A COMPARATIVE FINANCIAL ANALYSIS OF COMMERCIAL BANKS IN NEPAL

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RECOMMENDATION

This is to certify that the thesis

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has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**A COMPARATIVE FINANCIAL ANALYSIS OF COMMERCIAL BANKS IN NEPAL**" submitted to **Shanker Dev Campus**, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Studies (M.B.S.) under the supervision of **Mrs. Snehalata Kafle**, Lecturer of Shanker Dev Campus.

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ABBREVIATIONS

T.T.	Telegraphic Transfer
L.C.	Letter of Credit
NIBL	Nepal Investment Bank Limited
SCBNL	Standard Chartered Bank Nepal Limited
EBIL	Emirates Bank International Limited
NBL	National Bank Limited, Bangladesh
ATM	Automatic Teller Machine
ICRA	Indian Credit Rating Agency
JVBs	Joint Venture Banks
NRB	Nepal Rastra Bank
SBI	State Bank of India
NBB	Nepal Bangladesh Bank
F.Y.	Fiscal Year
EBL	Everest Bank Limited
HBL	Himalayan Bank Limited
CRR	Cash Reserve Ratio
EPS	Earning Per Share
NPA	Non Performing Assets
NPL	Non Performing Loan
ADBL	Agriculture Development Bank Limited
CD	Credit to Deposit

BOK	Bank Of Kathmandu
PE	Profit Earning
DoC	Department of Cooperative
BFIs	Bank and Financial Institutions
BIS	Bank for International Settlement
NEPSE	Nepal Stock Exchange
RWA	Risk Weighted Assets
CAR	Capital Adequacy Ratio
NPAT	Net Profit After Tax
ROE	Return On Equity
ROA	Return On Assets
S.D.	Standard Deviation
C.V.	Coefficient of Variance

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Banking sector plays a major role in the proper functioning of an economy. These institutions act as an intermediary between the individuals who lend and who borrow. These institutions accept deposits and in turn lend it to people who are in need of financial resources. These institutions make the flow of investment easier. So we cannot deny the role a bank in developing an economy. It pools the funds scattered in the economy and mobilizes them to the productive sector.

Financial institutions are currently viewed as catalyst in the process of economic growth of a country. Key factor in the development of an economy is the mobilization of resources. The financial institutions help the process of mobilization of financial resources. These institutions attract the temporary ideal fund of the public in the form of deposits. Deposits are collected by banks through current accounts, saving accounts or fixed accounts according to the wish of their customers. In order to earn interest banks invest these deposits or lend it to businessmen/traders who require it. Due to this function, bank is contributing a lot in boosting the economy of the nation in various activities of agricultural, trade & commerce, industrial sectors.

The importance of banks in the economy has of late grown to an enormous extent. The commercial banks arrange the amount of foreign exchange required by various organizations and travelers. Moreover, foreign trade transactions are facilitated through the issuance of draft, telegraphic transfer (T.T.), letter of credit (L.C.). Locker facilities are also provided by banks to the customers to keep valuable ornaments and documents safe. Banks also provide references about the financial position of their customers as and when required. The bank works as an agent of its customers to receive and make the payments, pay and collect rent, pay insurance premium, pay mobile bills etc. Internationally valid credit cards, debit cards and travel cheques are also issued by commercial banks these days.

Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector causing an overall economic development of the country. The bankers have the responsibility of safeguarding the interest of the depositors, shareholders and the society they are serving. But these institutions possess a large amount of risk which can't be denied either. If a bank behaves irresponsible, the costs borne by stakeholders and the economy are enormous. So the sound financial position and performance of a bank is must.

Financial analysis concentrates on financial statement analysis, which highlights the key aspects of firm's operation. The basis for the financial planning, analysis and decision making is the financial information. Financial information is needed to predict, compare and evaluate the firm's condition and performance. It is required to serve in economic/financial decision making. The financial information of a firm is contained in the financial statements or accounting reports.

Financial analysis is one of the major parts in every type of organization. It is carried out to diagnose the strength and weakness of the firm. "Financial statement analysis applies analytical tools and techniques to general financial statements and related data to derive to estimate and interference useful in business decisions. It is a screening tool in selecting or merger candidates and is a forecasting tool of future financial conditions and consequences. It is diagnostic tool in assessing financing investing and operating activities and is an evaluation tool for managerial and other business decisions" (**Bernsten, Leopard. A, wild john J. 1998:3)**

To analyze the financial performance and strength & weakness of a 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 computed from the accounting data contained in the financial statements of the firm. 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.

1.2 Focus of the study

This study is focused in the financial performance of leading commercial banks in Nepal. For that purpose NABIL Bank Ltd., Nepal Investment Bank Ltd. and Standard Chartered Bank Nepal Ltd. are selected. The selected banks are leading banks in the country which have been in operation for more than two decades. Brief overviews of the selected banks are given below.

Nabil Bank Ltd.

Nabil Bank Ltd. is the first commercial bank established as a joint venture bank in Nepal which commenced its operation on 12th July 1984 under commercial bank act 2031 B.S. Nabil Bank Ltd earlier known as Nepal Arab Bank Ltd. Dubai Bank Ltd, Dubai (later acquired by Emirates Bank International Ltd., Dubai-EBIL) was the first joint venture partner of Nabil.

Later, EBIL sold its entire stock to National Bank Ltd., Bangladesh (NBL). Nabil Bank Ltd had the official name Nepal Arab Bank Limited till 31st Dec 2001. The present shareholding structure of Nabil is as follows:

NB (International) Ltd 50% of the capital

Nepal Stock Exchange Ltd 0.33% of the capital

Rashtriya Beema Sansthan 9.67% of the capital

Nepal Industrial Development Corporation 6.15%

Other promoter shareholders 3.85%

General public 36.15%

Nabil, a milestone in the banking history of Nepal, incorporated with objective of extending international standard modern banking services to various sectors of the society. Pursuing it objective, Nabil provides a full range of commercial banking services through 48 points of representation and over 60 ATMs across the nation

Recognizing the good performance of Nabil, it was awarded "Bank of the Year 2001" for Nepal by the Banker a publication of the Financial Times, London.

Nepal Investment Bank Limited (NIBL)

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

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. Later the name of the bank has been changed to Nepal Investment Bank Ltd. with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the capital
- Rashtriya Beema Sansthan holding 15% of the capital
- The remaining 20% being held by the general public

At present, the bank is providing banking services from 41 branches and 67 ATMs in the major points of the country.

During the 25 years' operations the bank received the "Bank of Year Award" four times in 2003, 2005, 2008 and 2010 from the Financial Times Group's The Banker, a UK based Bank magazine, which is considered as a benchmark for financial information featuring high quality products and services across all areas of commercial and investment banking. In addition, NIBL became the first bank in Nepal to receive an investment grade credit rating of (Nepal) A by the Indian Credit Rating Agency, ICRA, an associate of Moody's Investors Service.

Standard Chartered Bank Nepal Ltd., SCBNL

Standard Chartered Bank Nepal Limited (SCBNL) is one of the top and renowned banks of Nepal. Standard Chartered Bank Nepal Limited, formerly named as Nepal Grindlays Bank Ltd, has been in operation in Nepal since 1987 when it was initially registered as a joint venture operation. Today the bank is an integral part of Standard Chartered Group who has 75% ownership in the company with 25% shares owned by the Nepalese public. The bank enjoys the status a sole international bank currently operating in Nepal.

An integral part of the only international banking group currently operating in Nepal, the bank enjoys and impeccable reputation of a leading financial institution in the country. With 18 points of representations and 23 ATMs, SCBNL is in a position to service its customers through a domestic network. In addition to which the global network of Standard Chartered Group gives the bank the unique opportunity to provide truly international banking in Nepal.

The Banker of Financial Times, London awarded 'Bank of the Year 2002' and Bank of the Year 2009' for Nepal to Standard Chartered Bank Nepal Ltd.

1.3 Statement of Problem

Economic liberalization process in Nepal started in 1980s. Competition in the Nepalese banking industry has been fierce since then as the government allowed foreign bank to form joint ventures with the local partners. Following this there has been significant increase in the number of financial institutions in Nepal. Now there exist 31 commercial banks, 84 development banks and 79 finance companies. The mushrooming of the banking sector in such a short period has created tough and unhealthy competition between the banks.

Current economic condition of the nation is not friendly for the banking sector. In the past few years the governments have been unable to present the budget in time and have not been able to make budget expenditures and run big projects and programs. The situations like heavy investment in unproductive sector like land, decrease in the rate of inward remittance, intense increment in import and steep decrease in export, political uncertainties in the various parts of the country etc. are disappointing conditions for the banking sector and the economy of a country.

Due to the economic recession and political uncertainties in the nation, there has been lower investment in the industry, trade, agriculture and financial sectors which has caused lower growth of gross domestic product and hence foreign trade deficit is increasing day by day. The financial sector has been suffering from the liquidity crisis. Due to this reason, banks and other financial institutions are facing economic turmoil and difficulties in extending their loan and advances towards the profitable sectors. Even though, at the present scenario of liquidity crunch, to attract deposit, the banks are providing higher interest in the different forms of the deposits unable to increase deposit significantly. This resulted the cost of the fund of the banks higher in comparison to the past years. Eventually, lack of the adequate deposit, the lending of the financial institutions restricted to maintain the credit deposit ratio determined by the directives of Nepal Rastra Bank.

Despite the prevailing political and economic condition in the country the banks operating in Nepal have managed to perform well in terms of their work efficiently and profitability. However, they are also facing problems in generating adequate return on their investment and the role of banking sector has been further increased for the upliftment of the country's economy from the present condition.

1.4 Objectives of the study

The main objective of this study is to compare the financial performance of the selected banks viz NABIL Bank Ltd (NABIL), Nepal Investment Bank Ltd (NIBL) and Standard Chartered Bank Nepal Ltd (SCBNL). To support its main objectives, the study is proposed to meet the following specific objectives.

- To evaluate the liquidity position to measure the performance of selected banks
- To evaluate the earning and profitability positions of the selected banks.
- To evaluate the activity and operation with reference to mobilization of the collected funds.
- To provide suggestions and recommendations for the selected banks.

1.5 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 give the meaningful picture to depositors, investors, shareholders and other the stakeholders regarding the financial position of the banks. The study mainly compares the financial performances of NABIL, NIBL and SCBNL. The study will be significant:

- To give the full & clear cut position and performance of the selected banks.
- To compare the financial positions of the selected banks.
- To the selected banks, to recommend for the further improvement in different performances.
- For the reference of the researchers who are interested in this topic. .

1.6 Limitations of the study

This study is mainly concerned with the analysis of financial statements of commercial banks in Nepal. There are 30 commercial banks in operation. Among them only three banks are taken for the study. The limitations of the study are as follows:

- As of now there are 31 commercial banks in operation. Of them, three commercial banks viz Nabil Bank Ltd., Nepal Investment Bank Ltd. & Standard Chartard Bank Nepal Ltd. are taken for the study.
- The study is carried out on the basis of the published financial documents such as balance sheet, P/L accounts, related journals, magazines and books. These published documents have their own limitations.
- The study is mainly based on secondary data collected from the website and annual reports of the banks and other sources.
- The whole study is based on the data of three fiscal years. (F.Y. 2005/2006 – 2009/2010)
- Time period of the study will be another restriction to meet the academic year deadline. Due to the short time period the study may not reach to the proper depth level.

1.7 Organization of the study

The study has been organized into five chapters.

They are:-

Chapter I : Introduction

Chapter II : Review of literature

Chapter III: Research Methodology

Chapter IV: Presentation and Analysis of data

Chapter V: Summary, Conclusion and Recommendation

The contents of each of the chapter of study are briefly mentioned below.

Introduction:

The first chapter incorporates general background, statement of the problem, objective of the study, significance of the study, research methodology and organization of the study.

Review of Literature:

This chapter includes mainly the conceptual/ theoretical review and review of related studies. In this aspect it includes review of various acts, rules and regulation of NRB, journals, magazine, articles, and unpublished thesis.

Research Methodology

This chapter deals with research methodology used in the study to find the result for meeting the objectives set in the chapter one. It includes research design, sources of data, data collection techniques and tools of data analysis.

Data Presentation and Analysis

This is the main body of the research. In this chapter, collected and processed data are presented, analyzed and interpreted using various financial as well as statistical tools and techniques. Having completed the basic analysis required for this study, the final and the most important task of the researcher is to enlist the findings. A comprehensive summary of the major findings of the study is presented in this segment.

Summary, Conclusion and Recommendation

This chapter states the summary, conclusion, and recommendation of the study.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature is an essential part of all studies. Review of literature means reviewing research studies or other relevant preposition in related area of the study so that all past studies, their conclusions and deficiencies may be known and further research can be conducted. The previous studies can not be ignored because they provide the foundation to the present study.

This chapter basically divided into two sections; the first section is conceptual review, which covers the topics such as concept of financial statements, meaning and objectives of financial analysis. Along with this meaning, functions of commercial banks and evolution of banks in the country are also presented. The second section is related to the books, articles and the pre done thesis related to the subject matter. This chapter highlights upon the literature that have been already conducted by some thesis researchers in the particular topic. Some of them, as are supposed to be relevant for this research purpose.

The review of literature is arranged in the following order.

2.1 Conceptual Frame Work

Financial decisions are very sensitive and important and it can not be taken in a vacuum. Financial decisions should be based on financial analysis by using financial tools and techniques to measure the financial performance of the firm. Just as the presence of our body reflects our health, financial statements reflect the health of business firms. If you need to observe the position of a business firm for a decision making purpose, look at the financial statements of the firm in it, you will find the information that you are looking for.

Financial statement analysis consists of applying analytical tools and techniques to financial statements and other relevant data to obtain useful information. This information reveals significant relationships between the data and the trends in those data that assess the company's past performance and current financial position. The information shows the results or consequences of prior management decisions. In addition, analysts use the information to make predictions that may have a direct effect on decisions made by the users of financial statements.

2.1.1 Financial Statement

Financial statements are the written details of income, expenditure, profit and loss of an organization for given period of time. Financial statements gauge a success or failure of the business. Different types of financial statements are prepared for different purposes. The types of financial statements that business firms prepare and publish periodically are

- an income statement
- a statement of retained earnings
- a balance sheet
- a statement of cash flows

Each statement is intended to convey a different set of information. The income statement tells us about the operating results of a particular accounting period, say a month or a year. The statement of retained earnings shows how the net incomes of the period were appropriated or distributed. The statement shows the change in retained earnings between the beginning and the end of a period. The balance sheet reflects a company's solvency. It shows the position of all assets, liabilities and equities to date. The statement of cash flows tells us from what kinds of activities were the cash and cash equivalents received, and where those were applied. The statement shows the cash inflows and outflows of a company over a period of time.

Of the different types of financial statements the two most important statements are the balance sheet and the income statement which are briefly explained below.

Balance Sheet

The balance sheet is a statement of assets, liabilities and capital of business. It is the statement, which depicts the financial position of the business on a particular date. It provides information regarding the solvency, liquidity, and financial flexibility to different interested parties like investors, lenders, bankers, creditors, government and shareholders. The fundamental relationship reported in a balance sheet is expressed by the classic accounting equation:

Assets = Liabilities + Owner's Equity

A specimen of Balance Sheet is as follows:

BALANCE SHEET

As of December 31, 2010

ASSETS	**Amount**	**LIABILITIES AND EQUITY**	**Amount**
Current assets:		**Current Liabilities**	
Cash	xxxx	Account Payable	xxxx
Marketable Securities	xxxx	Accrued Expenses	xxxx
Account Receivable	xxxx	Short Term Notes Payable	xxxx
Inventory	xxxx	Taxes Due	xxxx
Fixed Assets:		**Long Term Liabilities**	
Building	xxxx	Bonds	xxxx

Machinery	xxxx	Other Long Term Debts	xxxx
Other Fixed Assets	xxxx		
		Shareholders' Equity:	
		Common Stocks	xxxx
		Retained Earnings	xxxx
TOTAL	**xxxx**	**TOTAL**	**xxxx**

Income Statement

The income statement is the statement which is prepared to show the operating performance of a business for a particular period of time. The income statement is the representation of all revenues and all expenditures for a specific period of time. The usual format of this statement is to first list all revenues from sales, commission and fees and other sources in the upper part, then to list all expenditures including depreciation in the second part. Finally the total of the second part is subtracted from the total of the first part showing the balance as taxable income. Users of published financial statements are generally interested in the results of company operations as reported in the periodic income statement.

A specimen of a typical Income Statement is presented below:

INCOME STATEMENT

For the year ending December 31, 2010

Particulars	Amount	Amount
Revenue from Sales		**xxxxx**
Less: Cost of Goods Sold		xxxxx
Gross Margin		xxxx
Less:		
Operating Expenses	xxxx	
Non-operating Expenses	xxxx	xxxx
Taxable Income		xxx
Less Tax Liability		xxx
Net Income After Tax		xx

2.1.1.1 Objectives of Financial Statement

Financial statements are prepared from the accounting records maintained by the firm. The generally accepted accounting principles and procedures are followed to prepare these statements. The basic objective of financial statements is to assist in decision making. The other objectives are:

- To provide reliable financial information about economic resources and obligation of a business enterprise.
- To provide reliable information about changes in net resources.
- To provide financial information that assists in estimating the earnings potential of the enterprise.
- To disclose to the extent possible, other information related to the financial statement that is relevant to the statement users.

2.1.1.2 Limitations of Financial Statements:

Limitations of financial statements are as follows:

- Financial statements contain only quantitative but not the qualitative information.
- Financial statements may contain valueless assets. Generally balance sheet includes goodwill, preliminary expenses and discount on issue of shares and debentures.
- The management may be biased and as such the financial statements may contain biased and manipulated information.
- Financial statement based on historical figures may not represent the position to date.

2.1.2 Financial Analysis

Generally, the task of preparing, examining and analyzing the different financial statements prepared/published by the business for conquering different objectives by the stakeholders is termed as the financial analysis. A financial analysis is identifying the major strength and weakness of business; it indicates whether a firm is in the position to meet its obligations, utilizing of resources, investing opportunities, profitability and capital structure of organization etc. Financial analysis can also be used to assess a firm's viability as an ongoing enterprise and determine whether a satisfactory return is being earned for the risk taken.

2.1.2.1 Objectives of Financial Analysis

Financial analysis is a technique of answering various questions regarding the performance of a firm in the past, present and future. The analysis enables financial managers to recommend steps to be taken for the correction of faults and improvement. Financial analysis is carried out mainly in order to achieve the following objectives:

- to know the consequences of the past performance
- to compare with the past performance as well as to compare with competitors and industry average.
- to forecast about the future and to know the future challenges and position
- to take corrective actions to solve the problems and improve the performance.
- to recommend and suggest for the further improvement

2.1.3 Commercial Banks

Commercial banks are the major component in the economy of a country. Commercial banks came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector with major thrust in industrial development and causing an overall economic development.

"Commercial banks are those banks which are established under this act to perform commercial functions except those which are established for specific purpose like development banks, co-operation etc." – Commercial Bank Act, 2031

2.1.3.1 Functions of Commercial Banks

Banks accept the deposits from unproductive sectors and channelize them in the productive sectors. This is the basic function of banks. Now, the services provided by bank have been expanded to many areas as human wants expansion and the development of technology.

Generally, commercial banks perform the following functions

Accepting deposit:

The primary function of bank is to accept deposits from savers. Banks accept deposits from those who can save money, but cannot utilize them in productive sectors. People consider it more rational to deposit their savings in a bank because by doing so they earn interest. At the same time, they avoid the danger of theft, because bank guarantees the safe custody of deposits. This is the oldest function of banks. The bankers used to charge a commission for keeping the money in its custody at that time. Through the different kinds of accounts (current, saving, fixed) banks accept deposits.

Advancing of Loans

Commercial bank is a profit oriented business organization. So banks have to advance loans to public /business in order to generate profit. After keeping certain cash reserves, banks grant short, medium and long term loans to needy borrowers. For security, banks generally provide loan on mortgage. In general, loans for individuals are provided against the collateral of gold, silver, fixed deposit receipts, treasury bills etc. whereas business loans are advanced on the mortgage of negotiable instruments such as land, building, stock, godown etc. Nowadays, banks provide loans on personal guarantee without mortgage on the basis of goodwill and relationship with the party.

Collection and Payment of Credit Instrument

Modern business uses different types of credit instruments such as bill of exchange, promissory notes, cheques, bank drafts etc. Banks deal with such instruments. Banks collect and pay various credit instruments as the representatives of the customers.

Remittance

It is a system, through which cash/fund is transferred from one place to another. Banks provide the facilities of remittance to the customers and earn some service charge. Generally, a bank provides such facility through bank draft, mail transfer, letter of credit, telegraphic transfer (T.T), etc. This function enables fast and safe remittance of money from one place to another place. Remittance plays an important role in the domestic trade as well as in international trade. It has benefited both the business and individual customers.

Exchange Foreign Currencies

The commercial bank provides the foreign exchange service under the direction of the central bank. As the requirement of customers, banks exchange foreign currencies with local currencies, which is essential to settle down the dues in the international trade. Foreign currencies are also essential for individuals to travel aboard. Through the exchange of currencies commercial banks earn foreign exchange commission.

Bank Guarantee

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

Agency Functions

As the agents of customers, modern banks perform different types of functions. The commercial banks receives dividend, interest on debentures and bonds on behalf of its customers. It also makes payments for insurance premium, rent and income tax on behalf of its customers.

Other Functions

Besides these functions, the bank provides safety for the valuable ornaments and documents of its customers by providing locker facility. The bank charges nominal amount of commission for the services rendered. It issues traveler's cheque and credit card. Commercial bank underwrites securities issued by the Joint Stock Company, private company and even government organizations and provides individual information of customers as demanded by the account holder, government institutions, and embassies regarding financial position, business reputation and respectability of their customers.

2.1.4 Historical Development of Banks in Nepal

Though the issue when and how banks were originated in the country is unanswered some crude banking practices were exercised even in the ancient time. From the study of history landlords, rich merchant, shopkeepers and other individuals used to provide loan against ornaments, bhadakuda and other valueable properties as well as they accepted savings and provided the facilities of money lending.

Borrowing money to rebuild Kathmandu valley by Gunkamdev in 780 B.S., clearing outstanding debts in the country and starting Nepal Sambat by a merchant of Kantipur Sankhadhar Shakhwa in 936B.S., involvement of Tankadhari in gold, silver and monetary transaction, establishment of Tejarath Adda in order to give credit facility to the government employees and general public by Rana prime minister Ranodip Singh, establishment of Nepal bank ltd in 1937 A.D.(1994 B.S.) are the evidences of banking practices, origin and growth of banks in Nepal. At present, there are one central bank, 31commercial banks, 84 development banks and 79 finance companies.

As mentioned above the history of modern banking in Nepal is relatively recent and banking practises were exercised even in the ancient time. In Nepalese Chronicle, it was recorded that the new era **Nepal Sambat** was introduced by **Shankhadhar Shakhwa**, a sudra merchant of Kantipur in 879 or 880 A.D. after having paid all the outstanding debts in the country. Towards the end of 8^{th} century, Gunkam Dev had borrowed money to rebuild the Kathmandu valley. In the 14^{th} century ruler of Kathmandu Jayasthiti Malla segregated the inhabitants of the country into 64 castes on the basis of their occupations. Of the 64 castes, **Tankadhari** were one of them whose profession was related to money-lending business and valuable metals like gold and silver. They used to give and take credit facilities. So Tankadhari can be regarded as the conventional bankers. It is further believed that money lending business, particularly for financing the foreign trade with Tibet, became quite popular during regime of Mallas. However, in the absence of any regulatory measures, the unscrupulous money lenders were known to have charged exorbitant rates of interest and other extra dues on loans advanced.

In Rana regime during the year 1877 A.D Prime Minister Ranodip Singh established a public credit institution fully subscribed by the government named **Tejarath Adda** in order to provide credit facilities to government employees and general public at very low rate of 5 percent. Tejarath Adda had played a vital role in the banking system. Tejarath Adda used to provide loan to the government employees against the personal guarantee and amortized the loan on the installment basis from the salary of the government employees. Later, the Adda started to provide credit facilities to the general public against the colateral of gold and silver. After the establishment of Tejaratha Adda its branches were opened in the different parts of the country. In the traditional banking system Tejaratha Add had an important role.

The main defects of this institution showed as there no other financial institution set up and there was no effort to expand the services. Above all of the defects, this institution did not accept any deposits from the public. In the absence of saving mobilization the “Adda” faced financial problems making it impossible to carter to the credit and service need of the general population through out the country. After that again, for a long time, several unorganized bankers and indigenous moneylender continued to florish as the sole provider of the credit and services to the general public.

At the same time, the government started trade with India and Tibet. And the various indigenous bankers handled even the trade, because transfer of the money could be safely made only through these bankers in the absence of modern banking institutions. Hence, the need of banking intuition was realized. This was even strongly supported by the situation caused during 1934 A.D.'s earthquake where there was a need of finance for the reconstruction of works.

Reviewing these situations, the "Udhyog Parishad (Industrial Development Board) was constituted in 1936 A.D. One year after it's formulation, it formulated the "Company Act" and "Nepal Bank Act" in 1937 A.D.

In the year 1934 A.D., the establishment of Nepal Bank Ltd., with the imperial Bank of India came into existence under "Nepal Bank Act, 1937" as the first commercial bank of Nepal, inaugurated by this Majesty King Tribhuwan on November 1937. Rastriya Banijya Bank, the second commercial bank was established in the year 1965. Rastriya Banijya Bank being the largest commercial bank plays a major role in the economy. The financial shapes of the two old banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad position.

Thus we can say that modern banking practices began only before the Second World War with establishment of the first banking institute, Nepal Bank Limited, which was establishment as a joint venture of government and private individuals in Kartik 30, 1994 B.S.

Earlier banks were different from modern commercial banks in many respects. The banks, which operated in the past, combined central banking functions such as issue of currency, with commercial banking operations like accepting deposits and financing business. In course of time this practice was abandoned and specialized institutions for the central banking functions were created. In Baisakh 14, 2013 B.S., the central bank named as Nepal Rastra Bank was established with an objective of supervising, protecting and directing the functions of commercial banking activities. Now, a central bank can be easily distinguished from a commercial bank sue to their objectives and unique functions.

With the growing activities in the country, the necessity of an additional commercial bank was realized in the country. Consequently, another commercial bank fully owned by the government, named as Rastriya Banijya Bank was established in 2022 B.S. under the Commercial Bank Act 2021 B.S.

A new banking policy was introduced in fiscal year 2039/40 B.S. for the establishment of new banks by the joint investment of foreign nations. The new policy allowed joint venture banks with foreign collaboration to operate in Nepal. Its objectives were to create healthy competitive banking system and to provide cheap banking facilities. Nepal Arab Bank Limited Nepal (currently Nabil Bank Ltd.) was the pioneer Joint Venture Banks (JVBs) of Nepal making the history of joint venture banks twenty five years old, 2041 B.S. marked the beginning of a new era in Nepalese banking industry. In 2043 B.S., the second JVB, Nepal Indosuez Bank Ltd. (currently Nepal Investment Bank Ltd.) was established. In the same year, Nepal Grindlays Bank Ltd. (currently Standard Chartered Bank Nepal Ltd.) in the form of JVB was also established. But more JVBs came into existence after the initiation of government's policy of economic liberalization and privatization in 2049 B.S. In the current scenario, there are 30 commercial banks, 86 development banks and 79 finance companies.

2.1.4.1 Development of Commercial Banks in Nepal

Nepal’s modern banking history had begun with the establishment of Nepal Bank Limited in 1937 A.D. At that time this bank had authorized capital of NPR 10 million and paid up capital of NPR. 842 thousand. Nepal Bank Limited was the first commercial bank with 51% government equity and 49% public. Rastriya Bank came into existence in 1966, fully government ownership with authorized capital of NPR 10 million and paid up capital of NPR 2.5 million. In 1980, the government introduced,”Financial Sector Reforms”. Nepal allowed the entry of foreign banks as joint ventures with up to a maximum of 50% equity participation. The first joint venture bank was Nepal Arab Bank Ltd.(NABIL) in 1984 A.D. Later on, large numbers of commercial bank were established respectively, which the table shows.

Table No. – 2.1

Commercial Banks in Nepal

S.N.	Name	Head Office	Estd. (A.D.)
1	Nepal Bank Limited	Kathmandu	1937
2	Rashtriya Banijya Bank Limited	Kathmandu	1966

3	Agriculture Development Bank Ltd	Kathmandu	1968
4	Nabil Bank Limited	Kathmandu	1984
5	Nepal Investment Bank Limited	Kathmandu	1986
6	Standard Chartered Bank Nepal Ltd.	Kathmandu	1987
7	Himalayan Bank Limited	Kathmandu	1993
8	Nepal SBI Bank Limited	Kathmandu	1993
9	Nepal Bangladesh Bank Limited	Kathmandu	1994
10	Everest Bank Limited	Kathmandu	1994
11	Bank of Kathmandu Limited	Kathmandu	1995
12	Nepal Credit & Commerce Bank Ltd	Siddharthanagar, Rupandehi	1996
13	Lumbini Bank Limited	Narayangadh, Chitwan	1998
14	Nepal Industrial & Commercial Bank Ltd.	Biratnagar, Morang	1998
15	Machhapuchchhre Bank Limited	Pokhara, Kaski	2000
16	Kumari Bank Limited	Kathmandu	2001
17	Laxmi Bank Limited	Birgunj, Parsa	2002
18	Siddhartha Bank Limited	Kathmandu	2002
19	Global Bank Limited	Birgunj, Parsa	2007
20	Citizens Bank International Ltd.	Kathmandu	2007
21	Prime Commercial Bank Ltd.	Kathmandu	2007
22	Sunrise Bank Limited	Kathmandu	2007
23	Bank of Asia Limited	Kathmandu	2007
24	DCBL Bank Ltd	Kathmandu	2008
25	NMB Bank Ltd	Kathmandu	2008
26	KIST Bank Limited		2009

27	Janata Bank Nepal Limited	Kathmandu	2010
28	Mega Bank Limited	Kathmandu	2010
29	Commerz and Trust Bank Nepal Ltd.	Kathmandu	2010
30	Civil Bank Limited	Kathmandu	2010
31	Century Commercial Bank Ltd.	Kathmandu	2011

2.2 Review of Related Books, Journals and Dissertations

2.2.1 Studies of Related Books

The financial market is an organ of financial system. The financial system is an important element of a modern economy. The resources are exchanged through the financial system. It helps in the payment of goods, and productive inputs. Similarly, it makes easier to manage funds efficient and use them.

The financial system consists of financial institutions, financial market and financial instruments. Financial institution denotes commercial banks, saving and loan association, insurance company, central bank etc. These institutions create financial instruments and make economic transactions. Financial market denotes the place or mechanism where financial instruments are traded. Financial instruments denote also a paper evidence showing the exchange of instruments between concerned parties. The financial instruments other than money included in the financial system are stocks, bonds etc.

Both saving and investment are compulsory for economic growth. The financial system converts savings into investment. It makes the saving investment process convenient through financial liability or primary security from the fund deficit persons, and issue their own financial liabilities or indirect securities for those desiring to invest saved funds. (Business Finance, BBS & BBA by Joshi, Dr. Shyam, & Dangol, Ratna Man)

According to Cooper, S.K. and others- “Financial markets are the markets in which financial instruments are traded.”

According to Rose, Peter S. -“The financial markets channel savings which come mainly from households to those individuals and institutions who need more funds for spending than are provided by current income.”

Similarly, according to Stevenson, R.A. -“The primary function of financial market is to bring together for exchange those parties with savings and those needing money.”

In brief, savings are channelised to investment through the financial market. The stocks, bonds, insurance policy, government securities etc. are traded in it. It make available funds to the government and business. Hence, the financial market can be taken as the heart of financial system. It determines the availability of volume of credit, attraction on saving and interest, and price of the securities.

In **Business Finance** by Joshi, Dr. Shyam and Dangol, Ratna Man (2000), the authors described about the “Financial Market in Nepal” and “Function, Role and Importance of Financial Market”. The gist of the chapter has been presented as follows:

Financial Market in Nepal

The financial market in Nepal is not basically different from the financial market in general. Hence, it has been explained very briefly here.

The financial market is still in infancy in Nepal. Since, the financial market plays an important role in the efficient distribution and use of resources, it is extremely important in a capital-poor country like Nepal.

The system of lending and borrowing in an unorganized way is prevalent in Nepal since the ancient time. Even today substantial portion of rural credit is available from the unorganized sector. The system of providing loan through the organized sector was initiated by Tejarath Adda established in 1933 B.S. The scope of this institution which made available loans only to the government employees in beginning was limited.

The system of collecting deposit and granting loans in the organized sector had started with the establishment of Nepal Bank Ltd. In 1994 B.S. the mobilization of funds by selling securities to the general public had, however, started with the establishment of Birantnagar Jute Mill in 1993 B.S. The organized transaction of securities started in an organized way with the establishment of Security Marketing Centre (present Nepal Stock Exchange) in 2033 B.S.

There are many changes taking place in the financial system of Nepal due to financial liberalization. The business activities are increasing rapidly. The situation of monopoly has come to an end and the situation of competition has emerged in Nepalese financial system. Many banks and financial institutions have been established to carter the credit need of individuals and business firms.

Functions role and importance of financial markets:

The essential services for the modern economy are available through the financial market. Though it, payment service, saving mobilization and credit allocation are made.

The financial market has an important role in reducing transaction cost involved in exchange. Its development ensures diversification of trade and specialization in production. The trade in goods and services becomes easier and simple, and the lending and borrowing of credit becomes convenient and less risky.

In the absence of financial market, the economy is limited to barter exchange and specialization is not possible. The producer produces remaining within his limited saving on account of which the quantity of output diminishes. Consequently, the income and the living standard of businessmen become low. The modern broad industrial economy cannot be imagined. The attractive return, liquidity and less risky financial instrument encourage saving.

The financial market always remains as a helper for the use of resources. Since finance is a key to investment. It is also regarded as a key to the economic growth. Through the financial market funds are productive works, on account of which the incomes of both savers and users increase. In the absence of systematic financial market, lending becomes complicated and risky. It is difficult to run the private enterprises profitably only from self-finance without the aid of financial institutions.

In Weston, J. Fred & Brigham, Eugene F.’s **Essentials of Managerial Finance(1992)**, in the chapter **Financial Statement and Reports** (page 271) the authors have pointed out the types of financial reports prepared by various companies and their importance which are as given below.

Of the various reports corporations issue to their stockholders, the annual report is by far the most important. Two types of information are given in this report. First, there is a verbal section, often presented as a letter from the president that describes the firm’s operating results during the past year and discusses new developments that will affect future operations. Second, the annual report presents four basic financial statements- the income statement, the balance sheet, the statement of retained earnings, and the statement of cash flows. Taken together, these statements give an accounting picture of the firm's operations and financial position. Detailed data are provided for the two most recent years, along with historical summaries of key operating statistics for past five or ten years.

The quantitative and verbal information are equally important. The Financial statements report what has actually happened to earnings and dividends over the past few years, whereas the verbal statements attempt to explain why things turned out the way they did.

Financial Statement Analysis generally begins with the calculation of set of financial ratios designed to reveal the relative strengths 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.

In **Managerial Finance** by Paudel Rajan B., Baral Keshar J., Gautam Rishi R., Rana Surya B. (2009) in the second chapter "**Analysis of Financial Statement**" the authors have illustrated the consequence of the financial analysis. The gist of the chapter has been presented as follows:

Financial analysis is the process of analyzing various items of financial statement of a firm to ensure its comparative strengths and weakness. In other words, financial analysis involves analyzing financial statements prepared in accordance with generally accepted accounting principles to ascertain information concerning the magnitude, timing and riskiness of future cash flows.

Corporations have variety of stakeholders, such as shareholders, bondholders, bankers, suppliers, employees, and management. The stakeholders need to monitor the firm and to ensure that their interests are being served. They rely on the company's financial statements for necessary information. These stakeholders seek to analyze the financial statements for their own interest and purpose. As an insider, the management shows greater concern about the overall financial strength and weaknesses of the firm. Similarly, shareholders analyze the financial statements to have information about the earnings of the company. Not only shareholders but also the short and long-term creditors, institutional lenders, bondholders, and term creditors analyze financial statements to knows about short-term solvency position of the firm. They are more eager to know the current debt payment capacity of a firm. Similarly other institutional lenders and bondholders are concerned with fixed charge payment capacity of the firm. Thus, the type of financial analysis undertaken varies according to specific interest of the concerned parties.

Financial analysis is essential to make a meaningful conclusion about what a particular figure in the firm's financial statements is stating in relation to financial performance of the firm. Financial statements analysis involves comparing the firm's performance with that of other firms in the same industry and evaluating trends in the firm's financial position over time. The use of financial analysis helps financial managers to identify deficiencies and take actions to improve performance. Financial mangers must be equipped with analytical tools to make rational decisions in keeping with objectives of the firm. Following sections deal with four basic tools of financial analysis in detail. They are financial ratio analysis, common size statement analysis, trend analysis and percentage change analysis.

2.2.2 Review of Unpublished Thesis

Various studies have been made on the comparative financial performance analysis of commercial banks in Nepal. In this chapter different previous studies have been reviewed so as to avoid the chance of duplication in present studies and to create some newness in this field of study.

Panta (2005), had conducted a research on a topic **"A Comparative Study of Everest Bank Ltd. and Nepal Industrial & Commercial Bank Ltd."**. Time period covered by the research was six years data from FY 1998/99 to 2003/04.

He had mainly focused on his study in comparing and analyzing liquidity, profitability, solvency and activity ratio analysis as well as some other major ratio such as weighted avg. interest rate spread, ex-fluctuation gain to total income ratio etc. He had mainly focused his study on following objectives

- To evaluate liquidity and profitability position of the selected banks.
- To evaluate the activity and operation with reference to mobilization of the collected funds.
- To identify the relationship between exchange fluctuation gain and total income.

For the study, the researcher considered all the commercial banks operating during the study period as the total population and EBL and NIC as the sample. Necessary data and information have been collected from secondary sources of data; annual reports, related websites, newspaper and many other published sources were used to conduct the study.

Several financial tools were used to measure the strength and weakness of commercial banks. In addition, income and expenditure analysis had been studied under the research work. Statistical tools like arithmetic mean, standard deviation, coefficient of variation, and regression analysis were used to know the variation, consistency and interdependent between the different variables. Finally, the numerical data were presented in graphs.

In the research, the researcher had pointed out the following findings:

- CRR of the banks were maintained as per the directives of NRB.
- Both banks had maintained NRB balance to deposits ratio remarkable higher than the standard prescribe by the NRB.
- Both banks were maintaining lower capital adequacy ratio. The total assets, net worth to total deposit and net worth to total credit seemed less satisfactory.
- They should encourage to small, medium and large scale organizations to avail their services.
- Both banks were suggested to review their overall structure and investment portfolio to make better mix in capital structure as well as investment portfolio.

Neupane (2005), had conducted a research on a topic **"Investment Policy of Commercial Banks in Nepal"**. For the study he had selected Everest Bank Ltd, SBI Bank Nepal Ltd. and NB Bank Ltd. Time period covered by the research was five years data from FY 1999/2000 to 2007/08.

He had mainly focused on his study in analyzing, examining and interpreting the investment policy adopted by commercial banks of Nepal. However, the specific objectives of the study were as follows:

- To know the views and ideas of the officer level staff on the various aspects of the investment policy adopted by the selected banks.
- To evaluate the liquidity, efficiency and profitability position of EBL, SBI and NBB.
- To find out the relationship between total investment and net profit, deposits and total investment and deposit and net profit of EBL, SBI and NBB.

- To evaluate the trend line of total investment to total deposit ratio and loans and advances to total deposit ratio.

Necessary data and other information had been collected from the primary as well as secondary sources of data. To collect the primary data 12 questionnaire were distributed to the officer level staff of the selected banks and secondary data were collected from annual reports, economic journals, managerial magazines and other published and unpublished reports and documents.

To achieve the objective of the study, various financial and statistical tools have been used. The analysis of the data had been done according to the pattern of data available. Simple analytical statistical tools such as arithmetic mean, standard deviation, coefficient of variance and coefficient of correlation were used in the study. Likewise, financial tools such as ratio analysis and trend analysis had been used for financial analysis.

In this research, the researcher had pointed out the following findings:

- From the analysis of primary data commercial banks are seeking new investment area such as hydropower, tourism, export-import sector, solar trading business, agriculture, consumer financing, hospital and housing etc.
- All commercial banks have same policy to maintain current ratio. But liquidity position of NBB is lower than other selected banks.
- NBB has better assets management capacity except total investment to total deposit ratio than other commercial banks.

Kuikel (2008), had conducted a research on a topic **"Financial Performance Analysis of Leading Commercial Banks in Nepal"**. He had selected NABIL Bank Ltd., Standard

Chartered Nepal Bank Ltd, Himalayan Bank Ltd. and Everest Bank Ltd. for his study. He had mainly focused his study on following objectives

- To compare and analyze liquidity, profitability, solvency, activity, market value analysis and other relevant ratio analysis.
- To analyze and compare the position of NPA.
- To examine whether those commercial banks were following NRB directives or not.

For the study, Mr. Kuikel had selected all the 23 commercial banks operating during the study period as the total population and above said banks as the sample. Time period covered by the research was five years data from FY 2002/03 to 2006/07. Necessary data and information have been collected from secondary sources of data; annual reports, related websites, newspaper and many other published sources were used to conduct the study.

Several financial tools were used to measure the strength and weakness of commercial banks. In addition, Non-performing assets and weighted average interest rate spread also had been studied under the research work. Statistical tools like arithmetic mean, standard deviation, coefficient of variation, correlation analysis and regression/trend analysis were used to know the variation, consistency and interdependent between the different variables. Finally, the numerical data were presented in diagrams & graphs.

The remarkable findings that were pointed out by Mr. Kuikel were:

- EBL was unable to maintain CRR as per the directives of NRB.
- In comparision to SCBNL and Nabil, the remaining two banks EBL and HBL have been maintaining lower capital adequacy ratio as per the NRB directives.

- SCBNL and Nabil have been getting comparatively more EPS than other selected banks.
- Performance of all the selected banks in maintaining NPA is satisfactory.
- EBL is successful in utilizing the deposits by charging higher rate of interest to the borrowers than pay to the depositors.

Bhattarai (2008), had conducted a research on a topic **"A Comparative Analysis of Financial Performance NABIL, Investment and Standard Chartered Bank Ltd**." Time period covered by the research was five years data from FY 2002/03 to 2006/07. He had accomplished his study with following focal objectives

- To evaluate liquidity and profitability position of the selected banks.
- To evaluate the activity and operation with reference to mobilization of the collected funds.
- To identify the relationship between total deposit and total investment & interest earned and operating profit.

22 Commercial banks operating that period were considered as population and NABIL, NIBL and SCBNL had been taken as sample for the study. To carry out the study secondary data were collected from their respective annual reports especially from profit and loss account, balance sheet and other publications revealed by the selected banks. Similarly, websites, articles, journals and previous research reports had also taken in account while collecting information.

Liquidity ratio, profitability ratio, activity ratio and leverage ratio were evaluated to measure the financial health, operating results and growth of commercial banks. Statistical tools like arithmetic mean, coefficient of variation, coefficient of correlation probable error, coefficient of determination and trend analysis were used to know the variation, consistency and interdependency between the different variables.

In the research, the researcher had pointed out various remarkable findings. They were:

- Nabil bank's solvency position is better than that of NIBL and SCBNL.
- The liquidity position of NIBL is better than that of other two selected banks.
- Among the selected banks Nabil has the highest ratio of net profit to total assets whereas NIBL has the lowest.
- NIBL has used more percentage of its total deposits into loan and advances than other two selected banks.
- Earning per share of SCBNL has been the highest than other selected banks.
- Commission and discount income of SCBNL is higher than other two selected banks.
- Nabil bank has been paying highest amount of staff expenses as salary, allowance and gratuity funds to its staff.

B.K. (2008), had conducted a research on a topic **"A Comparative Analysis of Financial Performance of Standard Chartered Nepal Bank Ltd**. **and Himalayan Bank Ltd.**" The study covered five years time period from F.Y. 2002/03 to 2006/07.

The general objective of the study was to generalize the financial performance of the selected commercial banks. To achieve said basic objective, the specific objectives were as follows:

- To analyze the financial strengths and weakness of the sample financial institution.
- To analyze the banks deposit mobilization and investment procedures.
- To make relevant suggestions and recommendation for their effective and efficient future performance.

Standard Chartered Bank Nepal Ltd. and Himalayan Bank Ltd were selected as sample from the random sampling out of total population consisting 15 commercial banks in the research period. The study was based on secondary data. The main sources of secondary data were annual reports published by the banks, relevant matters from NRB, SEBO, NEPSE, journal, articles, respective websites and libraries.

To achieve the objective of the study, various financial and statistical tools have been used. The analysis of the data had been done according to the pattern of data available. Simple analytical statistical tools such as percentage, graph, Karl Pearson's coefficient of correlation were used in the study. Likewise, financial tools such as ratio analysis and trend analysis had been used for financial analysis.

The notable findings that were revealed by the researcher were:

- The liquidity position of HBL is better than SCBNL.
- SCBNL mean investment in government securities is better than HBL.
- Both the selected banks have successfully managed their assets towards different income generating activities
- The average growth rate of deposits of HBL is significantly higher than SCBNL.
- SCBNL has been more successful in maintaining its higher return on loan and advances and total working fund.

Kshetri (2008), had conducted a research on a topic **"Comparative Financial Analysis of Nabil Bank Ltd. and Himalayan Bank Ltd."** The time period covered by the research was five years data from FY 2001/02 to 2005/06.

He had mainly focused his study on analyzing, examining and interpreting the financial position of Nabil Bank Limited and Himalayan Bank Limited. To achieve said fundamental objective, the precise objectives were as follows:

- To calculate the relavant financial position of Nabil and HBL.
- To examine the financial performance of the selected banks.
- To know the investment position of sample banks
- To provide suggestion for both banks on the basis of findings.

For the study, the researcher selected all the commercial banks operating during the study period as the total population and Nabil and HBL as the sample. Necessary data and information have been collected from secondary sources of data; annual reports, related websites, newspaper and many other published sources were used to conduct the study.

Several financial tools were used to measure the strength and weakness of commercial banks. In addition, income and expenditure analysis had been studied under the research work. Statistical tools like arithmetic mean, standard deviation, coefficient of variation, and regression analysis were used to know the variation, consistency and interdependent between the different variables. Finally, the numerical data were presented in graphs.

The remarkable findings of the research were:

- Both selected banks have been earning positive amount of profit.
- Nabil bank has used its assets more efficiently for profit making purpose than HBL.
- Both of the banks are highly levered and between them Nabil is more highly levered.
- Interest is the dominant factor of income source of the banks, HBL depend mostly on interest income than Nabil.

- As the slope of the regression line of the financial indicators of HBL shows the greater pace than that of Nabil, HBL has high probability of better performance in future.

2.2.3 Review of Related Articles

In **Aarthik Abhiyan** dated 17 Nov 2010 **Commercial Bank's Profit Increased by 19%**, the comparison of commercial bank's profit between 1st quarter of previous fiscal year and corresponding period of current fiscal year has been done.

In comparison to the 1st quarter of previous fiscal year the profit of commercial banks in the first quarter of current fiscal year (2067/68) has been increased. From the unaudited financial reports published by 20 commercial banks it has been found that the profit NPR 257.15 million has been recorded. That amount is 19% higher than the previous year figure of the same period. In the previous year, commercial banks had earned NPR 215.57 million.

Amid the commercial banks publishing the financial reports of the first three months of fiscal year Nepal Investment Bank Ltd has been at the forefront. During that period, NIBL has earned NPR. 33 crore 58 lakhs which is 15% more than previous years earning. NIBL has been followed by the leading commercial banks NABIL (30 crore 86lakhs), Agriculture Dev. Bank Ltd., ADBL (27crore, 19lakhs) and SCBNL (26 crore 55 lakhs). However, the profit of SCBNL has been decreased by 4.74% in comparison to the same period's profit of previous fiscal year.

Total deposit and lending of the 20 commercial banks remained approximately NPR. 55 arabs 72crore(15% increased) and NPR. 57 arabs 97 crores (20% increased) respectively. In this period, NIBL collected and disbursed the maximum volume of deposit.

During this period, the CD ratio of ADBL 96.69%, Laxmi Bank Ltd. 89.91%, Citizen Bank Ltd. 89.67%, Prime Bank Ltd. 87.22% and BOK 86.94% were higher than NRB's provision to be maintained 80%. Whereas Nepal SBI Bank had the lowest CD ratio as 66.08% and pursued by SCBNL's 69.08% and Everest Bank Ltd.'s 72.71%.

In **Aarthik Abhiyan** dated 29 Dec 2010, **Portfolio Analysis** of Nepal Investment Bank Limited has been done as follows:

Though total deposit of NIBL increased by 7.27% in F.Y. 2066/67, the total deposit of NIBL decreased by 2.46% in the 1st quarter of F.Y. 2067/68 and remained to NPR 48arabs 85 crores 98 lakhs. This deposit figure of NIBL covers 7.89% of total deposits of commercial banks in the country. Despite the government owned commercial banks NIBL has the maximum deposit among the private sector banks. Similarly, lending increased by 11.19% in F.Y. 2066/67 further increased by 2.46% in the first quarter so that it reached to NPR 42 arab 83crore and 1 lakh. This lending figure of NIBL covers 8.89% of total lending of commercial banks in the country. The CD ratio and NPL ratio of the bank in 1st quarter remained 88% and 0.64% respectively. The CD ratio is higher than the NRB provision whereas NPL ratio can be satisfied.

In F.Y. 2066/67, NIBL's profit was NPR 1 arab 26 crore 60 lakh. At that time, EPS and dividend ratio were NPR. 53 and 28 respectively. On that basis, the bank distributed 25% cash dividend to the shareholders. In current F.Y. the bank has earned net profit of NPR 33 crore 59lakhs. On the basis of this earning when this net profit is annualized to estimate profit of current F.Y. the profit of the bank will certainly increase.

PE ratio, which shows the relation between market value and EPS, of the bank remained 45 at the end of 1st quarter of F.Y. 2067/68. Therefore, in comparison to EPS of the company the market price NPR 630 is good enough. Similarly, PB ratio 3 illustrated the market price at the end of 1st quarter of the bank is lesser in comparison to the book value.

In **Aarthik Abhiyan** dated 19 Jan 2011, **Portfolio Analysis of** NABIL Bank Ltd**.** has been done as follows:

At the end of the 1st quarter F.Y. 2067/68 the total deposit of NABIL decreased to NPR. 463,532 by 0.03% as compared to the last F.Y. In contrary, the loan and advances of the bank increased by 6.97% to reach NPR. 345,191 lakhs. The proportion of NABIL in total deposits and lending of commercial banks in the country are 7.48% and 7.16% respectively. But NPL ratio of the bank at the end of 1st quarter of F.Y. 2067/68 increased to 1.79% from 1.47% that of year end of F.Y. 2066/67 which is not good. The CD ratio of the bank increased to 74% at the end of 1st quarter of F.Y. 2067/68 from 70% of the previous year's figure.

In the F.Y. 2067/68 the bank earned gross profit of NPR 11,385 lakhs with EPS and dividend ratio 56 and 30 respectively. From the profit the company distributed 30% share dividend and 40% cash dividend. As of the 1st quarter end of current fiscal year the bank has earned NPR 3,086 lakhs. On the basis of this earning when this net profit is annualized to estimate profit of current F.Y. the profit of the bank will certainly increase.

At the end of 1st quarter of F.Y. 2067/68, the PE ratio of the bank remained at 99. It displays market price of share of the company higher than EPS by NPR 1,503. However, the PB ratio 7 justifies fair market price of the share of the company in comparison to book value.

In the article **Report Monthly Financial Details published** in **The Himalayan Times** dated 27/01/2011 all the savings and credit cooperatives and the multipurpose cooperatives mobilizing deposits exceeding NPR 50 million have to submit their financial reports to the Department of Cooperatives (DoC) and the central bank.

The provision might help in keeping tabs on the finances of cooperatives until a stronger regulatory body is created for the supervision of saving and credit cooperatives. According to the Department of Cooperatives (DoC), all the savings and credit cooperatives and the multipurpose cooperatives that collect deposits and float loans have to submit their financial reports to the division cooperative offices on the monthly basis.

Rajan Dawadi, under secretary in DoC said that this action will inform how much money is being handled by the cooperatives. He further said that we have to know the amount of deposits and the credits with the cooperatives as the cooperatives are being considered as ticking time bombs that might badly shake the whole Nepali financial sector one day if anything goes wrong with any one of the cooperative that is dabbling in huge amount of deposits.

So far, the accounts of deposit and loan of these cooperatives have not been taken by any authority.

For some time now, the deposit base of banks and financial institutions (BFIs) is believed to be shifting to cooperatives dealing with savings and credit, causing a tight liquidity situation in the Nepali financial sector.

The cooperatives being somewhat informal sector and free from regulation can float any amount of loans to whichever sector without any intervention from NRB. Moreover, there is no determining deposit and lending interest rates. The cooperatives can revise the rates on its own accord without being answerable to any authority.

After, NRB decreed BFIs to reduce its exposure to real estate and housing sector- cooperatives are said to be lending big time to the realty sector. There are 8,888 savings and credit cooperatives and 3,465 multipurpose cooperatives registered with DoC.

2.3 Research Gap

Commercial bank invests its deposit in different profitable sector according to the directives and circulars of the Nepal Rastra Bank and guidelines and policy of their own bank. Financial analysis statement has to prepare according to direction of NRB. Nepal Rastra Bank's policy and guidelines are changing according to the passage of time. So, the up to dated study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial data and analysis is done within the latest guidelines and circulars of Nepal Rastra Bank.

Large numbers of research are available bearing the same topic, "A comparative analysis of financial Performance of Commercial Banks". There is a certain gap between the present research and past research. The researcher will sustain gap by covering the relevant data and information from the F.Y. 2005/06 to 2009/10. Moreover, previous researches conducted generally on the basis of comparison of financial ratios of the selected banks. The method can be considered as traditional system at present condition. The previous researchers did not disclose the practical comparative analysis. To accomplish that shortcomings the present research is done on **CAMEL analysis** which is formulated by the Bank for International Settlement (BIS) and in the case of Nepal also Nepal Rastra Bank, adopting this system has made it the main basis for the supervision and inspection of banks. This method is found more effective in comparison to the traditional system.

NABIL, NIBL and SCBNL are the leading commercial banks of the country having the huge market share and their investment activities and these banks have 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 in depth analysis of the financial performance which is the major concern of the shareholders and stakeholders. This research work will help to acquire knowledge from the tools and techniques used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial banks.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic study. In other words, research methodology describes the methods and process applied in the entire study.

Research methodology is a way to systematically solve the research problem. It may be understood as a science of study how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them. (C.R. Kothari, 2004)

Thus, this deals with the research design, nature of procedures and tools of analysis.

3.2 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. "A research design is the arrangement of conditions, for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure." (Claire Selltiz and others, Research Methods in Social Science, 1962, p.50)

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 guidelines to enable the researcher to process in the right direction in order to achieve the goal.

A research design in 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 the thesis, a comparative analysis of financial performance of three joint venture banks based on descriptive and analytical research design.

3.3 Sources of Data

This study 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 the websites of selected banks, Nepal Rastra Bank(NRB) and Nepal Stock Exchange(NEPSE). Similarly, articles, journals, related to the study, previous research reports etc., have also been taken into account while collecting information.

3.4 Population and Sample

In this study convenience sampling method will be used. At present, there are 30 commercial banks operating in Nepal under the guidance of Nepal Rastra Bank, NRB. These thirty commercial banks are considered as population and only three commercial banks viz. NABIL Bank Limited, Nepal Investment Bank Limited and Standard Chartered Bank Nepal Limited have been taken as sample of this study. Five years data are taken to conduct the study from F.Y. 2005/06 to 2009/10. Following commercial banks have been selected for the study:

i. NABIL Bank Limited

ii. Nepal Investment Bank Limited

iii. Standard Chartered Bank Nepal Limited

3.5 Methods of Data Analysis

"The term data analysis refers to the computation of certain measures along with searching for pattern of relationship that exist among data group. Thus is the process of analysis, relationship of different supporting or conflicting with original or new hypothesis and should be subjected to statistical to determine with what validity can be said to indicate any conclusion."(Kothari 2004, p. 122)

The first step of data analysis is the processing of the data in which classification and tabulation of data are carried out. Classification and tabulation of data has prepared for further analysis. Analysis means computation of certain indicator or measures along with searching for patterns of relationship that exist among the data group. Analysis may be categorized as descriptive analysis and inferential analysis. To achieve the predetermined the tools are categorized as:

1. Financial Tools

2. Statistical Tools

3.5.1 Financial Tools

3.5.1.1 Ratio Analysis

Ratio analysis is the numerical relationship between any two variables of financial statements, which should serve some meaningful purpose. Ratios are expressions of logical relationship between items in the financial statements of a single period. A ratio can show a relationship between two items on the same financial statement or between two items on different financial statements.

Ratios are the tools for measuring liquidity, solvency, profitability and management efficiency of the firm and it is also equally useful to the internal management, prospective investors and creditors etc. An analysis of the firm's ratios generally is the first step in financial analysis. (Weston & Brigham,1990 p. 93)

Ratio analysis uses financial report and data summarizes the key relationship in order to appraise financial performance. The effectiveness will greatly improve when trends are identified, comparative ratios are available and inter-related ratios are prepared (Munankarmi,2002 p.468)

Ratio analysis is a tool of scanning the financial statements of the firm. Through this, one comes to know in which areas of the operation the organization is strong and in which areas it is weak. It is widely used tool of financial analysis to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined.

3.5.1.2 CAMEL Analysis

The **Bank for International Settlement** (BIS) has formulated an important standard, which is called **CAMEL** system. The evaluation of financial institutions is done on the basis of it. In the case of Nepal, Nepal Rastra Bank, adopting this system has made it the main basis for the supervision and inspection of banks. This method is found more effective in comparison to the traditional system. The full form of **CAMEL** is as follows:

C = Capital Adequacy

A= Assets Quality

M= Management

E= Earning and Profitability

L=Liquidity

In this method, banks or financial institutions are supervised upon above headings and evaluated the actual situation of the banks.

3.5.1.2.1 Capital Adequacy

Capital adequacy has remained one of the biggest issues in banking industry and the appropriate capital adequacy ratio for commercial banks has always been a controversial issue. Capital adequacy ratio shows how much of share holders fund of an organization are contributing their capital fund in risk weighted assets (RWA). NRB emphasizes capital as mitigate to absorb unexpected losses arising from various risks that can create instability in banks earning.

Thus they prescribe a ratio of capital to total assets. Capital adequacy ratio is calculated by dividing capital fund (net worth) by total deposits. As per the directive of NRB in the 2007/08, capital adequacy ratio to be maintained by the banks and financial institutions on the basis of risk weighed assets (RWA) is 10% with core capital at 6%.

Capital adequacy is calculated as:-

Capital adequacy ratio = capital fund / total risk weighted assets %

Where as,

Capital fund = Core capital+ Supplementary capital

Total Risk Weighted Assets = on balance sheet Risk weighted item + off balance sheet risk Weighted items

Core Capital

Core capital, which is a permanent nature, comprise of paid up capital, share premium, non redeemable preference share, general reserve, dividend equalization fund, capital adjustment reserve, retained earning etc.

Supplementary Capital

Supplementary capital are collected by way of hybrid capital instruments, general loan loss provision, exchange fluctuation reserve, asset revaluation reserve, interest spread reserve, subordinate term debt and other free reserves.

Total Capital Fund

It is the addition of core capital and supplementary capital. In other words, it is total assets minus current liabilities or net worth.

3.5.1.2.2 Assets Quality

The loans and advances form the largest of the asset items and can carry greatest amount of risk to the bank's capital account, the primary factor effecting overall asset quality is the quality of the loan portfolio and the credit administration program. On the basis of repayment of interest or principal within the stipulated time frame, the loan portfolio is classified into performing loan and non performing loan.

Performing Loan

The loans and advances which repay interest and principal in time or within the stipulated time period come under this category. There is no any risk in such assets and banks and financial institutions always seek for such assets for the long run of the business.

Non Performing Loan

The default in repayment of interest or principal within the stipulated time frame, the performing loan turns into non-performing loan (NPL). As per NRB directives, all loans and advances must be classified in order of principal default aging into Pass (past due up to 3 months), Sub-standard (past due between 3-6 months), Doubtful (past due between 6-12 months) and Loss (past due over 1 year).

Non performing loan (NPL) forms an aggregate of substandard, doubtful and loss loans. The ratio of NPL to total loan and advances shows the percentage of NPL in total loan. The lower the ratio the better is the proportion of performing loans and risk of default.

Loan loss provision

Loan loss provision is defined as the measure of prospective losses that are envisioned by the bank management in relation to the bank's overall loan and investment. The ratio of loan loss provision to total loans and advances describes the quality of assets that a bank is holding. The provision for loan loss reflects the increasing probability on non-performing loans in the volume of total loans and advances. Loan loss provision on the other hand signifies the cushion against future contingency created by the default of the borrowers. The high the ratio signifies the relatively more risky assets in the volume of loans and advances. The high provision for loan loss shows the recovery of loan to be difficult and irregular and the age of the loan is increasing.

As per the NRB directive, loan loss provision should be made as follows:

Loan Category	**Loan Loss Provision %**
Pass (past due up to 3 months)	1%
Sub-standard (past due between 3-6 months)	25%
Doubtful (past due between 6-12 months)	50%
Loss (past due over 1 year)	100%

3.5.1.2.3 Management

Management is life blood of an organization. Management is concerned with planning, analyzing and decision making. Management mainly comprises of to financial sector is said as financial management. A bank is a legal person, without management team it cannot function. Management has to

- analysis of financial aspects and financial markets
- forecasting and planning of products and market of firm
- obtaining fund at low cost efficiently
- adjustment must be made according to the threats and opportunities
- selection, training, grevienance handling and motivation of the employees
- strategies for research, investment, production, marketing and sales
- coordination and control among various departments and sections
- conflict management

Proper management team will provide better products to its customer at lower price, pay higher salaries to employees and still provide greater return to investors. Failure of many corporate firms is due to management incompetence. Lack of adequate management knowledge there are corporate takeover and corporate merger which is part of managements.

To measure efficiency of the management, management efficiency ratio is used. Management efficiency ratio is also known as earning per employee. It is calculated dividing net profit after tax by total number of staffs. Low or decreasing management efficiency ratio reflects inefficiencies as a result of overstaffing, with similar repercussion in terms of profitability. Mathematically,

Management Efficiency Ratio =Net Profit after tax/no of staffs

3.5.1.2.4 Earning and Profitability

Earning / Profitability is an important measure of a company's operating success. It measures how effectively the bank is being operated and managed. Besides owners and managers, creditors are also interested to know the financial soundness of the firm. Shareholders are eager to know their returns whereas managers are interested in their operating efficiency. So profitability ratios are calculated to evaluate the expectations of both owners and manager in terms of earning of the bank. Following are the major ratios used to measure the profitability of a firm.

i. Earning Per Share

ii. Return on Equity

iii. Return on Assets

iv. Price Earning Ratio

i. Earning per share

Earning per share simple shows the profitability of the bank on a per share basis. It is calculated from the point of view of ordinary shareholders. A comparison of EPS of the bank with another will also help in deciding whether the equity share capital is being effectively used or not. EPS is derived by dividing the profit of a company by the total number of shares outstanding

It is calculated as:

EPS = NPAT/ No. of ordinary shares outstanding

ii. Return on Equity

Return on equity (ROE) measures the return on the owner's investment in the firm. It indicates how well the bank has used the resources of shareholders to earn profit. The higher ratio represents the sound of utilization of funds and good management and vice versa. It is rate of return on common stockholders' investment.

It is calculated as:

Return on equity = Net profit after tax/ total shareholders fund.

iii. Return on Assets

Return on Assets (ROA) measure the overall effectiveness of management in generating profit with its available assets. It measures return on investment of financial resources. It also helps to provide the information of proper utilization of the resources. It is the relation between the profit and total assets. Lower return on assets means lower profit & vice versa.

It is calculated as:

Return on assets = Net profit after tax/ Total assets

iv. Price Earning Ratio

Price Earning Ratio (PE) is simply the ratio between market price per share and earnings per share. In other words, this represents the amount which investors are willing to pay for each rupee of the bank's earnings. The higher PE ratio indicates the greater confident of investor in the bank's future.

It is calculated as:

P/E Ratio = Market price per share/ EPS

3.5.1.2.5 Liquidity

People deposit their savings into bank to safeguard them, earn interest, and get back whenever they need. Therefore, banks must maintain liquidity to refund the deposit, when accountholders withdraw deposits. Hence, liquidity is the life-blood of bank, without which a bank cannot survive for long. Banking transactions are more dependent upon the mutual faith between bankers and customers. It is essential to maintain sufficient cash reserve in bank to maintain the public faith.

Liquidity position measures the ability of the bank to meet its current obligations. It shows the short term financial condition i.e, weakness and strength of the bank. For the purpose of evaluating the condition in fulfilling current obligation following ratio are calculated.

i. Cash Reserve ratio

ii. Cash & bank balance to Total Deposit ratio

iii. Government securities to Total Deposit ratio

iv. Credit to Deposit Ratio

i. Cash Reserve Ratio

All commercial banks must keep certain percentage of total deposits collected from public into central bank. It is known as cash reserve ratio (CRR) for which banks need liquidity. A cash reserve ratio (CRR) is the percentage of bank reserves to deposits and notes. The cash reserve ratio is also known as the cash asset ratio or liquidity ratio. Nepal Rastra Bank has prescribed this ratio of 5.5%.

It is calculated as:

Cash Reserve Ratio = Total Cash/ total deposits

ii. Cash & Bank Balance to total Deposit Ratio

It measures the ability of bank to meet its immediate deposits. High ratio represents the greater ability of the bank to cover their deposits where as lower ratio represents the lower abilities to meet its current obligation on their deposits.

It is calculated as:

Cash & bank balance to total deposit = Cash & bank balance/ total deposits

iii. Government Securities to total Deposit Ratio

Government securities to total deposit ration is also known as Statutory Reserve Ratio. It is the ratio of investment in government securities upon the total deposit. It is best for national interest and to have pool of liquid assets because government securities are highly liquidating and are of risk free in nature.

It is given by :

Government Securities to Total Deposit Ratio = Government Securities /Total Deposits

iv. Credit to Deposit Ratio (CD Ratio)

The ratio is used to see degree to which the banks are successful to mobilize the outsider's funds. It is the ratio of total amount of lending to total amount of deposit. This ratio affects the liquidity of the bank as the liquidity is maintained from remaining amount after lending. Credit/lending is the main activity of any bank to generate income by interest spread difference between interest rate of deposit and lending. If there is more lending return will also more. Likewise risk will also higher when lending is higher.

As per NRB directive, commercial bank should maintain CD ratio below 80%.

It is given by:

CD Ratio = Total Lending / Total Deposit

3.5.2 Statistical tools

Various statistical tools can be used in research in order to draw the reliable conclusion according to the financial data available to researcher. For this purpose the researcher in this studies uses following statistical tools:

3.5.2.1 Arithmetic Mean

Arithmetic mean of a given set of observation is their sum divided by number of observation, in general $x_1, x_2, x_3 .... x_n$ the given n observations then their arithmetic mean usually denoted by $\bar{x}$ is given by

$$\text{Mean, } \bar{x} = \frac{\sum x}{n}$$

where,

$\sum x$ = Sum of observations

n = No. of observations

3.5.2.2 Standard Deviation (σ)

Standard deviation is absolute measure of dispersion of the arithmetic mean. Standard deviation is usually denoted by (σ). It is defined as positive square root of the arithmetic mean of the square of the deviation taken from their arithmetic mean. Standard deviation is calculated by using the following relation

$$\sigma = \sqrt{\frac{1}{n} \sum (x - \bar{x})^2}$$

3.5.2.3 Co-efficient of Variance (C.V.)

Co-efficient of variance is the qualitative measure of the dispersion. To compare more than two assets co-efficient of frequency variation is used. It is relative measurement of dispersion based on standard deviation Co-efficient of variance is given by following formula,

$$C.V. \,\mathrm{X} \frac{\pm}{\bar{x}} \,|\, 100\%$$

where, $\pm$ = Standard deviation, $\bar{x}$ = Arithmetic Mean

It is percentage of variation mean, standard deviation being considered as the total variation in average. Smaller C.V. represents more homogeneous or uniformity of the data about the average line whereas greater C.V. has been employed to compute and analyze the variability of the data over the study period.

3.6 Diagrammatic Representation

Diagrams and graphs are visual aids that give bird's eye view of a given set of numerical data. They represent the data in simple and readily comprehensive form. Diagrammatic and graphical representation of data gives much more information at a glance. Multiple bar diagrams are used for presenting a comprehensive picture of the three banks selected for the study.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

The data collected from different sources have been properly processed, tabulated and analyzed in this chapter in order to appraise the performance of selected commercial banks. For better understanding and presentation; financial cum statistical tools were used. Tables were based on the data collected and charts were also created accordingly. An attempt has been made to analyze and interpret financial data of the subject matter in sequential order.

4.1 CAMEL Analysis

4.1.1 Capital Adequacy Ratio (CAR)

Capital Adequacy ratio shows whether the commercial banks are maintaining sufficient amount of shareholders fund (net worth) in comparison to total amount of their deposits. Extremely high or low ratio is inappropriate in terms of lowered return and lowered solvency respectively. For this several capital adequacy ratios are calculated.

4.1.1.1 Core Capital

Table No. – 4.1

Capital Adequacy Ratio (Core Capital in percent)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	10.78	7.97	12.99
2006/07	10.40	7.90	13.77
2007/08	8.75	7.71	11.52
2008/09	8.74	8.56	13.05
2009/10	8.77	8.50	12.61
Mean	9.49	8.13	12.79
S.D.	1.0150	0.3797	0.8236
C.V.	10.6974	4.6715	6.4404

Source: Annual Reports

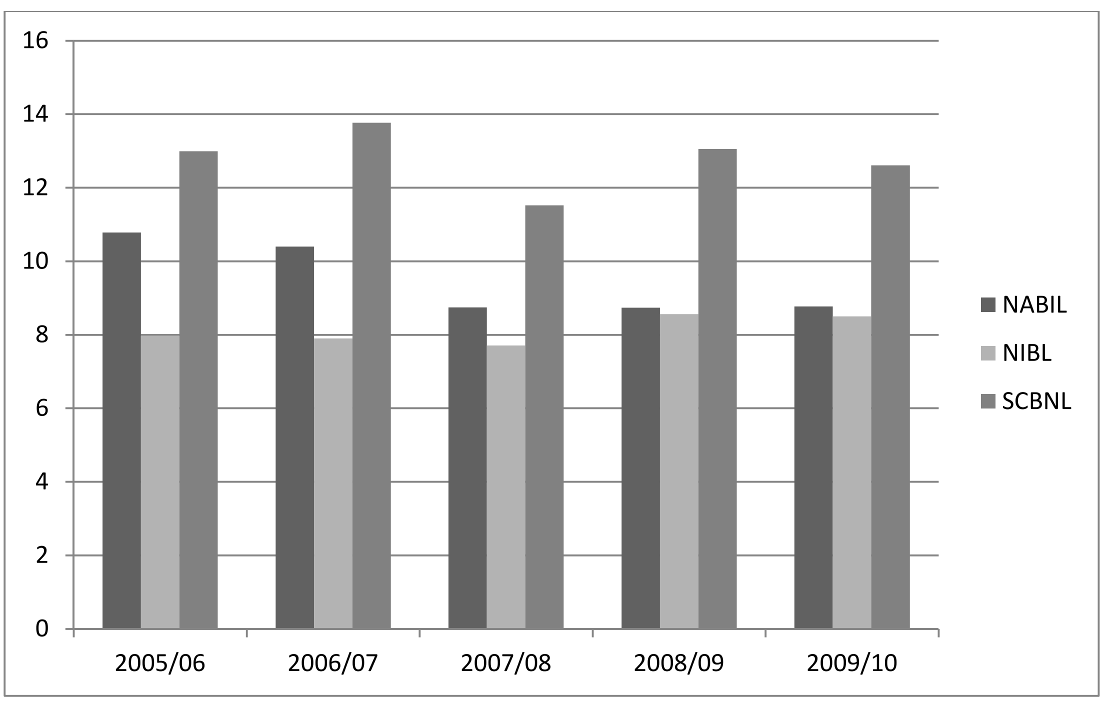
In the Table no. 4.1, capital adequacy ratio (core capital) has been presented. As per the directive of NRB, all the three selected banks have maintained the capital adequacy ratio of core capital above 6%. On an average basis, the ratio of SCBNL is 12.79% which is the highest among the sample banks with NABIL & NIBL with 9.49% & 8.13% respectively. Considering the average ratio, SCBNL is found slightly better maintained capital adequacy ratio (core capital) than other banks.

From S.D. point of view, NABIL has the highest S.D. of 1.0150. Next to it there is SCBNL with S.D. of 0.8236 and NIBL has the lowest S.D. of 0.3797. It implies that NABIL has high fluctuation(less homogeneity) with respect to capital fund to total risk weighted assets. Similarly, NIBL has the low fluctuation (more homogeneity) with respect to capital fund to total risk weighted assets.

From C.V. point of view, NABIL has the highest C.V. of 10.6974 and NIBL has the lowest C.V. of 4.6715. It indicates that NABIL has high degree of variability or is inconsistent in contributing core capital to total risk weighted assets over the study period. NIBL has low degree of variability or is consistent in contributing core capital to total risk weighted assets over the study period.

Figure No. – 4.1

Capital Adequacy Ratio (Core Capital in percent)



4.1.1.2 Supplementary Capital

Table No. – 4.2

Capital Adequacy Ratio (Supplementary Capital in percent)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	1.52	4.01	1.94
2006/07	1.64	4.26	1.94
2007/08	2.35	3.57	1.63
2008/09	1.96	2.68	1.65
2009/10	1.73	2.05	1.99
Mean	1.84	3.31	1.83
S.D.	0.3275	0.9280	0.1748
C.V.	17.7984	28.0015	9.5511

Source: Annual Reports

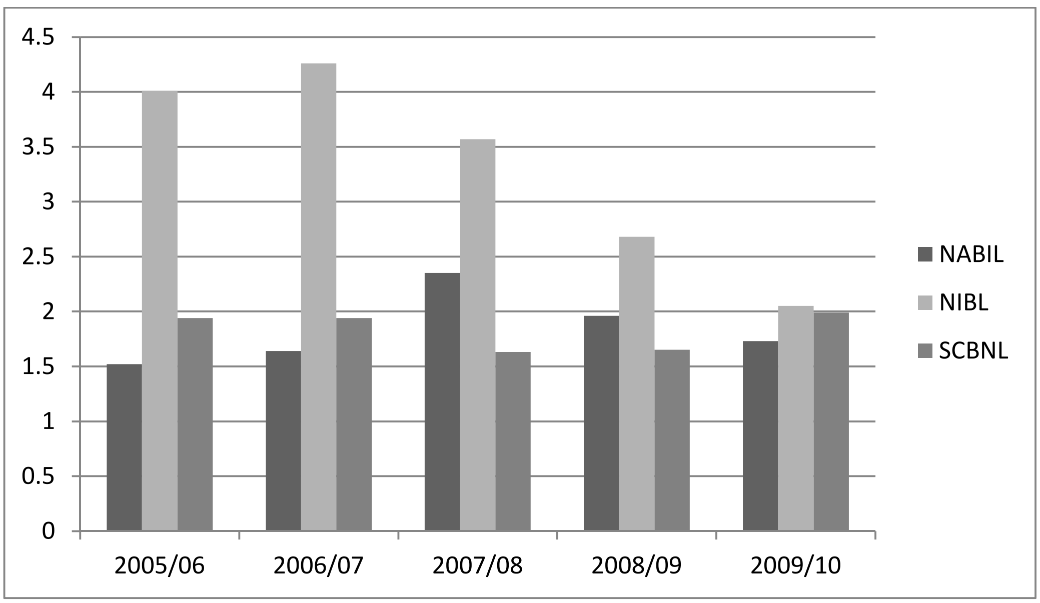
In the Table no. 4.2, capital adequacy ratio (supplementary capital) has been presented. On an average basis, the ratio of NIBL is 3.31% which is the highest among the sample banks with NABIL & SCBNL with 1.84% & 1.83% respectively. Considering the average ratio, NIBL is found slightly better maintained capital adequacy ratio (supplementary capital) than other banks.

From S.D. point of view, NIBL has the highest S.D. of 0.9280. Next to it there is NABIL with S.D. of 0.3275 and SCBNL has the lowest S.D. of 0.1748. It implies that NIBL has high fluctuation(less homogeneity) with respect to supplementary capital fund to total risk weighted assets. Similarly, SCBNL has the low fluctuation (more homogeneity) with respect to supplementary capital fund to total risk weighted assets.

From C.V. point of view, NIBL has the highest C.V. of 28.0015 and SCBNL has the lowest C.V. of 9.5511. It indicates that NIBL has high degree of variability or is inconsistent in contributing supplementary capital to total risk weighted assets over the study period. SCBNL has low degree of variability or is consistent in contributing supplementary capital to total risk weighted assets over the study period.

Figure No. – 4.2

Capital Adequacy Ratio (Supplementary Capital in percent)



4.1.1.3 Total Capital Fund

Table No. – 4.3

Capital Adequacy Ratio (Total Capital Fund in percent)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	12.31	11.97	14.93

2006/07	12.04	12.17	15.71
2007/08	11.10	11.28	13.15
2008/09	10.70	11.24	14.70
2009/10	10.50	10.55	14.60
Mean	11.33	11.44	14.62
S.D.	0.8067	0.6464	0.9290
C.V.	7.1202	5.6496	6.3549

Source: Annual Reports

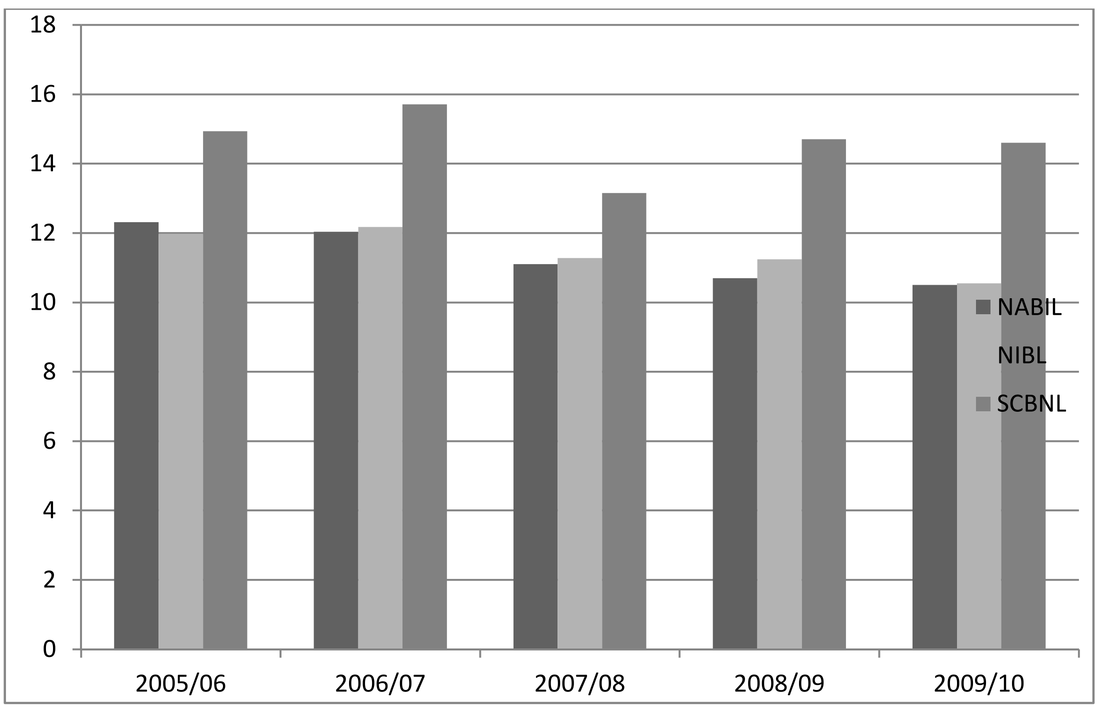
In table no. 4.3, capital adequacy ratios of the selected banks in the study period are presented. According to recent directive of NRB updated July 2008, ‘A’ class BFIs have to maintain 10% CAR. The CAR of NABIL and NIBL are decreasing through out the study period and CARs of SCBNL are relatively above standard. In the F.Y. 2009/10 the CARs of NABIL and NIBL are just slightly above the standard i.e. 10.50% and 10.55% respectively. The average CARs of NABIL, NIBL and SCBNL are 11.33%, 11.44% and 14.62% respectively. On the basis of mean CAR, it is found that SCBNL well maintained the ratio.

In case of S.D., the S.D. of NABIL, NIBL and SCBNL are 0.8067, 0.6464 and 0.9290 respectively. SCBNL has the highest S.D. and NIBL has the lowest S.D. among the selected banks. It implies that SCBNL has the high fluctuation with respect to capital fund to total risk weighted assets and NIBL has the low fluctuation with respect to capital fund to total risk weighted assets.

From C.V. point of view, NABIL has the highest C.V. of 7.1202 and NIBL has the lowest C.V. of 5.6496. It indicates that NABIL has high degree of variability or is inconsistent in contributing total capital fund to total risk weighted assets over the study period. NIBL has low degree of variability or is consistent in contributing total capital fund to total risk weighted assets over the study period.

Figure No. – 4.3

Capital Adequacy Ratio (Total Capital Fund in percent)



4.2.1 Assets Quality

Out of the several indicators of assets quality, Non Performing Asset ratio and Loan Loss provisioning ratio are taken to examine the assets quality of the selected banks.

4.2.1.1 Non Performing Assets (NPA)

NPA is mostly considered as the banks efficiency indicator of assets utilization and efficient lending and recovery. At present practices, NPA is the major concern for measuring the banking performance. The lower the ratio lowers the risk of default.

Table No. – 4.4

Non Performing Assets (in percent)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	1.38	2.07	2.13
2006/07	1.12	2.37	1.83
2007/08	0.74	1.12	0.92
2008/09	0.80	0.58	0.66
2009/10	1.47	0.62	0.61
Mean	1.10	1.35	1.23
S.D.	0.3299	0.8273	0.7027
C.V.	29.9346	61.1884	57.1337

Source: Annual Reports

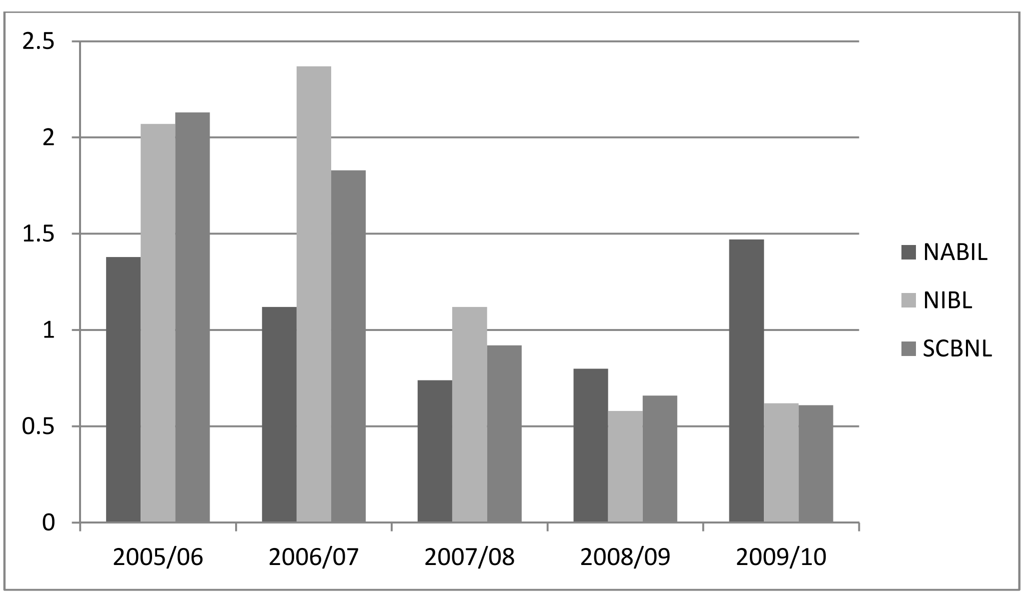
In table no. 4.4, NPA ratio of selected banks during the study period has been presented. The ratio of NABIL is in increasing trend in last three fiscal years. In contrary, the ratio of SCBNL is in decreasing trend. However, the ratio of NIBL is fluctuating. On an average basis, the ratio of NABIL is 1.10% which is lowest among the sample banks followed by SCBNL and NIBL 1.23% and 1.35% respectively.

From S.D. point of view, NABIL has the lowest S.D. of 0.3299. Next to it, there is SCBNL with S.D. of 0.7027 and NIBL with S.D. of 0.82.73. It implies NABIL has the low fluctuation (high homogeneity) with respect to non performing loan to total loan and advances and NIBL has high fluctuation (less homogeneity) with respect to non performing loan to total loan and advances.

From C.V. point of view, NIBL has the highest C.V. of 61.1884 and NABIL has the lowest C.V. of 29.9346. It indicates that NIBL has high degree of variability or is inconsistent in controlling non performing loan to total loan over the study period. NABIL has low degree of variability or is consistent in controlling non performing loan to total over the study period.

Figure No. – 4.4

Non Performing Assets



4.2.1.2 Loan Loss Provisioning Ratio

It is the ratio of loan loss provision to the total loan. Loan loss provisioning ratio provides quality of a bank's loan portfolio, bad debts coverage and adequacy of loan loss provisions. It reflects the increasing probability on non-performing loans in the volume of total loans and advances. Loan loss provision on the other hand signifies the cushion against future contingency created by the default of the borrowers. The lower the ratio is the better.

Table No. – 4.5

Loan Loss Provisioning Ratio (in percent)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	0.03	0.81	0.53
2006/07	0.09	0.75	0.35
2007/08	0.29	0.49	0.50
2008/09	0.16	0.45	0.41
2009/10	1.08	0.23	0.48
Mean	0.33	0.55	0.45
S.D.	0.4303	0.2364	0.0730
C.V.	130.3911	43.2948	16.0808

Source: Annual Reports

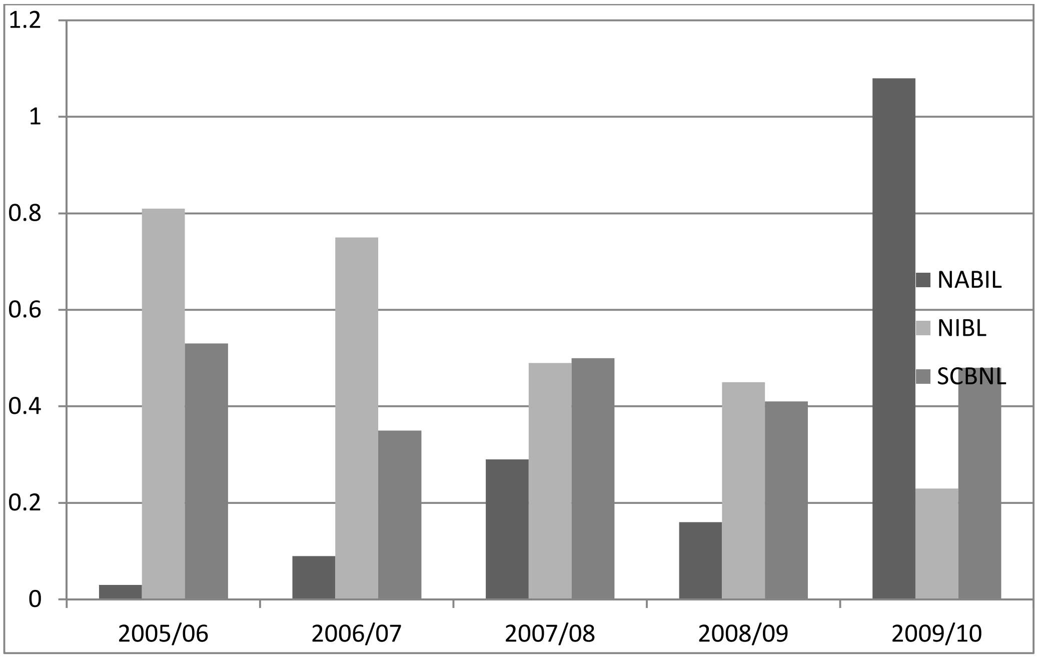
Table no. 4.5 shows the ratio of loan loss provision to total loan and advances. The loan loss provisioning ratio of NABIL and SCBNL are fluctuating whereas the ratio of NIBL is in decreasing trend through out the study period. The average loan loss provisions to total loan and advances of NABIL, NIBL and SCBNL in the study period are 0.33%, 0.55% and 0.45% respectively. Despite NABIL had lower the ratios in F.Y.s 2005/06 to 2008/09 in comparison to other two selected banks during that period its loan loss provision to total loan increased due to noticeable increase in the year 2009/10 to 1.08%.

The S.D. of SCBNL is the lowest with 0.0730and NABIL has the highest S.D. 0.4303. It means SCBNL has the low fluctuation (high homogeneity) and NABIL has the high fluctuation (less homogeneity) with respect to loan loss provision to the total loan and advances. During the study period NIBL has S.D. 0.2364.

From C.V. point of view, NABIL has the highest C.V. of 130.3911 and SCBNL has the lowest C.V. of 16.0808. It indicates that NABIL has high degree of variability or is inconsistent in loan loss provision over the study period. In contrary, SCBNL has low degree of variability or is consistent in loan loss provision over the study period.

Figure No. – 4.5

Loan Loss Provisioning Ratio



4.3.1 Management

4.3.1.1 Management Efficiency Ratio

Management is life blood of an organization. Management is concerned with planning, analyzing and decision making. To measure efficiency of the management, management efficiency ratio is used. Management efficiency ratio is also known as earning per employee. It is calculated dividing net profit after tax by total number of staffs. Low or decreasing management efficiency ratio reflects inefficiencies as a result of overstaffing, with similar repercussion in terms of profitability

Table No. – 4.6

Management Efficiency Ratio (in NPR)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	1,440,504.19	898,811.32	1,074,158.49
2006/07	1,578,359.95	975,484.15	1,437,963.39
2007/08	1,794,395.18	1,120,147.13	2,172,204.27

2008/09	2,041,689.30	1,175,742.91	2,615,088.10
2009/10	2,045,061.76	1,443,500.10	2,531,169.45
Mean	1,780,002.08	1,122,737.12	1,966,116.74
S.D.	271,506.1520	210,672.3832	681,442.5768
C.V.	15.2531	18.7642	34.6593

Source: Appendix I

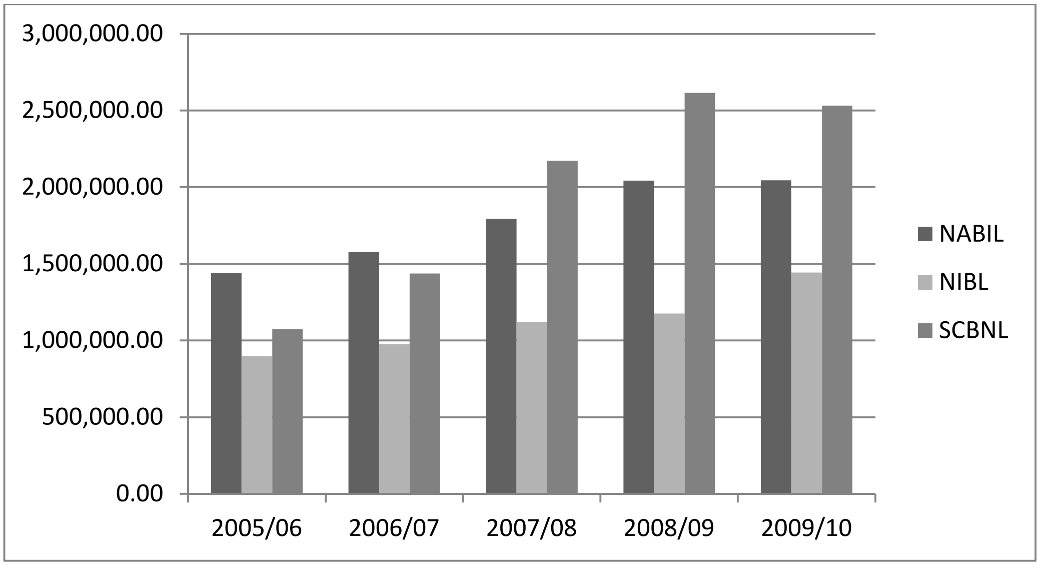
Table No. – 4.6 shows the management efficiency ratio/ earning per employee ratios of the samples banks through the study period. The management efficiency ratios of all the three banks are fluctuating. On an average basis, SCBNL has the highest the management efficiency ratio of NPR 1,966,116.74 whereas NABIL has NPR. 1,780,002.08 and NIBL has the lowest ratio with NPR. 1,122,737.12.

From S.D. point of view, SCBNL has the highest S.D. of 681,442.5768 followed by NABIL 271,506.1520 and NIBL 210,672.3832. It provides that the SCBNL has the high fluctuation with respect to Net profit after tax to number of employees and NIBL has the high homogeneity.

From C.V. point of view, SCBNL has the highest C.V. of 34.6593 and NABIL has the lowest C.V. of 15.2531. It indicates that SCBNL has high degree of variability or is inconsistent in acquiring net income to total number of staffs over the study period. NABIL has low degree of variability or is consistent in acquiring net income to total number of staffs over the study period.

Figure No. – 4.6

Management Efficiency Ratio



4.4.1 Earning / Profitability Ratio

Profitability is the end results of a number of corporate policies and decisions. It measures how effectively the firm is being operated and managed. Besides owners and managers, creditors are also interested to know the financial soundness of the firm. So they calculate profitability ratios because expectations of both owners and manager are evaluated in terms of profit earned by the firm.

4.4.1.1 Earning Per Share

The profitability of a firm from the point of view of ordinary shareholders is the earning per share (EPS). It measures profit available to the equity shareholders on per share basis. EPS of an organization gives the strength of the share in the market. Higher the EPS is the better.

Table No. – 4.7

Earning Per Share (in Rs)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	129.21	59.35	175.84
2006/07	137.08	62.57	167.37
2007/08	108.31	57.87	131.92
2008/09	106.76	37.42	109.99
2009/10	78.61	52.55	77.65
Mean	111.99	53.95	132.55
S.D.	22.8098	9.9251	40.6504
C.V.	20.3670	18.3962	30.6670

Source: Annual Reports

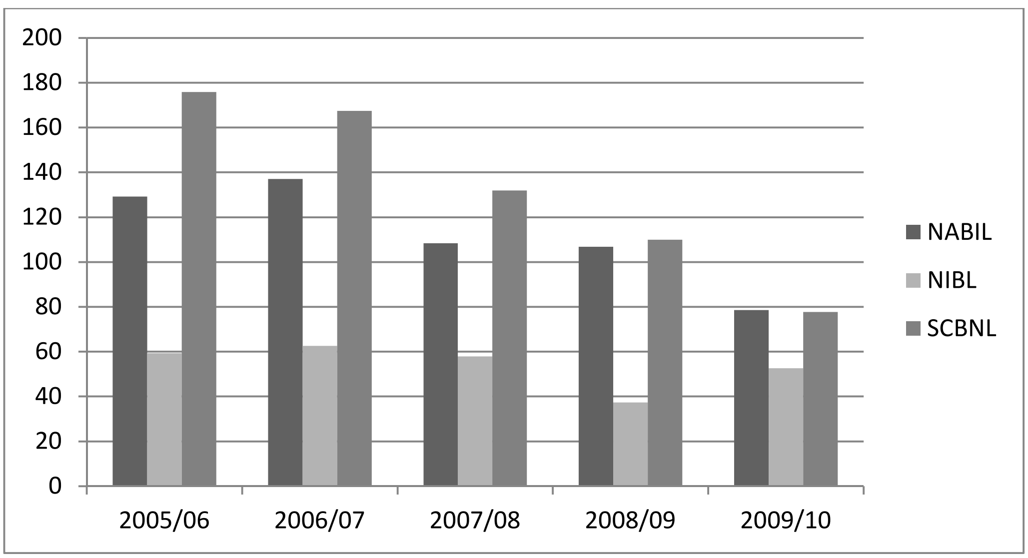
Above table reflects the earning per share, EPS of the sample banks through out the study period. The earning per shares of SCBNL are declining through out the study period. However, EPS of NABIL and NIBL have been fluctuating. On an average basis, in the study period, the earning per shares of NABIL, NIBL and SCBNL are NPR. 111.99, NPR 53.95 and NPR 132.55 respectively.

In case of S.D, NABIL, NIBL and SCBNL have S.D. of 22.8098, 9.9251 and 40.6504 respectively. It implies NIBL has the low fluctuation and SCBNL has the high fluctuation with respect to net profit after tax to number of shares since the banks have low and high S.D. respectively.

From C.V. point of view, SCBNL has the highest C.V. of 30.6670 and NIBL has the lowest C.V. of 18.3962. It indicates that SCBNL has high degree of variability or is inconsistent in getting net profit after tax to total number of shares over the study period. NIBL has low degree of variability or is consistent in getting net profit after tax to total number of shares over the study period.

Figure No. – 4.7

Earning Per Share



4.4.1.2 Return on Equity

The return on equity (ROE) measures the return on the owner's investment in the firm. Higher ratio of return on equity is better for owner.

Table No. – 4.8

Return on Equity (in percent)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	38.00	24.76	37.55
2006/07	36.00	30.45	32.68
2007/08	36.29	30.53	32.85
2008/09	42.30	27.31	33.58
2009/10	36.37	27.80	32.22
Mean	37.79	28.17	33.78
S.D.	2.6389	2.4121	2.1657
C.V.	6.9826	8.5626	6.4120

Source: Annual Reports

In above table the return on equity of selected banks through out the study period is presented. The ROE of all the three selected banks have been observed fluctuating. The average ROEs of NABIL, NIBL and SCBNL are 37.79, 28.17 and 32.22 respectively. On average, NABIL has the highest and NIBL has the lowest return on equity among the sample banks.

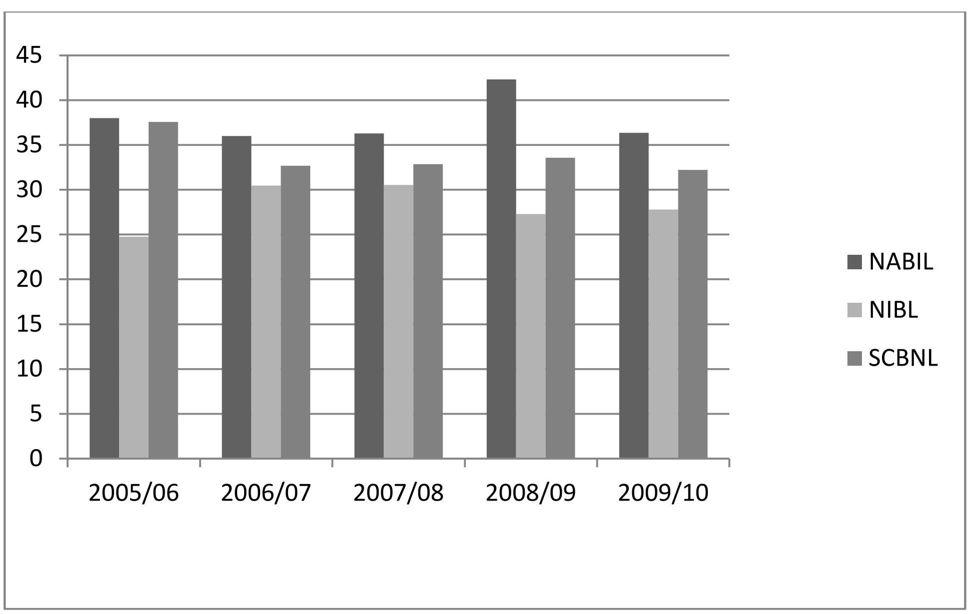
The S.D. of NABIL, NIBL and SCBNL are 2.6389, 2.4121 and 2.1657 respectively. In case of S.D., NABIL has the highest S.D. with 2.6389 and SCBNL has the lowest 2.1657.

It implies that SCBNL has the low fluctuation and NABIL has the high fluctuation with respect to net profit to shareholder's total fund respectively.

From C.V. point of view, SCBNL has the lowest C.V. of 6.4120 and NIBL has the highest C.V. of 8.5626. It indicates that SCBNL has low degree of variability or is consistent in getting net profit after tax to total shareholder's fund over the study period. NIBL has high degree of variability or is inconsistent in getting net profit after tax to total shareholder's fund over the study period.

Figure No. – 4.8

Return on Equity



4.4.1.3 Return on Assets

The return on assets (ROA), which is often called the firm's return on total assets, measure the overall effectiveness of management in generating profit with its available assets. The higher the firm's return on assets the better it is doing in operation and vice versa.

Table No. – 4.9

Return on Assets (in percent)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	3.23	1.61	2.56
2006/07	2.72	1.79	2.42
2007/08	2.32	1.77	2.46
2008/09	2.55	1.68	2.53
2009/10	2.37	2.19	2.70
Mean	2.64	1.81	2.53
S.D.	0.3667	0.2254	0.1081
C.V.	13.9007	12.4686	4.2650

Source: Annual Reports

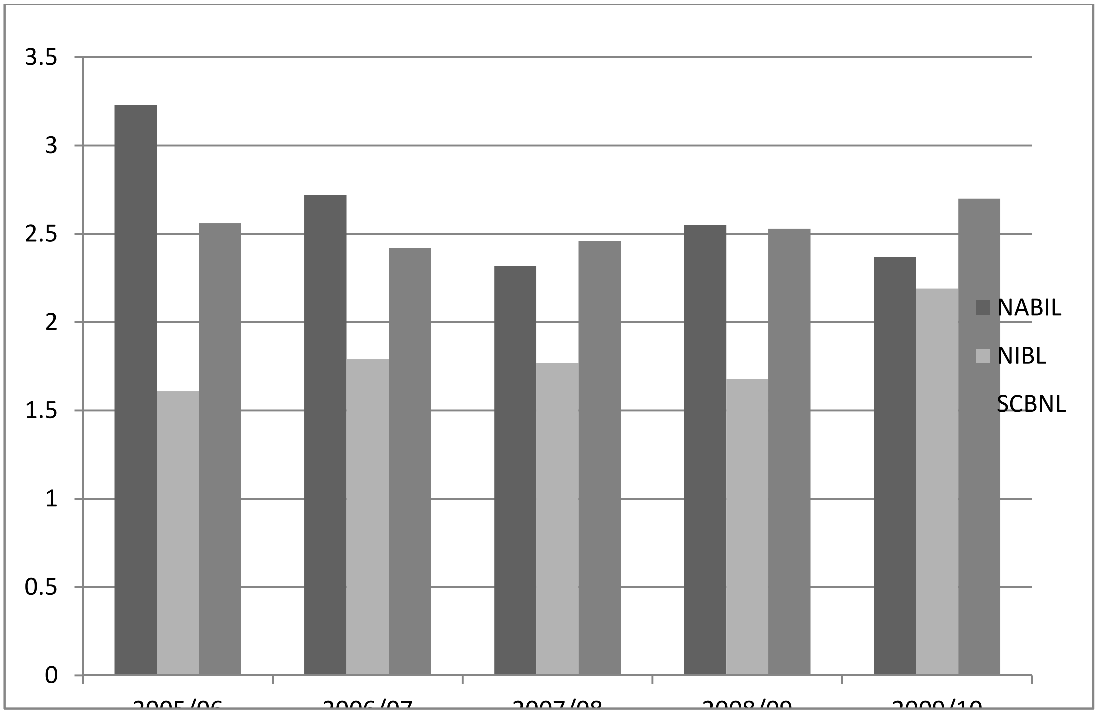
Table no. 4.9 exhibits the return on assets of the selected banks of the study period. The returns on assets of NABIL and NIBL have been fluctuating. However, return on assets of SCBNL is in increasing trend after F.Y. 2005/06. In case of average return on assets also NABIL has the highest 2.64%. NIBL has the lowest average of 1.81% though it has significantly increase ROA in the F.Y. 2009/10. SCBNL has 2.53% as the average ROA of the study period.

From S.D. point of view, NABIL has the highest S.D. of 0.3667 followed by NIBL 0.2254 and SCBNL 0.1081. It implies that NABIL has the high fluctuation with respect to Net profit after tax to total assets. SCBNL has high homogeneity with respect to net profit after tax to total assets.

From C.V. point of view, NABIL has the highest C.V. of 13.9007 and SCBNL has the lowest C.V. of 4.2650. It indicates that NABIL has high degree of variability or is inconsistent in getting net profit to total assets over the study period. SCBNL has low degree of variability or is consistent in getting net profit to total assets over the study period.

Figure No. – 4.9

Return on Assets



4.4.1.4 Price Earning Ratio

Price earning ratio (PE) is simply the ratio between market price per share and earnings per share. In other words, this represents the amount which investors are willing to pay for each rupee of the firm's earnings. The higher PE ratio indicates the greater confidence of investor in the firm's future.

Table No. – 4.10

Price Earning Ratio (in times)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	17.34	21.23	21.47
2006/07	36.84	27.63	35.25

2007/08	48.70	42.33	51.77
2008/09	45.89	37.10	54.64
2009/10	30.33	13.42	42.23
Mean	35.82	28.34	41.07
S.D.	12.6490	11.6846	13.3979
C.V.	35.3127	41.2272	32.6205

Source: Annual Reports

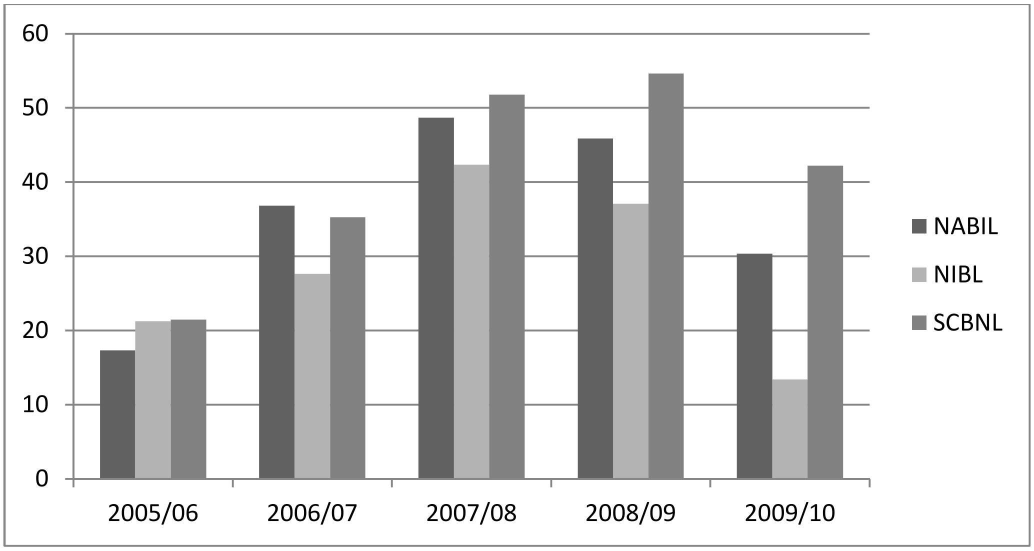
In table no. 4.10, price earning ratio of selected banks during the study period has been presented. The ratios of sample banks are fluctuating. PE ratios of all the three selected banks have decreased in the F.Y. 2009/10 as compared to F.Y. 2008/09. The average PE ratios of the study period of NABIL, NIBL and SCBNL are 35.82 times, 28.34 times and 41.07 times respectively. SCBNL has the highest PE ratio whereas NIBL has the lowest.

From S.D. point of view, NIBL has the lowest S.D. of 11.6846 followed by NABIL 12.6490 and NIBL 11.6846. It implies that SCBNL has the high fluctuation with respect to market price per share to earning per share. NIBL high homogeneity with as compared to other two selected banks since it has the lowest S.D. among the selected banks.

From C.V. point of view, NIBL has the highest C.V. of 41.2272 and SCBNL has the lowest C.V. of 32.6205. It indicates that NIBL has high degree of variability or is inconsistent in maintaining price earning ratio over the study period. SCBNL has low degree of variability or is consistent in maintaining price earning ratio over the study period.

Figure No. – 4.10

Price Earning Ratio



4.5.1 Liquidity Ratios

Liquidity Ratios measures the firm's ability to satisfy its short-term commitments out of current or liquid assets. These ratios focus on current assets and liabilities and are used to ascertain the short term solvency position of a firm.

4.5.1.1 Cash Reserve Ratio (CRR)

CRR is the provisioning made by NRB to the banks to maintain certain percentage of its total deposits to meet short term obligations and liabilities on their deposits. NRB has directed all the banks to maintain the adequate CRR by provisioning of 5.5% of total deposit.

Table No. – 4.11

Cash Reserve Ratio (times)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	3.26	13.61	6.86
2006/07	6.00	10.47	5.46
2007/08	8.37	10.91	5.84
2008/09	9.03	10.32	8.18
2009/10	3.02	7.77	6.74
Mean	5.94	10.62	6.62
S.D.	2.7913	2.0772	1.0599
C.V.	47.0232	19.5667	15.9595

Source: Annual Reports

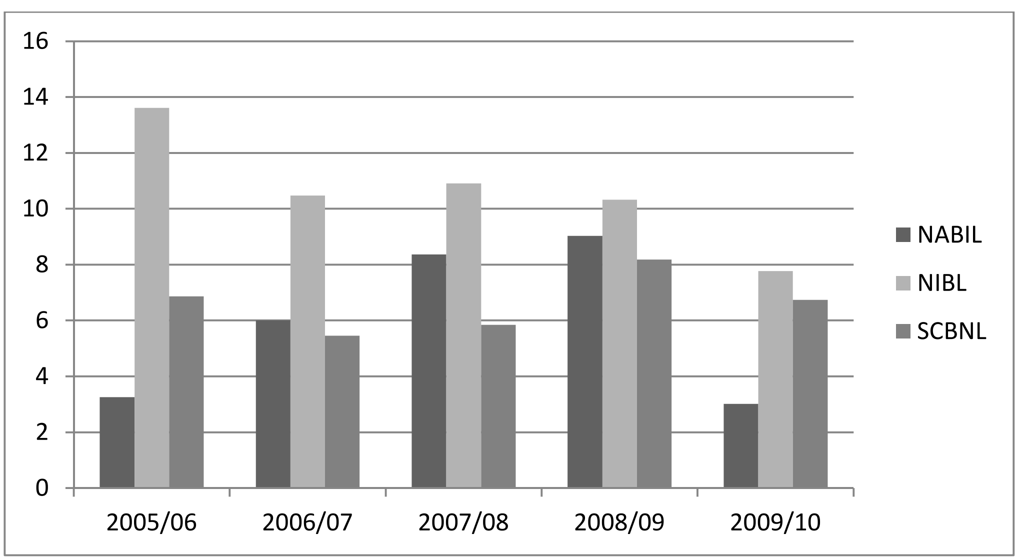
The cash reverse ratios maintained by the selected banks in the period are presented in the above table. The CRR maintained by the banks are significantly decreased in the F.Y. 2009/10 as compared to F.Y. 2008/09. In F.Y. 2009/10, NABIL fail to maintain CRR as directed by NRB (5.5%) i.e. only 3.02%. The average CRR of NABIL, NIBL and SCBNL of study period are 5.94%, 10.62% and 6.62% respectively. It implies that NIBL is maintaining higher CRR than the other selected banks. The CRR of NABIL and SCBNL are same.

From S.D. point of view, NABIL has the highest S.D. among the sample banks and SCBNL has the lowest. As we know higher the standard deviation lesser the homogeneity and vice versa, NABIL has less homogeneity in CRR with respect to total deposit and SCBNL has more homogeneity in CRR with respect to total deposit.

From C.V. point of view, NABIL has the highest C.V. of 47.0232 and SCBNL has the lowest C.V. of 15.9595. It indicates that NABIL has high degree of variability or is inconsistent in maintaining cash reserve ratio over the study period. NIBL has low degree of variability or is consistent in maintaining cash reserve ratio over the study period.

Figure No. – 4.11

Cash Reserve Ratio



4.5.1.2 Cash & bank balance to Total Deposit Ratio

It measures the ability of bank to meet its immediate deposits. High ratio represents the greater ability of the bank to cover their deposits where as lower ratio represents the lower abilities to meet its current obligation on their deposits.

Table No. – 4.12

Cash and Bank Balance to Total Deposit Ratio (in percent)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	3.26	12.34	5.53
2006/07	6.00	9.97	8.20
2007/08	8.37	10.90	6.89
2008/09	9.03	16.96	8.75
2009/10	3.02	13.61	5.48
Mean	5.94	12.76	6.97
S.D.	2.7913	2.7287	1.4984
C.V.	47.0232	21.3913	21.4986

Source: Appendix II

In the above table, mean, standard deviation and coefficient of variance of cash and bank to total deposit ratios of three sample banks for the study period has been presented. The table illustrated that the ratios of the selected banks are in fluctuating trend during the study period. All the three banks have the ratio highest in F.Y. 2008/09 and the ratios of all the banks have significantly decreased in the F.Y. 2009/10.

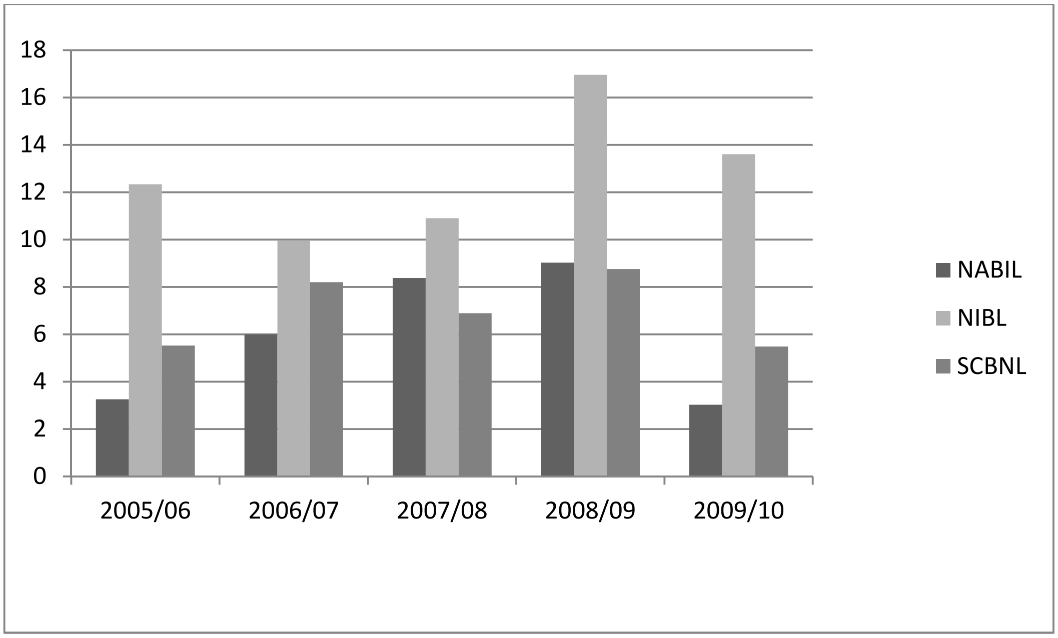
Average cash and bank balance to total deposit ratio of NABIL, NIBL and SCBNL are 5.94%, 12.76% and 6.97% respectively during the study period. Since NIBL has 12.76% the highest mean ratio among the selected banks NIBL has the greater ability to meet the sudden demand of deposit.

From S.D. point of view, NABIL has the highest S.D. of 2.7913 followed by SCBNL with 1.4984 and NIBL with the ratio 2.7287. It implies that NABIL has less homogeneity with respect to cash and bank balance to total deposit. Similarly, SCBNL has the more homogeneity with respect to cash and bank balance to total deposit.

From C.V. point of view, NABIL has the highest C.V. of 47.0232 and NIBL has the lowest C.V. of 21.3913. It indicates that NABIL has high degree of variability or is inconsistent in holding cash and bank balance to total deposit over the study period. NIBL has low degree of variability or is consistent in holding cash and bank to total deposit over the study period.

Figure No. – 4.12

Cash and Bank Balance to Total Deposit Ratio



4.5.1.3 Government securities to Total Deposit Ratio

It is the ratio of investment in government securities upon the total deposit. Investment in government securities are risk free in nature and highly liquid.

Table No. – 4.13

Government Securities to Total Deposit Ratio (in percent)

F.Y. / Banks	NABIL	NIBL	SCBNL
2005/06	11.90	13.33	37.45
2006/07	20.60	13.30	28.84

2007/08	14.56	9.16	27.36
2008/09	9.92	5.42	27.87
2009/10	17.11	8.39	24.25
Mean	14.82	9.92	29.15
S.D.	4.2207	3.3993	4.9457
C.V.	28.4835	34.2672	16.9639

Source: Appendix III

The above table shows the mean, standard deviation and coefficient of variance of investment on government securities to total deposit ratio of the three selected banks for previous three fiscal years. The table reflects the ratio of three banks in fluctuating trend during the study period.

The average investment in government securities to total deposit ratios during study period of NABIL, NIBL and SCBNL are 14.82%, 9.92% and 29.15% respectively. It implies out of total deposit SCBNL invested more in government securities which are risk free in nature and highly liquid and NIBL invested low 9.92% in government securities.

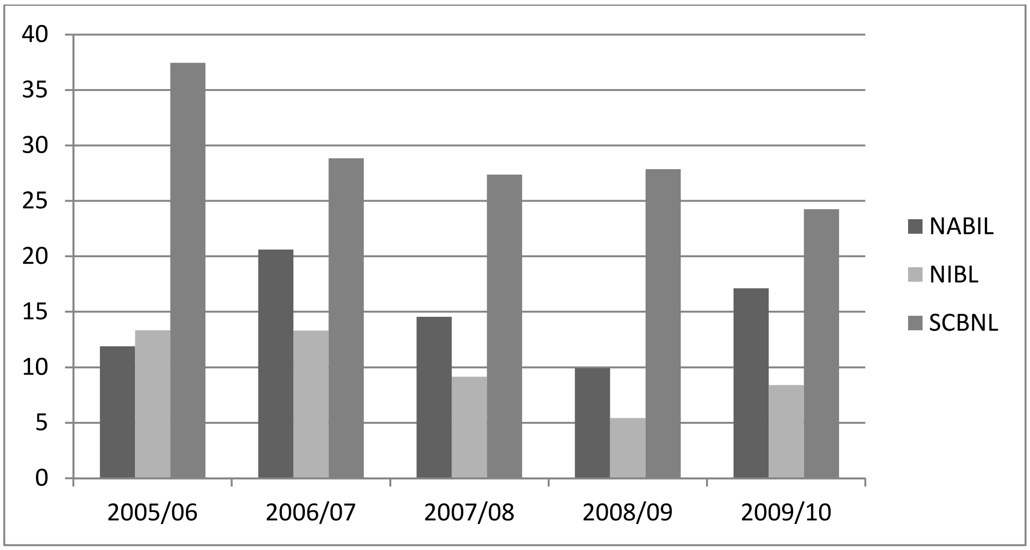
From S.D. point of view, SCBNL has high S.D. 4.9457 followed by NABIL with 4.2207 and NIBL with the lowest 3.3993. It implies that SCBNL has high fluctuation (less homogeneity) with respect to government securities to total deposit whereas NIBL has the low fluctuation with respect to government securities to total deposit.

From C.V. point of view, NIBL has the highest C.V. of 34.2672 and SCBNL has the lowest C.V. of 16.9639. It indicates that NIBL has high degree of variability or is inconsistent in investing in government securities to total deposit over the study period.

SCBNL has low degree of variability or is consistent in investing in government securities to total deposit over the study period.

Figure No. – 4.13

Government Securities to Total Deposit Ratio



4.5.1.4 Credit Deposit Ratio (CD Ratio)

CD ratio is the provisioning made by NRB to the banks to maintain certain percentage of its total lending to their total deposits. Since this ratio affects the liquidity position of the banks NRB has directed all the commercial banks to maintain the ratio by provisioning up to 80%.

Table No. – 4.14

Credit Deposit Ratio (in percent)

F.Y. / Banks	NABIL	NIBL	SCBNL

2005/06	68.63	69.63	39.92
2006/07	68.13	72.56	43.78
2007/08	68.18	79.91	46.95
2008/09	73.87	78.86	39.27
2009/10	69.53	81.74	45.98
Mean	69.93	76.54	43.18
S.D.	2.7072	5.1809	3.4759
C.V.	3.8714	6.7689	8.0499

Source: Annual Reports

The above table shows the mean, standard deviation and coefficient of variance of total lending to total deposit ratio of the three selected banks for previous three fiscal years. The table reflects the ratio of three banks in fluctuating trend during the study period.

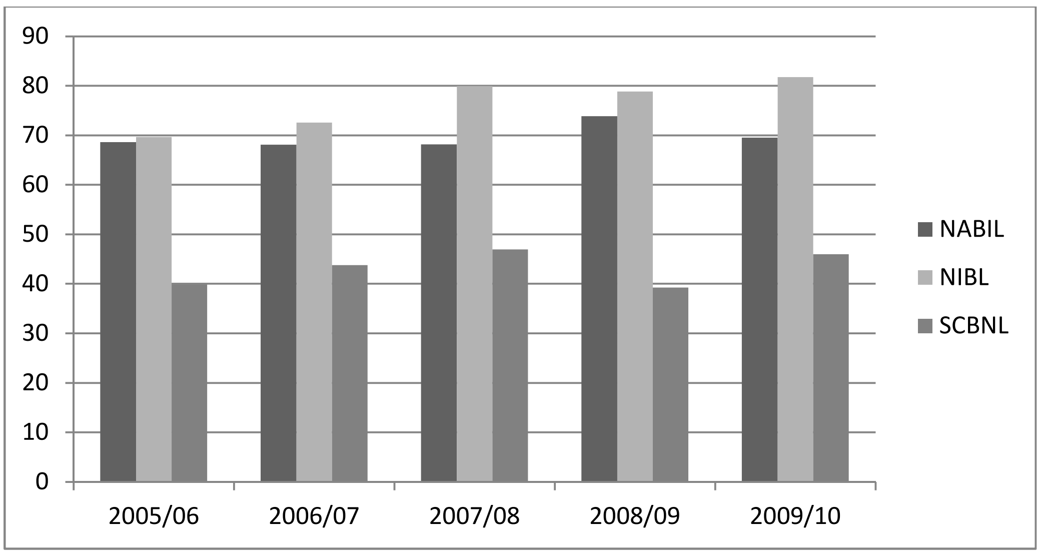
The average CD ratios during study period of NABIL, NIBL and SCBNL are 69.93%, 76.54% and 45.98% respectively. It implies out of total deposit NIBL invested more in loan and SCBNL has the ratio lowest at 45.98% means SCBNL has invested only 45.98% out its total deposits.

From S.D. point of view, NIBL has highest S.D. 5.1809 followed by SCBNL with 3.4759 and NABIL with the lowest 2.7072. It implies that NIBL has high fluctuation (less homogeneity) with respect to total lending to total deposit whereas NABIL has the low fluctuation with respect total lending to total deposit.

From C.V. point of view, SCBNL has the highest C.V. of 8.0499 and NABIL has the lowest C.V. of 3.8714. It indicates that SCBNL has high degree of variability or is inconsistent in investing in loan portfolio to total deposit over the study period. NABIL has low degree of variability or is consistent in lending to total deposit over the study period.

Figure No. – 4.14

Credit to Deposit Ratio



4.2 Major Findings of the Study

Having completed the basic analysis required for this study, the final and the most important task of the researcher is to enlist the findings. This will give meaning to the desired result. A comprehensive summary of the major findings of this study is presented below.

The main findings of the study derived from the analysis of financial data of NABIL, NIBIL and SCBNL are given below.

Capital Adequacy Ratio

The capital adequacy ratios of the selected banks reveal that:

- The average capital adequacy ratios (core capital) of NABIL, NIBL and SCBNL during the study period are 9.49%, 8.13% and 12.79% respectively. It implies that on an average basis all the three selected banks have maintained the ratio of core capital to RWA above NRB standard i.e. 6%. The ratio SCBNL i.e. 12.79% is comparatively higher than that of NABIL and NIBL which are in between 8% and 10%.
- Similarly, the average capital adequacy ratios (supplementary capital) of NABIL, NIBL and SCBNL in the study period are 1.84%, 3.31% & 1.83% respectively. Among the selected banks NIBL slightly better maintained the ratio i.e. 3.31% than other two banks. NABIL & SCBNL have the ratio almost same.
- In case of capital adequacy ratio (total capital to RWA), the average of NABIL, NIBL and SCBNL are 11.33%, 11.44% and 14.62% respectively. It implies that all the three selected banks have maintained the ratio above the standard i.e. 10% as specified by the recent NRB directives. It has been found that SCBNL has the ratio highest i.e. 14.62%. In the F.Y. 2009/10, the respective ratios of NABIL and NIBL are 10.50% and 10.55% which are slightly above NRB provision and less than their respective average of study period.

Assets Quality

The ratios indicating assets quality of the selected banks reveal that:

- The average ratios of non performing loan to total loan of NABIL, NIBL and SCBNL in the study period are 1.10%, 1.23% and 1.35% respectively. It implies that on an average basis SCBNL has the ratio highest that is 1.35%. It has been found that the non performing loan to total loan ratio of NABIL bank extensively increased in the F.Y. 2009/10.

- In case of loan loss provision ratio, the average ratio of loan loss provision to total loan of NABIL, NIBL and SCBNL are 0.33%, 0.55% and 0.45% respectively. On an average basis, it implies that NABIL has the ratio lowest at 0.33% and NIBL has the ratio highest at 0.55% which indicates NABIL has the better loan portfolio and NIBL has the worst loan portfolio among the selected banks in the study period. In addition, it has been observed that the loan loss provision of NABIL significantly increased in the F.Y. 2009/10.

Management

- The trends of earning per employee ratios of NABIL and NIBL are positive, which indicates the earning per employee is increasing through out the entire study period. During the study period, the mean earning per employee of NABIL, NIBL and SCBNL are NPR. 1,780,002.08 NPR. 1,122,737.12 and NPR 1,966,116.74 respectively. Though earning per employee ratios of SCBNL are fluctuating, SCBNL has the average ratio highest as compared to other selected banks in the study period. It implies that SCBNL better mobilized its human resources than other two selected banks. The average earning per employee ratio of NIBL during the study period is the lowest amongst the selected banks that might be due to over staffing or poor utilization of human resources as compared to NABIL and SCBNL.

Earning / Profitability Ratio

The profitability ratios of selected banks reveal that:

- During the study period, the average earning per share of NABIL, NIBL and SCBNL are NPR. 111.99, NPR 53.95 and NPR 132.55 respectively. It implies that the share of SCBNL has the highest strength/dominance in capital market as SCBNL has the highest average EPS through out the study period with Rs. 132.55 as compared to other selected banks. In contrary NIBL has the ratio lowest at Rs. 53.95.
- The average ratio of return on shareholders equity (net worth) of NABIL, NIBL and SCBNL are 37.79%, 28.17% and 32.22% respectively. It implies that, on an average basis, NABIL has provided the highest percentage of return i.e. 37.79% to its shareholders by utilizing the shareholders fund among the selected banks. The above ratio shows how the sample banks have utilized the available fund of shareholders into profit generation over the study period. Among the samples bank NIBL has the lowest ratio i.e. 28.17%. It means as compared to other two sample banks NIBL could not mobilized the fund of shareholders effectively in generating profit.
- The average ratio of net profit to total assets of NABIL, NIBL and SCBNL are 2.64%, 1.81% and 2.53% respectively. It implies that, on an average basis, NABIL has earned highest percentage i.e. 2.64% of net profit by utilizing its total assets among the sample banks during the study period. Likewise, SCBNL has earned 2.53% of net profit against the use of total assets over the entire study period. Amid the sample banks NIBL has the lowest ratio i.e. 1.81%. It means that NIBL could not mobilize its assets effectively into profit generating projects as compared to other two selected banks.
- PE ratio exhibits the confidence of the investor in the firm's future. In the study period, the average price earning ratio of NABIL, NIBL and SCBNL are 35.82 times, 28.34 times and 41.07 times respectively.. It implies that investors are more confident in investing the shares of SCBNL as SCBNL has the highest PE ratio and next to it comes NABIL. Among the selected banks NIBL has the ratio lowest at 28.34 times.

Liquidity Ratio

The liquidity ratios of selected banks reveal that:

- The average cash reserve ratio of the selected banks NABIL, NIBL and SCBNL through out the study period are 5.94%, 10.62% and 6.62% respectively. Though on an average basis all the three banks maintained cash reserve ratio above standard as per NRB directive, NABIL bank failed to maintain the ratio in F.Y. 2009/2010. It is clear that NIBL is slightly more liquid than other banks. But it can’t be concluded that all the banks are in poor condition with low cash reserve ratio.
- The mean ratio of cash and bank balance to total deposit of NABIL, NIBL and SCBNL are 8.80%, 12.76% and 10.54% respectively. It reveals that on an average basis NIBL has more liquidity to serve its depositors in the time with enough cash in hand. Other remaining banks are found to be holding less cash in hand to its deposit as compared to NIBL.
- The average ratio of government securities to total deposit of NABIL, NIBL and SCBNL are 14.82%, 9.99% and 29.24% respectively. Investing in government securities are risk free in nature and highly liquid, SCBNL has the ratio highest 29.24%. There is NABIL next to it with the ratio 14.82% and NIBL with the ratio lowest 9.99%.
- During the study period, the mean CD ratios of NABIL, NIBL and SCBNL are 69.93%, 76.54% and 45.98% respectively. Among the selected banks CD ratio of NIBL 81.74% in F.Y. 2009/10 exceeds the provision of NRB i.e. 80.00 and SCBNL has the lowest CD ratio. It reveals than on an average basis SCBNL has more liquidity to serve it depositors and to invest in new loan and other opportunities.

CHAPTER – V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter is the important for the research for the reason that this chapter is the extract of all the previously discussed chapters. 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 recommendation part; suggestion is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as further research.

5.1 Summary

The economic development of a country cannot be imagined without the development of commerce and industry. 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 ideal 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 to promote trade and industrialization in the country. It assists to raise the employment opportunity and earning to the labors and materials suppliers to such industries and traders.

The evolution of the organized financial system in Nepal has a more recent history than in other countries of world. In Nepalese contest, the history of development of modern banking started from the establishment of Nepal Bank Ltd. in 1937 A.D. Nowadays there are 31 commercial banks, 83development banks and 79 finance companies operating in Nepalese financial market which are in increasing trend due to the country adaptation of economic liberalization policy. The financial scenario has been changed and foreign banks are invited to operate in Nepal. For the better performance of commercial banks, successful formulation and effective implementation of investment policy is the prime requisite. At present, there is a very high competition in banking industries but less opportunity to make investment. Thus these commercial banks should take initiative action in search of new opportunities so that they can survive in this competitive environment.

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 ensure reasonable profitability.

Under this study, the researcher has tried to cover the various aspects of selected commercial banks covering the period of three years from 2007/08, 2008/09 and 2009/2010. 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 the researcher has gathered the required data basically from annual reports published by the concerned commercial banks for the last three years. And also internet website of Nepal Stock Exchange and NRB directives are used for the necessary data to analyze the financial performance of selected banks. Financial ratios to calculate various ratios and statistical tools such mean, standard deviation and coefficient of variation 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 tabulated 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 complied in the fourth chapter titled “Data Presentation and Analysis” of the study.

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

5.2 Conclusions

The study reveals that all the selected banks have maintained capital adequacy ratios according to NRB provision. As per the recent NRB directives commercial banks should maintain capital adequacy ratio (core capital) 6% and total capital adequacy ratio 10%. The capital adequacy ratio (total capital fund) of NABIL and NIBL are marginally above the standard of NRB in the F.Y. 2009/2010. SCBNL has the better/higher ratio as compared to other selected banks. In capital adequacy ratio the proportion of core capital is very higher than the proportion of supplementary capital. However, the proportion of supplementary capital in total capital fund of SCBNL is very low in comparison to other two banks. In another word, the contribution of core capital in total capital adequacy ratio of SCBNL is higher than that of other selected banks. In conclusion, all the banks were able to meet the NRB provision of capital adequacy ratio in the study period.

In terms of assets quality ratio, NABIL has the highest mean Non Performing Loan (NPL) ratio as compared to other two selected banks in the study period. SCBNL is able to maintain NPL ratio below 1% through out the study period and more importantly NPL of SCBNL in the study period is in decreasing trend. In contrary, the NPL of NABIL is in increasing trend as well as in the F.Y. 2009/10 NPL of NABIL significantly increased to 1.47% from previous year’s 0.80%. Though NIBL also able to maintain NPL below 1% in the last two fiscal years amid the selected banks SCBNL has better manage the loan and advance. As the result of increment in NPL in the last fiscal year the loan loss provision of NABIL increased to 1.08% though NABIL had the better past records than other two selected banks. In case of SCBNL, the bank consistently able to maintain the ratio not above 0.5% but among the selected banks NIBL performed best regarding the ratio by the gradual reduction in the ratio in entire study period.

The Earnings per Employee ratio of NABIL and NIBL has been found in increasing trend. In each fiscal year the ratio is increasing. It implies that the efficiency of staffs of NABIL and NIBL are in positive trend. The earnings per employee ratio of the SCBNL in the study period first increased in F.Y. 2008/09 and thereafter decrease in F.Y.2009/10. Though the ratio of SCBNL is fluctuating SCBNL has average of the ratio better than other sample banks. Therefore, it can be concluded SCBNL utilized its human resource more effectively.

While comparing the profitability ratios of the selected banks, various profitability ratios are used as basis to evaluate the profitability positions of the sample banks. During the study period it has been found that among the selected banks SCBNL displayed the better performance in profitability than other banks. SCBNL had the highest ROA, EPS and PE-ratio in the study period. It means SCBNL had utilized its total assets more efficiently to generate more profit and the returns from its shares dominated the earnings from shares of other selected banks. Similarly, the profitability of NABIL bank has been close up to SCBNL. NABIL has the highest ROE among the selected banks through out the entire study period. But as compared to NABIL and SCBNL, NIBL has all the profitability ratios lower. On the light of these facts it can be concluded that the profitability position of SCBNL is the best among the selected banks.

To compare the liquidity positions of the sample banks Cash Reserve Ratio (CRR), Cash & Bank Balance to Total Deposit Ratio and Government Securities to Total Deposit Ratio, Credit to Deposit Ratio (CD ratio) are computed and compared. NRB provisioned commercial banks to maintain CRR and CD ratio 5.5% and 80% respectively. During the study, it has been found that among the selected banks NIBL had better maintained CRR as well as cash & bank balance to total deposit ratios as compared to NABIL and SCBNL. It implies that NIBL had more cash and bank balance to meet the instant cash obligation of its depositors. However, NIBL’s CD ratio above the NRB provision in the

F.Y. 2009/10 with 81.74%. In case of Government Securities to Total Deposit ratio, NIBL has the lowest ratio among the sample banks whereas SCBNL has the ratio highest. As government securities are considered as highly liquid instrument, to make liquidity position sound, SCBNL and NABIL invested more in government securities rather than keeping more cash and bank balance. From the analysis of the ratios, it can be concluded that all the three selected banks had maintained adequate liquidity to meet the instant cash obligation of the depositors.

5.3 Recommendations

- Despite the fact that the selected banks have been able to meet the NRB provision of Capital Adequacy Ratio, the ratio of NABIL and NIBL are slightly above the NRB standard. So, NABIL and NIBL are recommended to get better their CAR.

- NPA is the most sensitive part of banking performance. The effectiveness of loan and recovery is depicted from NPA position. It is key variable for measuring bank's performance. It is strongly recommended to NABIL to make conscious efforts for lowering NPA in recent years. NIBL is highly appreciated for its substantially lowest NPA and suggested to keep it up.

- Despite increment in Management Efficiency Ratio/ Earning Per Employee Ratios of NABIL and NIBL, they have poor figure in comparison to SCBNL. Therefore, NABIL and NIBL are recommended to take necessary actions like staff training on regular basis to increase their competency and reduce staff if overstaffed.

- Profit is generated from the proper utilization of the assets. This is reflected in ROA ratio. NIBL is suggested to effective utilization of total fund (assets) so as to make more profitability. Moreover, NIBL is strongly recommended pay more attention about shareholder's profitability (EPS).

- For strengthening the liquidity position; it is strongly recommended to NIBL to maintain CD ratio as per the directive of NRB.
- CD ratio of SCBNL has been far below the NRB standard so it is recommended to SCBNL to increase lending so as to earn more profit.

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Appendix I

Management Efficiency Ratios of Nabil

F.Y.	2005/2006	2006/07	2007/08	2008/09	2009/10
NPAT	635,262,349	673,959,698	746,468,394	1,031,053,098	1,139,099,399
No. of staff	441	427	416	505	557
Mgmt Eff. Ratio	1,440,504.19	1,578,359.95	1,794,395.18	2,041,689.30	2,045,061.76

Management Efficiency Ratios of NIBL

F.Y.	2005/2006	2006/07	2007/08	2008/09	2009/10
NPAT	658,755,881	536,244,885	818,921,008	1,025,114,536	1,085,871,694
No. of staff	345	351	377	392	429
Mgmt Eff. Ratio	898,811.32	975,484.15	1,120,147.13	1,175,742.91	1,443,500.10

Management Efficiency Ratios of SCBNL

F.Y.	2005/2006	2006/07	2007/08	2008/09	2009/10
NPAT	350,536,413	501,398,852	696,731,516	900,619,072	1,265,949,588
No. of staff	390	514	622	766	877
Mgmt Eff. Ratio	1,074,158.49	1,437,963.39	2,172,204.27	2,615,088.10	2,531,169.45

Appendix II

Cash and Bank Balance to total Deposit ratio of NABIL

F.Y.	2005/2006	2006/07	2007/08	2008/09	2009/10
Cash Balance	237,818,512	270,406,987	511,426,584	674,395,434	635,986,600
Bal with NRB	318,358,771	1,113,415,436	1,829,470,769	2,648,596,348	549,454,618
Balance with BFIs	74,061,305	16,003,428	330,243,702	49,520,689	214,656,586
Total	630,238,588	1,399,825,851	2,671,141,055	3,372,512,471	1,400,097,804
Total Deposit	19,347,399,440	23,342,285,327	31,915,047,467	37,348,255,840	46,340,700,628
Ratio	3.26	6.00	8.37	9.03	3.02

Cash and Bank Balance to total Deposit ratio of NIBL

F.Y.	2005/2006	2006/07	2007/08	2008/09	2009/10
Cash Balance	562,560,620	763,984,320	1,464,482,719	1,833,462,494	1,525,441,872
Bal with NRB	1,526,066,660	1,381,351,556	1,820,006,035	4,411,133,083	3,237,217,030
Balance with BFIs	247,894,116	296,178,324	470,452,814	1,673,408,313	2,053,230,931
Total	2,336,521,396	2,441,5142,00	3,754,941,568	7,918,003,890	6,815,889,833
Total Deposit	18,927,305,974	24,488,855,696	34,451,726,191	46,698,100,065	50,094,725,497
Ratio	12.34	9.97	10.90	16.96	13.61

Cash and Bank Balance to total Deposit ratio of SCBNL

F.Y.	2005/2006	2006/07	2007/08	2008/09	2009/10
Cash Balance	279,511,285	378,422,542	414,875,467	463,345,996	509,031,174
Bal with NRB	749,740,866	1,613,757,788	1,266,273,524	1,851,132,637	819,508,706
Balance with BFIs	246,989,272	28,840,738	369,094,223	822,684,902	600,766,640
Total	1,276,241,423	2,021,021,068	2,050,243,214	3,137,163,535	1,929,306,520
Total Deposit	23,061,032,081	24,647,020,755	29,743,998,794	35,871,721,127	35,182,721,454
Ratio	5.53	8.20	6.89	8.75	5.48

Appendix III

Government securities to Total Deposit Ratio of NABIL

F.Y.	2005/2006	2006/07	2007/08	2008/09	2009/10
Nepal Gov. T.B.	1,222,468,660	4,085,835,004	3,788,386,842	1,838,819,440	5,865,884,661
Nepal Gov. SB	-	-	-	-	-
Nepal Gov. other Sec.	1,078,994,678	722,513,499	858,496,294	1,867,283,222	2,075,671,779
NRB Bonds	-	-	-	-	-
Total	2,301,463,338	4,808,348,503	4,646,883,136	3,706,102,662	7,941,556,440
Total Deposit	19,347,399,440	23,342,285,327	31,915,047,467	37,348,255,840	46,340,700,628
Ratio	11.90	20.60	14.56	9.92	17.14

Government securities to Total Deposit Ratio of NIBL

F.Y.	2005/2006	2006/07	2007/08	2008/09	2009/10
Nepal Gov. T.B.	2,522,300,000	3,256,400,000	3,155,000,000	2,531,300,000	3,911,850,000
Nepal Gov. SB	-	-	-	-	290,000,000

Nepal Gov. other Sec.	-	-	-	-	-
NRB Bonds	-	-	-	-	-
Total	2,522,300,000	3,256,400,000	3,155,000,000	2,531,300,000	4,201,850,000
Total Deposit	18,927,305,974	24,488,855,696	34,451,726,191	46,698,100,065	50,094,725,497
Ratio	13.33	13.30	9.16	5.42	8.39

Government securities to Total Deposit Ratio of SCBNL

F.Y.	2005/2006	2006/07	2007/08	2008/09	2009/10
Nepal Gov. T.B.	7,210,500,501	5,995,101,329	7,157,731,943	9,050,988,434	7,878,573,686
Nepal Gov. SB	1,296,536,000	1,046,076,000	917,150,000	917,150,000	648,150,000
Nepal Gov. other Sec.	128,838,939	66,759,974	62,733,235	30,615,124	4,795,839
NRB Bonds	-	-	-	-	-
Total	8,635,875,440	7,107,937,303	8,137,615,178	9,998,753,558	8,531,519,525
Total Deposit	23,061,032,081	24,647,020,755	29,743,998,794	35,871,721,127	35,182,721,454
Ratio	37.45	28.84	27.36	27.87	24.25