text{Loan \& Advances to Total Assets Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Assets}}$$

d. Non Performing Loan to Total Loan

The non performing loan to total loan measures the risk on the total loan and thus represents the quality of the assets the bank is carrying on. Higher the ratio indicates higher risk on the assets and vice-versa.

$$\text{NPL to Total Loan} = \frac{\text{Non Performing Loan}}{\text{Total Loan}}$$

Profitability Ratio

Profitability ratio indicates the degree of success in achieving desired profit. This ratio measures how effectively the company manages its fund to earn profit. This ratio is regarded as the most essential element for the commercial bank growth and survival. The different between total revenues and total expenses over a period is known as profit. Higher the profitability ratio, better the financial performance of the commercial bank and vice-versa. Profitability position can be evaluated through following different way. For the study purpose, the following profitability ratios have been calculated.

a. Net Profit to Total Assets Ratio

This ratio measures the profitability with respect to the total assets. It reflects the efficiency of the banks in utilizing its overall resources. This is found by using the following formula :

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

The numerator indicates the position of income left to the interval equities after all costs, charges, expenses have been deducted. Total assets comprise those assets, which appear on the assets side of the balance sheet. The high return on total assets ratio usually indicator that high profit margin and high turnover of total assets and vice-versa.

b. Total Interest Expenses to Total Interest Income Ratio

This ratio measures the percentage of total interest expenses against total interest income. It is calculated by the following formula :

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

The numerator consists of total interest expenses on total deposit, loan and advance, borrowing and other deposits. A high ratio indicates high interest expensed on total interest income.

c. Net Profit to total deposits

This ratio enables to evaluate what extent the management has been successful to mobilize the deposits in generating profit. Higher ratio represents better utilization of profit. It is calculated by using the following formula.

$$\text{Net Profit to total Deposits} = \frac{\text{Net Profit}}{\text{Total Deposits}} \times 100$$

Here, net profit means profit after interest and taxes and total deposit means that total amount deposited in various accounts i.e. current, saving, fixed, call and short deposits and other. Generally, higher ratio indicates better utilization of total deposits and vice-versa.

d. Return on Net Worth Ratio

This ratio shows the capacity of the banks to utilize its owner’s fund. It helps to judge whether the company has earned satisfactory return for its shareholders or not. Higher ratio represents the sound management and efficient mobilization of owner’s equity. It is calculated by the following formula :

$$\text{Return on Net Worth Ratio} = \frac{\text{Net Profit}}{\text{Net Worth}} \times 100$$

Here, net worth focuses not only the pain up capital but also include general reserve, capital reserve, ordinary share, preference share, premium on share and other reserve which may distribute to shareholders as dividend.

e. Earning Per Share (EPS)

Earning per share calculations made over years indicates whether or not the company's earning power on per share basis has change over that period. EPS shows the profitability of the company of a per share basis. It is calculated by the following formula:

$$\text{Earning Per Share (EPS)} = \frac{\text{Net Profit After Tax}}{\text{No. of Common Shares}}$$

f. Dividend Per share

The net profit after taxes belong to shareholders. But the income, which they really receive, is the amount of earnings distributed as dividends. Therefore, a large number of present and potential investors may be interested in dividend per share, rather than earning per share. DPS is the earnings distributed to ordinary shareholders divided by the number of ordinary shares outstanding

$$\text{Dividend Per Share} = \frac{\text{Dividend Paid}}{\text{No.of Common Shares}}$$

3.5.2 Statistical Tools

To analyze the data, we take various statistical tools are used. There fore every researcher has chosen the must important and suitable tools to reach the financial decision.

A. Arithmetic Mean

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

We have,

$$\text{Mean } (\overline{X}) = \frac{\phi x}{n}$$

Where

x = sum of all values of the observations

n = Number of observation

x = Value of variables

B. Standard Deviation

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

We have,

Standard Deviation = $\sqrt{\frac{\phi\ (x\ \ Z\ \ \bar{x})}{n}}$

C. Coefficient of Variation (C.V.)

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 time coefficient of standard deviation is called coefficient of variation. It is denote by C.V. Thus,

C.V. = $\frac{\pm}{\bar{x}} x100\%$

Where

∃ = Standard Deviation

$\bar{X}$ = Mean Value of Variables

The distribution having less C.V. is said to be less variable or more consistent. A distribution having greater C.V. is said to be more variable or less consistent.

D. Correlation Coefficient (r)

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. This tools is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y is usually denoted by ‘r’ can be obtained as:

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

N = no of observation in series X and Y

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

E. Coefficient of Determination (r^2)

It explains the variation percent derived in dependent variable due to the any one specified variable; it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

F. Probable Error of Correlation

The probable error of the co-coefficient of correlation helps in interpreting its value; it is obtained the following formula.

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

It is used in interpretation whether calculated value of 'r' is significant or not.

1. If r < P.E., it is insignificant. So, perhaps there is no evidence of correlation.
2. If r > P.E., it is significant.
3. In other cases nothing can be concluded.

Major Findings of the Study

On the basis of above data analysis of NABIL, NIBL and NSBI during the fiscal year 2007/08 to 2011/12, the following major findings have been drawn.

- The liquidity position of NABIL is best than that of NIBL and NSBI, as the current ratio of NABIL is highest (1.23:1) than that of NIBL (1.06:1) and NSBI (0.96:1).
- Comparing three banks on the basis of cash reserve ratio, it can be considered the liquidity position of NIBL (10.06%) is better than that of NABIL (6.78%) and NSBI (7.35%). However, the liquidity of NSBI is also sound, as the CRR is above the NRB's requirement in each fiscal year.
- On the basis of average deposit to loan and advance ratio, NIBL (78.29%) is aggressive, NABIL (72.52%) is moderate and NSBI (58.38%) is conservative in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is more consistent in NIBL than in NABIL and NSBI. Comparing three banks on the basis of investment to total deposit, it can be concluded that NSBI (41.44%) is most efficient in utilizing the total deposit than NABIL (28.27%) and NIBL (17.23%).
- Comparing the sampled banks, it can be concluded that NIBL has remained more successful than NABIL and NSBI in mobilizing total assets in loans and advances. However, the higher ratio also indicated that the total assets of NIBL are more risky than that of NABIL and NSBI.
- All the three sampled banks have satisfactory the non performing assets ratio, and thus indicated of having sound loan management policy because the entire sampled banks nonperforming ratio is less than 2%. Further, comparing three banks, NIBL is superior to other two banks in controlling the non performing assets.
- Comparing three banks on the basis of average debt-equity ratio, it can be concluded that NSBI has followed the most aggressive policy in financing the total assets than NABIL and NIBL, since the debt-equity ratio of NSBI is highest, while that of NIBL is lowest.
- On the basis of net worth to total assets, it can be considered that all the three banks have the policy of financing higher portion of total assets

through outside financing. However, comparing three banks, it can be concluded that the assets of NIBL bank is much more safe than that of other banks, as the highest percentage, 8.07%, of total assets of NIBL has been financed through internal fund.

- Comparing the return on shareholders' equity, it can be concluded that the shareholders of NABIL remained more satisfied than those of other banks as NABI generated more percentage of return from shareholders' equity than other two banks.
- Comparing the return on assets of three banks, the return on assets of NABIL is far highest than that of other banks which clearly indicated that NABI is more successful in generating profit from the investment in total assets than other two banks and comparing the average net profit to total deposit of sample banks, it can be concluded that NABIL remained more successful than other banks in mobilizing total deposit to generate profit with consistent ratio. Thus, the profitability position of NSBI is best than that of other sampled banks.
- NABIL has the highest control on interest expenses as compare to other banks, as the interest paid to interest income of NABIL is lowest than that of NIBL and NSBI.
- NABIL is much artisan in mobilizing the shareholders' equity to earn high profit per share. As a result both the existing shareholders' and the potential investors might have been fascinated toward the NABIL for being part of it by buying its share.
- On the basis of DPS, it can be concluded that NABIL remained more success to retain its existing shareholders and to allure the potential shareholders toward it, by distributing highest amount of dividend per share than NIBL and NSBI.
- The correlation coefficient between investment and net profit of NABIL is 0.8631, NIBL is 0.4268 and NSBI is 0.9533. Likewise, the coefficient of determination indicates that 74.49% variation in profit of NABIL, 18.22%

of profit of NIBL and 90.88% variation in profit in NSBI are explained by change in investment. However, the coefficient of correlation of NABIL and NSBI is higher than their respective 6 P.E., it can be concluded that the relationship between investment and net profit is statistically significant but in NIBL coefficient of correlation is lower than that of 6 PE so there is insignificant relationship between investment and net profit.

The correlation of NABIL is 0.9596, NIBL is 0.7413 and that of NSBI is 0.9723. The coefficient of determination indicates that 92.08% change in net profit of NABIL, 54.95% change in net profit of NIBL and 97.23% change in net profit of NSBI is explained by the change in total deposit of the respective banks. Since, the value of ‘r’ is greater than the 6 P.E. in NABIL and NSBI, it can be considered that there exists significant relationship between net profit and total deposit, and hence net profit increases/decreases with the increase/decrease of total deposit. But the value of ‘r’ is lower than the 6 PE in NIBL so it can be consider that there exists insignificant relationship between net profit and total deposit.

Summary

Commercials 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 reasonable profitability. The role of commercial banks in the economic growth of nation can be estimated to be prominent. The very challenging job of commercial banks is to collect the scattered idle resources from the small savers. Actually, commercial banks pool the fund in the sizable volume in order to feed the fund requirement of productive sector promote trade and industrialization in the country there by raising the employment opportunity and earned to the labors and materials suppliers to such industries and traders.

Under this study, researcher has tried to cover the various aspects of selected commercial banks covering the period of five years from 2007/08, 2008/09, 2009/10, 2010/11 and 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 banks, general concepts of financial statement and the statement of problem, objectives 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, researcher has gathered the required data basically from annual reports published by the concerned commercial banks for the last five years. And also internet website of Nepal Stock Exchange is used for necessary data analyze the financial performance of selected banks, financial ratios to calculate various ratios and statistical tools such as mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination and probable error etc. are followed for this research work in third chapter titled Research Methodology.

Data relating to activities of the banks have been collected and presented in figures and tabular as far as possible are tried to be interpreted in the study report in logical ways. Data are then 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 the recommendation are presented in the current chapter titled Summary, Conclusion and recommendations.

Conclusion

On the basis analysis and interpretation of various ratios indicating the performance of NABIL Bank Limited, Nepal Investment Bank Limited and Nepal SBI Bank Limited following conclusion are derived. The liquidity position of NABIL is best than that of NIBL and NSBI, as the current ratio of NABIL is higher than that of NIBL and NSBI. Comparing three banks on the basis of cash reserve ratio, it can be considered the liquidity position of NIBL is better than that of NABIL and NSBI. On the basis of average deposit to loan and advance ratio, NIBL is aggressive, NABIL is moderate and NSBI is conservative in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is more consistent in NIBL than in NABIL and NSBI. Comparing three banks on the basis of investment to total deposit, it can be concluded that NSBI is most efficient in utilizing the total deposit than NABIL and NIBL.

Similarly, comparing the sampled banks, it can be concluded that NIBL has remained more successful than NABIL and NSBI in mobilizing total assets in loans and advances. However, the higher ratio also indicated that the total assets of NIBL are more risky than that of NABIL and NSBI. All the three sampled banks have satisfactory the non performing assets ratio, and thus indicated of having sound loan management policy because the entire sampled banks nonperforming ratio is less than 2%. Further, comparing three banks, NIBL is superior to other two banks in controlling the non performing assets. The average debt-equity ratio, it can be concluded that NSBI has followed the most aggressive policy in financing the total assets than NABIL and NIBL, since the debt-equity ratio of NSBI is highest, while that of NIBL is lowest.

Likewise, on the basis of net worth to total assets, it can be considered that all the three banks have the policy of financing higher portion of total assets through outside financing. However, comparing three banks, it can be concluded that the assets of NIBL bank is much more safe than that of other banks, as the highest percentage of total assets of NIBL has been financed through internal fund and the return on shareholders' equity, it can be concluded that the shareholders of NABIL remained more satisfied than those of other banks as NABI generated more percentage of return from shareholders' equity than other two banks. The return on assets of NABIL is far highest than that of other banks which clearly indicated that NABI is more successful in generating profit from the investment in total assets than other two banks and comparing the average net profit to total deposit of sample banks, it can be concluded that NABIL remained more successful than other banks in mobilizing total deposit to generate profit with consistent ratio. Thus, the profitability position of NSBI is best than that of other sampled banks. NABIL has the highest control on interest expenses as compare to other banks, as the interest paid to interest income of NABIL is lowest than that of NIBL and NSBI.

NABIL is much artisan in mobilizing the shareholders' equity to earn high profit per share. As a result both the existing shareholders' and the potential investors might have been fascinated toward the NABIL for being part of it by buying its share. On the basis of DPS, it can be concluded that NABIL remained more success to retain its existing shareholders and to allure the potential shareholders toward it, by distributing highest amount of dividend per share than NIBL and NSBI. The correlation coefficient between investment and net profit of NABIL, NIBL and NSBI is positive and there is significant relationship between investment and net profit in NSBIL and NSBI but in NIBL coefficient of correlation is lower than that of 6 PE so there is insignificant relationship between investment and net profit. Likewise, the correlation between net profit and deposit of NABIL, NIBL and NSBI is positive. Since, the value of 'r' is greater than the 6 P.E. in NABIL and NSBI, it can be considered that there exists significant relationship between net profit and total deposit, and hence net profit increases/decreases with the increase/decrease of total deposit. But the value of ‘r’ is lower than the 6 PE in NIBL so it can be consider that there exists insignificant relationship between net profit and total deposit.

Recommendation

Based on the analysis, interpretation & conclusions, some of the major recommendations are mentioned as below:

- Based on liquidity ratio analysis it is found that selected commercial banks do not have the standard current ratio. To maintain liquidity in perfect, all commercial banks have to follow the mid-way i.e. they should invest the idle deposit in productive sector and on the other hand they have enough cash balance to meet current requirement.
- The banks are found to be having excess debt capital for the formation it’s total assets, hence banks should develop proper mechanism to leverage it properly such that risk in well diversified.
- Bank shall increase its loans and advances to get more return than from investment in treasury and government bonds with due care by properly evaluating the default risk.
- Shareholders are the real owners of the organization. But they do not seem to be happy with the rate of return on equity provided by the banks. To some extent, NABIL has been successful in providing a better return on equity than others. Thus, it is recommended that the management team should put emphasis on the maximizing the wealth of the shareholders.
- Expenses are the vital determinations to increase or decrease the profitability of the banks. Interest expenses on deposits also affect the profitability of the banks. Thus, it is recommended that banks should try to reduce the amount of high interest bearing deposits like fixed deposits, saving deposit and others.