FINANCIAL POSITION OF GOVERNMENT OWNED COMMERCIAL BANKS IN NEPAL

(With reference to Agriculture Development Bank Limited and Rastriya Banijya Bank Limited)

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RECOMMENDATION

This is to certify that the thesis

Submitted by

Shukman Thing Lama

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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

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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 the degree of

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**Financial Position of Government owned Commercial Banks in Nepal (With reference to Agriculture Development Bank Limited and Rastriya Banijya Bank Limited)**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Lecturer Mikha Shrestha** of Shanker Dev Campus, T.U.

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Date: ……., 2013 Researcher

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ABBREVIATIONS

AD	:	Anno Domini
ADBL	:	Agriculture Development Bank Limited
B.S	:	Bikram Sambat
CAR	:	Capital Adequacy Ratio
CDR	:	Credit to Deposit Ratio
C.V	:	Co-efficient of Variation
d.f	:	Degree of freedom
FY	:	Fiscal Year
EBL	:	Everest Bank Limited
EPS	:	Earning price per share
HBL	:	Himalayan Bank Limited
Ltd.	:	Limited
MBS	:	Master of Business Studies
MPS	:	Market price per share
Nabil	:	Nabil Bank Limited
NBB	:	Nepal Bangladesh Bank Limited
NBL	:	Nepal Bank Limited
NEPSE	:	Nepal Stock Exchange Limited
NIBL	:	Nepal Investment Bank Limited
NIM	:	Net Interest Margin
NPL	:	Non-Performing Loan
NPA	:	Non-Performing Assets
NRB	:	Nepal Rastra Bank
NSBL	:	Nepal SBI Bank Limited
PAF	:	Poverty Alleviation Fund
RBB	:	Rastriya Baniya Bank Limited
ROA	:	Return on Assets
ROE	:	Return on Equity
SCBN	:	Standard Chartered Bank Nepal Limited
S.D	:	Standard Deviation
SWIFT	:	Society of World Wide Fund Transfer
T-bill	:	Treasury bills

CHAPTER - I
INTRODUCTION

1.2 Background of the Study

Financial sector is the backbone of economy of a country. It works as a facilitator for achieving sustained economic growth through providing efficient monetary intermediation. A strong financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes easy the trade of goods and services. Financial development in many developing economies like Nepal is still faced by a number of obstacles such as macroeconomic instability, the fragility of stock markets, the limitation of capital markets, and the inefficiency of development and specialized banks. Despite some of these limitations, banking systems in underdeveloped countries remain integral components of the general economic systems and they can be considered as a key element in any development effort *(Zeinab; 2006:58).*

Banking has become an important feature, which renders service to the people in financial matters, and its magnitude of action is extending day by day. It is a major financial institutional system in Nepal, which accounted for more than 70% (Poudel: 2005) of the total assets of all the financial institutions. A competitive banking system promotes the efficiency and therefore important for growth, but market power is necessary for stability in the banking system *(Northcott; 2004:69).*

Commercial bank holds a large share of economic activities of a country. The function of the commercial banks has been enhanced in Nepal to sustain the increasing need of the service sector and the economy in general (Economic Survey, 2008). Stock market has been dominated by the commercial banks since a decade. Not only the stock market, but the commercial banks have also been major contributors to the revenue of the country. They have been paying a large amount of tax every year. Banking sector plays an important role in the economic development of the country.

Commercial banks are one of the vital aspects of this sector, which deals in the process of channeling the available resources in the needed sector. It is the intermediary between the

deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels. Commercial banks play vital role for the economic development of a country. The primary objective of the commercial bank is always to earn profit by investing or granting loan and advances to those who are associated with trade, business and industry.

The commercial banks are currently regarded as key driver of financial institutions of Nepal. Financial services sector had commenced with the establishment of Nepal Bank Limited in 1937 *(Baral; 2005:16).* After the liberalization in the mid 1980s, the government permitted the opening of commercial banks in joint venture with foreign banks. Since then, the Nepalese financial system has undergone rapid structural changes, with a large number of financial institutions expose a and display of financial products and services.

Bank, in fact is only the leading institution in every nation to collect the dispersed capital (small or big) from the nook and corner of the country. The history of Bank in Nepal is not of for away, the establishment of Nepal Bank Limited (NBL) in 1938 A.D. and at that time Nepalese economy was highly characterized by dual currency system and greater instability in exchange rate were observed and these two problems prompted for the establishment of Central Bank in the country. As a result Nepal Rastra Bank (NRB) was established in 1956 A.D. In government sector a commercial bank was established in the year 1966, which was named as Rastria Banijya Bank (RBB). Similarly, with a view of providing financial assistance for agriculture, Agricultural Development Bank of Nepal (ADBN) was established in the government sector in 1986 *(Bhattarai; 2001:63).*

1.1.3 A Brief Introduction of Selected Commercial Banks

Among the population of 33 commercial banks operating in Nepal, two governments owned commercial banks are chosen as sample for the study.

1.1.3.1 Rastriya Banijya Bank (RBB)

Rastriya Banijya Bank (RBB) is fully government owned, and the largest commercial bank in Nepal. RBB was established on January 23, 1966 (2022 Magh 10 BS) under the RBB Act. Now, the bank is running under bank and financial institute act 2063. RBB has been

contributing to socio economic development of the country for the last four and half decades. The Bank has currently entered into 47 years of service. RBB provides various banking services to a wide range of customers they include elite to poor individuals, institutional customers, and the customers from industry and business communities.

RBB has Nepal's most extensive banking network with over 140 branches. Through its widest branch and ABBS network, RBB has been catering modern banking services to millions of customers. RBB has many correspondent arrangements with major international banks all over the world that facilitate trade finance, bank-originated personal funds transfers and interbank funds transfer via SWIFT. In a bid to promote remittance business, RBB works with different money transfer agents like Western Union and International Money Express.

The bank has played crucial role for the development of financial sector i.e. bank, insurance companies through its promoter's role. As a second commercial bank of the country, the bank has been contributing in the trade, industry and agricultural sector of the country. The bank has also contributed in the hydropower sector. Health and Education sector are also benefitted through its disbursement. As a government owned bank the bank is also contributing towards achieving national goals as per the government directives. The bank has made significant contribution in the development of private sector either by loan disbursement or by active participation in the fairs organized by industrial and business communities.

The bank is also in the frontline towards fulfilling corporate social responsibility. The bank has established a fund aimed at helping patient related with kidney ailment and groundwork are underway in course of initiating special campaign in this sector. The bank has been working as a development partner by acting as a fund administrator of Poverty Alleviation Fund (PAF). Similarly, the bank has been working as a chief administrator in the Educational Assistance Project (run with the assistance of World Bank) aimed at assisting poor and diligent students learning at higher secondary and bachelor level (Annual Report; 2011:2).

1.1.3.2 Agriculture Development Bank (ADBL)

Agricultural Development Bank Limited (ADBL) is an autonomous organization largely owned by Government of Nepal. The bank has been working as a premier rural credit institution since the last three decades, contributing a more than 67 percent of institutional

credit supply in the country. Hence, rural finance is the principal operational area of ADBL. Besides, it has also been executing Small Farmer Development Program (SFDP), the major poverty alleviation program launched in the country. Furthermore, the bank has also been involved in commercial banking operations since 1984.

The Agricultural Development Bank Limited (ADBL) was founded as the Agricultural Development Bank of Nepal (ADBN) under the ADBN Act (1967) to contribute to the development of agriculture and the improvement of the living standards of the rural population, and to make capital and loans available to agriculture. ADBN was the third-largest bank in Nepal after the two state-owned commercial banks, NBL and RBB, in terms of assets and deposits and the largest in terms of branch network. With its head office in Kathmandu, ADBL operates 300 units (including the head office, 11 regional offices, 181 development banking branches, 45 commercial banking branches, 57 Small Farmers Development Programs,7 offices, and 5 regional training center branches) in all 75 districts of the country.

The Land Reform Savings Corporation was merged with ADBN in 1973. Subsequent amendments to the Act empowered the bank to extend credit to small farmers under group liability and expand the scope of financing to promote cottage industries. The amendments also permitted the bank to engage in commercial banking activities for the mobilization of domestic resources. The corporate vision of ADBL is to be a mass-based complete bank serving from urban to rural area of Nepal *(Annual Report; 2010:6).*

1.1.4 Role of the Commercial Banks

Banks play a vital role in the economic development of a country.
They accumulate the idle savings of the people and make them available for investment. They also create new demand deposits in the process of granting loans and purchasing investment securities. They facilitate trade both inside and outside the country by accepting and discounting of bills of exchange. Banks also increase the mobility of capital. They provide a variety of facilities for remitting a large amount of money from one place to another by the transfer of a mere slip of paper *(Ramanathan; 2007:137).*

In a country like Nepal which is still in the initial stages of economic development. A well

organized banking system is the need of the day. There is acute shortage of capital in Nepal. The banks can play an important role in promoting capital formation, in controlling speculation in maintaining a balance between requirements and availabilities and in directing physical resources into desired channels *(NRB Economic Bulletin; 2012:15).*

Commercial banks play an important and active role in the economic development of a country, if the banking system in a country is effective, efficient and disciplined; it brings about a rapid growth in the various sectors of the economy *(NRB Banking Supervision; 2010:35).*

1.2 Focus of the Study

A bank always puts in efforts to maximize its profitability. The profit is excess of income over expenses. To maximize profit, income should reasonably excess over expenses. The major source of income of a bank is interest income from loans and investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the poor financial position. Therefore the focus of the study is to understand the financial position of the sample banks by using different financial indicator.

Sound financial position has the following objectives:

- To have strong financial position.
- To contribute to economic development.
- To give guidance to bank officials.
- To establish a standard for control, etc.

1.3 Statement of the Problem

The trend of commercial banking technique is changing rapidly in Nepal. Competition is getting stiffer and, therefore, banks need to enhance their competitiveness and efficiency by improving profitability, service quality, customer responsiveness and public accountability. The banks also need to adopt prudent banking practices with a conscience of self regulation for achieving banking efficiency, reducing overall risks and ensuring the safety of public

deposits. Growing number of banks and financial institutions has created an unhealthy competition. Moreover, the analysis of financial indicators helps to understand the actual financial position of the specific bank.

Therefore, the present study will make a modest attempt to analyze financial position of Rastriya Banijya Bank and Agricultural Development Bank. Thus, in this scenario of Nepalese commercial banking sector, this study mainly seeks the answers of the following specific problems related to financial position of government owned commercial banks in Nepal:

- What is the financial position of government owned commercial banks of Nepal?
- What is the financial strength and weakness of the sample banks?
- What is the deposit mobilization technique and lending mechanism of the sample banks?
- Is there any difference in financial position of RBB and ADBL?
- What is the capital formation of sample banks to survive in risky business like commercial banking business?

1.4 Objectives of the Study

The main objective of the study is to examine and evaluate the financial position of RBB and ADBL. The specific objectives of the study are as follows:

- To evaluate the financial performance and financial position of government owned commercial banks in Nepal.
- To see the financial strength and weakness of RBB & ADBL.
- To understand the deposit mobilization technique and lending mechanism of RBB & ADBL.
- To ensure that the sample banks operate in a prudent way and hold sufficient capital to support the risks that arise in the business.
- To analyze liquidity, asset management and profitability ratio of sample banks and evaluate the various financial ratios.
- To offer suitable suggestions based on findings of the study.

1.5 Significance of the Study

This study mainly fills a research gap on the study of financial position of government owned commercial banks.

- **This study will provide a useful feedback to the policy makers of the government owned commercial banks and also become a useful reference for other commercial banks of Nepal and central bank (NRB) for the formulation of appropriate strategies.**
- **This study evaluates the financial position of government owned commercial banks and finds their loopholes and significantly contributes to make the policy sound.**
- **This study will be significant to the entire stakeholder of banks; like investors, customers, media and general people; regarding the financial strength, position and well-being of the sample banks.**

1.6 Limitation of the Study

This study is about the financial position of government owned commercial banks. This study has the following limitations:

- The study is mainly based on secondary data. Since, most of the data are based on secondary sources, there may be reporting error.
- Only five-year observations covering from FY 2006/07 to 2011/12 are analyzed. Differential coverage of data limits the study.
- Only two banks are taken for the study i.e. Rastriya Banijya Bank and Agricultural Development Bank Ltd; hence the result may not be generalized to whole banking industry.
- There are many factors that affect investment decision and valuation of the banks. However, this study concentrates on only those factors, which are Deposit, Loan and Advances, Investment on Securities, Total Assets, Equity Capital, Net Profit and Earning Price per Share related to investment and qualitative data are ignored.

1.7 Organization of the Study

The whole study has been divided into five chapters as:

Chapter-I: Introduction

The first chapter describes how to develop the preface of research which includes the topics like background of the study, statement of problem, objectives of study, focus of the study and the limitation of the study.

Chapter-II: Review of Literature

The review of literature is held for making solid theoretical background which helps study making much relevant and productive. In this chapter topics covered are conceptual framework, review of related studies i.e. review of research paper, review of articles, review of master degree thesis and justification of the study or research gap.

Chapter –III: Research Methodology

The research methodology is held for explaining research design, population and sample, source of data, data collection techniques and data analysis tools. This chapter laid the foundation for data analysis and presentation. This chapter deals with designing the research, selecting sample form population, data collecting and analyzing tools and presentation of the collected data.

Chapter -IV: Presentation and Analysis of Data

Presentation and analysis of data is held for addressing the problems of the study and major finding are drawn for possible recommendations. In this chapter the topics covered are analysis of secondary data and major finding of the study.

Chapter –V: Summary, Conclusion and Recommendations

In this chapter summary, conclusion and recommendation are presented. This chapter explains the overall summary of the study and concludes the finding of the study. Similarly, this chapter provides recommendations for improvement if needed.

CHAPTER - II
REVIEW OF LITERATURE

This chapter focuses the theoretical aspects of financial position of commercial banks in more detailed and descriptive matter to support the study. For the better review, the researcher has tried to cover the books, journals and articles, research reports and so many other relevant materials.

Even at the twenty first century, our educational information has lack of efficiency. So, most of the review are made from different foreign journals and books. Moreover, the modern means of education such as websites are also used for this purpose. In addition, independent studies carried out by the well known Nepalese financial experts are also taken into consideration.

2.1 Conceptual Review

Banks are competing in a highly competitive environment to offer quality oriented services according to customers' expectations. Nepalese banks face stiff competition from their peers and conventional banks prevailing in the economy. Different aspects of banks are studied by researchers e.g. operation, assets management, profitability, financing products, bank efficiency and financial performance etc. as the key segments for research. Many studies tried to assess the quality of services/products offered by the banks. Customers became a center for all banking activities due to increased competition for greater market share. Banks also focus on demographic characteristics of customers to assess their needs. Every bank is trying to enhance its performance by improving its service quality according to customers' expectations. It requires a study to analyze the bank services and its outcomes in the shape of financial performance.

Different ratios including return on assets (ROA), return on equity (ROE), capital adequacy ratio (CAR), nonperforming loan ratio (NPL), interest expense to total loans, net interest margin (NIM), credit to deposit ratio (CDR), were evaluated to analyze the financial data of selected Nepalese commercial banks for the period 2007 to 2011. These ratios would help to

indicate the condition of capital, assets quality, management, and earning and liquidity position of sample banks.

Financial ratio analysis is also used to quantitatively examine the differences in performance among government owned commercial banks in Nepal, and these banks are ranked based on their financial measures and performance which will be a guideline for the future trend of financial position of these banks. Therefore, the aim of this study is to measure the best performance among the government owned commercial banks and to find out the relationship between bank specific factors (ratios) on the banks' performance.

In this study, many well-known scholars' books are taken into consideration while analyzing the performance of commercial banks. Since the study is focused on financial position of government owned commercial banks in Nepal; the researcher has tried to cover all the aspects related to the financial position and financial performance analysis of commercial banks. The researcher, therefore, has dealt with accordingly which is as follows:

2.1.1 Concept of Bank

Bank plays a significant role in the development of country. It facilitates the growth of trade and industry of the national economy. However, bank is a resource for economic development, which maintains the self- confidence of various segments of society and extends credit to people *(Hornsby; 2002:14).*

A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank is the connection between customers that have capital deficits and customers with capital surpluses. Due to their influence within a financial system and an economy, banks are generally highly regulated in most countries. Most banks operate under a system known as fractional reserve banking where they hold only a small reserve of the funds deposited and lend out the rest for profit. They are generally subject to minimum capital requirements which are based on an international set of capital standards, known as the Basel Accords.

Banks borrow money by accepting funds deposited on current accounts, by accepting term deposits, and by issuing debt securities such as banknotes and bonds. Banks lend money by

making advances to customers on current accounts, by making installment loans, and by investing in marketable debt securities and other forms of money lending. Banks act as payment agents by conducting checking or current accounts for customers, paying cheques drawn by customers on the bank, and collecting cheques deposited to customers' current accounts. Banking business means the business of receiving money on current or deposit account, paying and collecting cheques drawn by or paid in by customers, the making of advances to customers, and includes such other business as the authority may prescribe for the purposes of this act *(Banking Act Singapore; 2005: Section 2).*

2.1.2 Concept of Commercial Bank

Commercial banks are those financial institutions which deal in accepting deposits and lending the deposit to the needful sector. They address the working capital needs of trade and finance, industry and agriculture sector. Moreover, commercial banks also provide technical and administrative assistance to industries, trades and business enterprises *(Elyor; 2009:12).*

The American Institute of banking has laid down the four major function of the commercial bank such as receiving and handing deposits, handling payments for its clients, making loans and investments and creating profit by extension of credit. A commercial bank is one, which accepts deposit, grants loan and performs commercial banking functions *(Avikiran; 1995:55).*

Commercial banks are those banks which provide short term and long term loan, accept deposit from the public and provide loans to the different sectors like trade and finance, industries, agriculture sector and so on. They purchase and discount the bills of exchange, promissory notes and exchange foreign currency. In general, the main objective of commercial bank is earning profit by doing banking *(Commercial Bank Act; 1974:1).*

Commercial bank is a corporation, which accepts demand deposits subject to Cheques and makes short-term loans to business enterprises, regardless of the scope of its other services *(American Institute of Banking; 1972:345).*

Principally, commercial banks accept deposits and provide loans, primary to business firms. Commercial banks pool together the savings of the community under different account that seems they help in capital formation *(Zhu; 2004:425).*

2.1.3 Function of Commercial Banks

Function of commercial banks has been categorized in two section; primary function of commercial banks and secondary function of commercial banks.

2.1.3.1 Primary Function of Commercial Banks

Commercial Banks performs various primary functions some of them are given below

Accepting Deposits

Commercial bank accepts various types of deposits from public especially from its clients. It includes saving account deposits, recurring account deposits, fixed deposits, etc. These deposits are payable after a certain time period.

Making Advances

The commercial banks provide loans and advances of various forms. It includes an overdraft facility, cash credit, bill discounting, etc. They also give demand and demand and term loans to all types of clients against proper security.

Credit Creation

It is most significant function of the commercial banks. While sanctioning a loan to a customer, a bank does not provide cash to the borrower Instead it opens a deposit account from where the borrower can withdraw. In other words while sanctioning a loan a bank automatically creates deposits. This is known as a credit creation from commercial bank.

2.1.3.2 Secondary Function of Commercial Banks

Along with the primary functions each commercial bank has to perform several secondary functions too. It includes many agency functions or general utility functions. The secondary functions of commercial banks can be divided into agency functions and utility functions.

Agency Functions

Various agency functions of commercial banks are

- To collect and clear cheque, dividends and interest warrant.
- To make payment of rent, insurance premium, etc.
- To deal in foreign exchange transactions.
- To purchase and sell securities.

- To act as trusty, attorney, correspondent and executor.
- To accept tax proceeds and tax returns.

General Utility Functions

The general utility functions of the commercial banks include

- To provide safety locker facility to customers.
- To provide money transfer facility.
- To issue traveller's cheque.
- To act as referees.
- To accept various bills for payment e.g phone bills, gas bills, water bills, etc.
- To provide merchant banking facility.
- To provide various cards such as credit cards, debit cards, Smart cards, etc. *(Rossouw; 2009:132).*

2.1.4 Financial Performance Analysis

The financial performance analysis refers to the computation of analytical ratios from financial statements and interpretation of these ratios to determine their trends as a basis for management decisions. The financial performance analysis is a financial management tool that enables managers of financial institutions to assess their progress in achieving sustainability *(Tarawneh; 2006:103).*

They can help answer two primary questions that every institution involved in banking needs to ask:

- Is this institution either achieving or progressing towards profitability?
- How efficient is it in achieving its given objectives?

The financial performance analysis can be done through the computation of various analytical ratios. Ratios must be analyzed together, and ratios tell the financial performance of any given institution more when consistently tracked over a period of time. Frequent measurement can help identify problems which need to be solved before they fundamentally threaten the banks, thus enabling correction. Trend analysis also helps moderate the influence of seasonality or exceptional factors. Ratios will allow examining financial relationships to diagnose the well-being of the banking institution *(Gopinathan; 2009:25).*

2.1.5 Objective of Financial Performance Analysis

The main objective of financial performance analysis is to classify any bank on the basis of financial characteristics; which will be a guide for future development and assess the financial performance. Among the various objective of financial performance analysis, the following are the main objectives:

- **How to increase profitability?**

The financial performance analysis helps to evaluate the present condition of banks in the context of profit earning and accelerate to increase the profitability by setting a standard or target. Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firms should be higher.

- **How to manage liquidity?**

Liquidity refers to a bank's ability to meet its short-term obligations. The financial performance analysis helps to determine the equilibrium liquidity position of a bank.

- **How to increase efficiency especially reducing the operational cost?**

The financial performance analysis helps to evaluate the performance efficiency of a bank from various angles of its operations. The financial performance analysis enable to calculate activity of performing ratios like loan loss provision to total loan and advances ratio and non-performing loan to total loan and advances ratio which ultimately help to determine efficiency of a bank. Therefore, to increase efficiency and to reduce operational cost of a bank, financial performance analysis is most needed.

- **How to take trend analysis and to compare actual performance against planned performance?**

Trend analysis refers to estimating the future trend value of different variables. The objective of financial performance analysis is to find the current performance or actual performance of a bank and compare it with the standard or planned performance. It helps to find the deviation between actual performance and planned performance and suggests corrective action *(Ahmed; 2009:16).*

2.1.6 Significance of Financial Performance Analysis

There has been a tremendous growth in the number of banks and financial institutions in Nepal for last two decades. Financial sector has made a hall mark progress in terms of number. With the growing number of financial institutions, there are many risks they are subject to face. The financial performance analysis helps to decrease risks associated with financial sectors and build mechanism to monitor those risks by calculating different financial indicators *(Sangmi and Nazir; 2010:40).*

The financial performance analysis comprises profitability performance analysis, liquidity performance analysis and credit performance analysis; these analyses give clear picture of any bank regarding its financial position. The financial performance analysis helps to identify the components and critical factors of the financial indicators and generalized them for moving toward financial sustainability. It helps to analyze financial statements to monitor profitability, efficiency and portfolio quality of any bank *(Raza, Frahan and Akram; 2011:72).*

Therefore, the financial performance analysis of any bank is vital due to different aspects. It may help bank decision makers to focus on the major banking activities that may increase financial performing positions comparing with other banks. It helps the management of commercial banks in creating appropriate financial strategies for attaining the required planned financial performance *(Rose and Hudgins; 2006:11).*

2.1.7 Limitation of Financial Performance Analysis

Ratio Analysis is a useful technique to evaluate the performance and financial position of any business unit but it does suffer from a number of limitations. These must be kept in mind while analyzing financial performance of a bank.

- **Historical Analysis**

The financial performance analysis is historical in nature and the financial statement on the basis of which ratios are calculated are historical in nature.

- **Price Level Change**

Changes in price level often make comparison of figures of the previous years difficult; as an example, ratio of interest spread in 2012 would be much higher than in 2006 due to rising prices, interest spread being expressed on cost.

- **Not Free from bias**

In many situations, the accountant has to make a choice out of the various alternatives available, for example choice of the method depreciation, choice in the method of inventory valuation etc. Since there is subjectivity inherent in the choice, ratio analysis cannot be said to be free from bias.

- **Window dressing**

Window dressing is slowly the position better than what it is. Some banks, in order to cover up their bad financial position resort to window dressing. By hiding important facts, they try to depict a better financial position.

- **Qualitative factors ignored**

Financial performance analysis is a quantitative analysis. It ignores qualitative factors like debtors character, honesty, past record etc.

- **Different accounting practices render ratios incomparable**

The result of two firms are comparable with the help of accounting ratios only if they follow the same accounting methods, as an example if one bank changes depreciation on straight line method while another is charging on diminishing balance method, accounting ratios will not be strictly comparable.

- **Influence of judgmental factor**

Even with a comprehensive financial performance analysis, it is difficult to tell whether the bank is, on balance, strong or weak position. The most important and difficult input to a successful financial performance analysis is the judgment used while interpreting the results to reach an overall conclusion about the bank's financial position ***(Northcott; 2004:4).***

2.1.8 Merits of Financial Performance Analysis

The financial performance is analyzed because of number of merits, which are offered by it. Such merits are also termed as its feature.

- **To Help the Management in Making Future Financial Policies**

Financial performance analysis is very helpful to the management. The management can make its future financial policies and is in a position to know about the financial strength and weakness of a bank. Accordingly, management can think of investing funds, if needed, in either short term or long term investments.

- **Short-Term Planning**

The financial performance analysis gives information regarding sources and application of cash and cash equivalents for a specific period so that it becomes easier to plan investments, operating and financing needs of a bank.

- **The Financial Performance Analysis helps to understand Liquidity and Solvency**

Solvency is the ability of the business to meet its current liabilities. Quarterly or monthly financial performance analysis help ascertain liquidity in a better way. Financial institutions, like banks prefer the cash flow statement to analyze liquidity.

- **Efficient Cash Management**

The financial performance analysis provides information relating to surplus or deficit of cash. A bank, therefore, can decide about the short-term investments of the surplus and can arrange the short-term credit in case of deficit.

- **Comparative Study**

A comparison of the financial performance for the current year with the budgeted figures of the same year will indicate as to what extent the profit of the bank has generated and applied according to the plan. It is, therefore, useful for the management to prepare strategies to attain the desire goal of the bank.

- **Test for the Management Decisions**

It is a general rule that fixed assets are purchased from the funds raised from long-term sources, and the best way to repay the long-term debt is out of profits. The financial performance analysis shows clearly whether the cash inflows from operations have been used for the purchase of fixed assets or whether these assets have been purchased from cash inflows from long-term debts. Similarly, it also explains whether the debentures have been redeemed out of profits or not. Thus, the financial performance analysis can be used to test the credibility of the management decisions *(Baral; 2009:41)*.

2.1.9 Users of Financial Performance Analysis

There are various groups of people who are interested in analysis of financial position of a bank. They use the ratio analysis to work out a particular financial characteristic of the bank in which they are interested.

- **Investors and Potential Investors**

The present investors want to decide whether they should hold the securities of the bank or sell them. Potential investors, on the other hand, want to know whether they should invest in the shares of the bank or not. Investors (Shareholders or owners) and potential investors, thus, make use of the financial performance analysis to judge the present and future earning capacity of the bank, to judge the operational efficiency of the bank and to know the safety of investment and growth prospects.

- **Lenders/Long term Creditors**

Financial performance analysis helps lenders such as debenture holders, suppliers of loans and leases in ascertaining the long term and short term solvency of the bank. They like to know the financial soundness of the bank i.e. the ability of the bank to repay depositor on demand and whether the bank earns sufficient profits so as to pay interest regularly.

- **Management**

Analysis of financial position enables the management to evaluate the overall efficiency of the bank. It helps to ascertain the solvency of the bank; to know about its viability as

a going concern and to provide adequate information for planning and controlling the affairs of the business. Future forecasts can easily be made by analyzing the past data.

- **Suppliers/Short term Creditors**

Creditors/suppliers supplying goods to a bank are interested to know as to whether the bank would be in a position to pay the amounts on time. They are interested in short-term solvency i.e. the liquidity of the bank. They are more interested in current assets and current liabilities of the business. If current assets are sufficient, say, twice the current liabilities, they are satisfied that the bank would be able to discharge the short-term debts on time.

- **Employees and Trade Unions**

Employees are interested in better emoluments, bonus and continuance of bank and whether the dues like provident fund, ESI etc., have been deposited with the authorities. They would therefore, like to know its financial performance and profitability and operating sustainability.

- **Government and its agencies**

Financial statements are used by government and its agencies to formulate policies to regulate the activities of bank, to formulate taxation policies, to compile national income accounts.

- **Stock Exchange**

Stock exchange uses the financial statements to analyze and thereafter, inform its members about the performance, financial health, etc. of the bank, to see whether financial statements prepared are in conformity with the specified laws and rules and to see whether they safeguard the interest of various concerned agencies.

- **Customers**

Customers are interested to ascertain continuance of a bank. For example, a bank may be in a financial crisis and in case it appears that the bank may not continue for a long time, the customer has to find an alternate source *(Bhattarai; 2011:51).*

2.1.10 Types of Financial Performance Analysis

The financial performance analysis is the end product of the financial process which summaries the financial position of a bank in an organized manner. Financial performance analysis provides a summarized view of the operation of the bank. The financial performance analysis can be categorized as follow:

- **Liquidity Analysis**

The liquidity analysis quantifies the ability of the banks to meet debts as they fall due. This ability depends not only on the extent of conversion of assets without loss but also on the bank's ability to raise loans in the market to meet debts, that is the broader aspects of asset and liability management. Maintaining adequate liquidity is a key constraint on the bank's profit making capacity. Liquidity ratios provide the primary means of judging a bank's liquidity position. It helps to understand for holding adequate cash or liquidity assets, securing an appropriately matching future stream of cash flows from maturing assets and maintaining a diversified base in terms of maturities.

- **Earnings Performance Analysis**

Earning performance analysis determines if the bank's operation is generating adequate returns on the assets and equity. Banks, like other business entities, need to make profit; to provide appropriate return to shareholders, to give confidence to the depositors that the business in sound and competently managed, and to maintain and expand the bank's capital base in order to satisfy prudential criteria and facilitate to business growth in real terms. Earning performance analysis consist return of assets, return on equity, interest spread, interest margin and other operating income to total assets.

Quality of Lending Analysis

Quality of lending analysis focuses on the most critical part of the bank's financial analysis and requires uniform supplementary data usually not provided in the published accounts. The main points to be reviewed are access to formal credit, risk concentration, portfolio classification, interest accrual and provision for loan losses. It helps to understand the lending portfolio of a bank, lending mechanism and all the aspects of lending in a microscopic way. It consist portfolio classification and provision for loan losses and single borrower exposure.

- **Capital Adequacy Analysis**

Capital adequacy analysis determines the quality of assets and the adequacy of provisions since any overvaluation of assets or shortfalls in loan loss provisions will overstate capital. It expresses capital as a percentage of total risk-weighted assets and shows the margin of protection available to both depositors and creditors against unanticipated losses that may be experienced by the bank.

- **Trend Analysis**

Trend analysis determines the trend of time series; it helps to estimate future trend value of different variable and help to make strategic planning to attain the desire goal of the bank. It helps to estimate the future trend of deposit, loan & advances, investment and net profit of the bank *(Gopinathan; 2009:27).*

2.1.11 Technique of Financial Performance Analysis

The following are the techniques of financial performance analysis which are performed to find the financial position of a bank:

- **Ratio Analysis**

Ratio Analysis is the relationship between two terms of financial data expressed in the form of ratios and then interpreted with a view to evaluating the financial condition and performance of a bank. Ratio Analysis can also help us to check whether a bank is doing better this year than it was last year; and it can tell us if our bank is doing better or worse than similar type of bank. Ratio analysis is not just comparing different numbers from the balance

sheet, income statement and cash flow statement. It is comparing the number against previous years, other companies, the industry, or even the economy in general.

Ratios look at the relationships between individual values and relate them to how a bank has performed in the past and might perform in the future. Different types of ratios are computed depending on the purpose for which they are needed. Broadly speaking, they are grouped under four heads; Liquidity ratios, solvency ratios, turnover or activity ratios and profitability ratios.

) Balance Sheet Analysis

Balance Sheet is a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders. The balance sheet shows assets equal to liabilities plus shareholders' equity.

A balance sheet thus, provides detailed information about a bank's assets, liabilities and shareholders' equity. Assets are things that a bank owns that have value. This typically means they can either be sold or used by the bank to provide services that can be sold. Assets include physical property, such as plants, trucks, equipment and inventory. It also includes things that can't be touched but nevertheless exist and have value, such as trademarks and patents. And cash itself is an asset.

Liabilities are amounts of money that a bank owes to others. This can include all kinds of obligations, like money borrowed from general people (deposit), money owed to suppliers, payroll a company owes to its employees, taxes owed to the government. Liabilities also include obligations to provide goods or services to customers in the future. Shareholders' equity is sometimes called capital or net worth. It's the money that would be left if a bank sold all of its assets and paid off all of its liabilities. This leftover money belongs to the shareholders, or the owners of the bank.

⁾ Cash Flow Analysis

Cash flow is made up of two words i.e. cash and flow, whereas Cash means cash balance in hand including cash at bank balance, and flow means changes in the cash movements of the business. Cash Flow Statement deals with only such items, which are connected with cash i.e., items relating to inflow and outflow of cash. In other words, it is prepared to study the changes in cash, or to show impact of various transactions on the cash.

In short, it is a statement, which is prepared to show the flow of cash in the bank during a particular period. It thus, tells about the changes in cash position of a business. The changes may be related either with the cash receipts or cash payments or disbursements of cash. Thus, cash flow analysis is a summary of cash receipts and payments whereby reconciling the opening cash balance with the closing cash including bank balances. It also explains the reasons for the changes in the cash position of the bank on account of the decrease in the cash position is termed as outflow of cash and increase is termed in flow. Cash flow statement also tells about various sources in cash such as cash from operations, sale of current and fixed Assets, issue of shares/debentures, also termed as inflow of cash whereas loss from operations, purchase of current and fixed assets, redemption of preference shares/debentures and other long term loans etc are also termed as outflow of cash.

⁾ Income Statement Analysis

An income statement reports the bank's financial performance over a specified period of time. It summarizes all revenue earned and expenses incurred during a specified accounting period. A bank prepares an income statement so that it can determine its net profit or loss (the difference between revenue and expenses).

Income statement consist revenue and expenses. Revenue refers to money earned by an organization for goods sold and services rendered during an accounting period, including interest earned on loan to clients, fees earned on loan to clients, interest earned on deposits with other banks. Expenses Represent costs incurred for goods and services used in the process of earning revenue. Direct expenses for a bank include financial costs, administrative expenses, loan loss provisions and interest expenses on various deposits.

- **Portfolio Analysis**

A portfolio analysis provides information about the lending and savings operations of a bank. It provides timely and accurate data about the quality of the portfolio. It usually also includes other key portfolio performance indicators like number and value of loans outstanding end of period, average outstanding balance of loans, value of payments in arrears, value of outstanding loan balances in arrears, portfolio aging analysis and information on loan terms. Portfolio quality ratios can be calculated from portfolio information. This information together with the aging analysis can give a picture of the health of the portfolio and can also give valuable insight into a bank's sustainability *(Gopinathan; 2009:17).*

2.2 Review of Related Studies

The review of related studies has been divided to two:

2.2.1 Review of Articles

Few international and domestic journals have been taken consideration while reviewing the articles. In the present global scenario, Nepalese business analysts are also researching the facts related to financial analysis of commercial banks in Nepal.

Avkiran (2005), in his article "*Financial performance analysis of financial institution*" , concluded that the financial performance of banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies. The financial statements of corporations in America that published commonly contain a variety of financial ratios designed to give an indication of the corporation's performance.

Samad (2006), in his article "*Evaluating the financial performance of financial institution in Bahrain*." investigated the performance of seven locally incorporated commercial banks during the period 2001-2006. Financial ratios were used to evaluate the credit quality, profitability, and liquidity performances. The performance of the seven commercial banks was compared with the banking industry in Bahrain which was considered a benchmark. The results revealed that commercial banks in Bahrain were relatively less profitable, less liquid and were exposed to higher credit risk than the banking industry, in which wholesale banks are the main component. The findings also indicated that bank performance was strongly and positively influenced by operational efficiency, asset management and bank size. The study

suggested that bank regulators should screen bank by evaluating banks' liquidity, solvency and overall performance to enable them to intervene when there is need and to gauge the potential for problems.

Spathis and Doumpos (2007), in their article "*Classification of banks according to return and operational factors*" simply stated that the increasing competition in the national and international banking markets, the change over towards monetary unions and the new technological innovations herald major changes in banking environment, and challenge all banks to make timely preparations in order to enter into new competitive financial environment. They used in their study a multi criteria methodology to classify Greek banks according to the return and operation factors, and to show the differences of the bank's profitability and efficiency between small and large banks.

Chien Ho and Song Zhu (2008), in their article "*Performance evaluation of banks in the focus of operational efficiency and operational effectiveness*" showed in their study that most previous studies concerning bank performance evaluation focus merely on operational efficiency and operational effectiveness which might directly influence the survival of a bank. By using an innovative two-stage data envelopment analysis model in their study, the empirical result of this study is that a company with better efficiency does not always mean that it has better effectiveness. The main contribution of the study was to make financial comparison based on return on assets, return on equity, return on deposits, and other financial banking activities as credits and deposits to determine the performance and classifications of commercial banks on the basis of operational efficiency and operational effectiveness.

Ducan and Elliott (2009), in their article "*Efficiency, customer service and financing performance among Australian financial institutions*" showed that all financial performance measures as interest margin, return on assets, and capital adequacy are positively correlated with customer service quality scores. Generally, the concept of efficiency can be regarded as the relationship between outputs of a system and the corresponding inputs used in their production. Within the financial efficiency literature, efficiency is treated as a relative measure which reflects the deviations from maximum attainable output for a given level of input.

Islam (2010), in his article "*Development and performance of domestic and foreign banks in Arab gulf countries*", stated that most developing countries have been taking different plans and strategies to their financial sectors. The financial sectors in Arab countries have started recently as a part of their overall economic plans and growth. However, there is an increasing attempt to develop money capital markets in Arab world. Commercial banks are the most dominant financial institutions in any country. Therefore, local financial institutions and foreign ones have greater opportunity in economic development in the Arab countries. The article discussed the development and performance of domestic and foreign banks in Arab gulf countries, and showed that local and foreign banks in these countries have performed well over the past several years. Moreover, he added that banks in these economies are well capitalized and the banking sector is well developed with intense competition among the banks.

Berger & Humphrey (2011), in their article "*Evaluating the performance of financial institution*", concluded that evaluating the performance of financial institution can inform government policy by assessing the effects of deregulation, mergers and market structure on efficiency. Bank regulators screen banks by evaluating bank's liquidity, solvency and overall performance to enable them to intervene when there is need and to gauge the potential for problems. On a micro-level, bank performance measurement can also help improve managerial performance by identifying best and worst practices associated with high and low measured efficiency.

2.2.2 Review of Thesis

Some studies related to the topic of financial position analysis of commercial banks had been conducted in partial fulfillment of requirement for the degree of Master of Business Studies in Tribhuvan University; in this regard five different theses have been reviewed.

Pandey (2007) conducted a study on "*Financial Position Analysis of Everest Bank Ltd and Nepal SBI Bank Ltd*." Her study was based on the following objectives:

- To understand and identify the financial position of EBL and NSBL.
- To calculate the financial indicator of the sample banks.

- To analyze the volatility of different financial ratios of commercial banks and other variables that should be considered while deciding financial strength and weakness of sample banks.
- To suggest some practical ideas and materialize recommendations based on analysis of data.

On those focuses she has found the following findings:

- The financial performance of both banks are satisfactory but some indicator like NPA, Tier-I and Tier-II ratios should be within the ceiling of NRB.
- The CD ratio of EBL is higher than NSBL which means EBL is lending more fund rather than NSBL. Therefore NSBL should increase lending portfolio and should explore secure and safe sector for the investment purpose.
- The liquidity position of NSBL is stronger than EBL. It means NSBL is investing most of its fund in investment i.e. treasury bills, development bond and other secure securities whereas EBL is investing most of its fund in loan and advances.
- The profitability ratio of EBL is higher than NSBL whereas the liquidity ratio of NSBL is higher in comparison to EBL.
- Hence, the financial position of EBL and NSBL are strong enough to survive in the market but both banks should increase priority sector investment for overall development of economy.

Upadhaya (2008) conducted a study on "*Financial Performance of Finance Companies in Nepal with special reference to Goodwilll Finance Company Ltd and United Finance Company Ltd.*" His study was based on the following objectives:

- To evaluate the financial performance of finance companies in Nepal with reference to GFCL and UFCL.
- To assess the investment portfolio, deposit, total assets and loan & advances portfolio of finance companies in Nepal.
- To calculate the different liquidity ratio, assets management ratio and a profitability ratio to understand the financial position of the finance companies in Nepal.
- To identify the correlation between returns of finance companies.

- To make relevant suggestions and practical ideas and materialize recommendations based on analysis of data.

In his findings and conclusion, he had drawn the followings:

- The returns of both finance companies are comparatively low in the overall industry whereas price earning ration of GFCL is higher than UFCL.
- Total deposit and total assets of both companies are in increasing trend.
- Financial ratios of both companies are satisfactory, NPA level of GFCL is more volatile than UFCL.
- Diversification of fund by making a portfolio can reduce systematic risk of the finance companies significantly. Moreover Nepalese finance companies pay less attention while making investment portfolio.
- As overall economy, Nepalese finance market is in emerging state. Its development is accelerating since the political change in 1990 in effect of openness and liberalization in national economy. But due to the lack of information and poor knowledge, Nepalese finance companies cannot analyze the market properly.

Neupane (2009) conducted a study on "*Ratio Analysis of Commercial Banks of Nepal with special reference to Standard Chartered Bank Nepal Ltd and Nepal Investment Bank Ltd.*" His study was based on the following objectives:

- To analyze the different ratios of sample banks and generalized the result.
- To classify the sample banks as per the financial strength of the banks.
- To evaluate the financial performance of the sample bank in terms of asset management, liquidity position and bank size.
- To find out the relationship between profitability and assets structure of sample banks.
- To recommend for the improvements in the financial position of sample banks.

On those objectives he has found the following findings:

- The deposit portfolio of SCBN is higher than NIBL whereas lending portfolio of NIBL is higher than SCBN. Instead of higher lending portfolio of NIBL, the profit of SCBN is still higher than NIBL due to fee base transactions.

- There is less knowledge of financial institutions while making portfolio. It has found that the financial institution think portfolio means to invest in different companies of the same industry rather than investing in different industries.
- NPA, Tier-I capital and Tier-II capital of both banks are satisfactory. Whereas financial indicator of SCBN is more strong than NIBL.
- SCBN is making most of its effort to attract low interest deposit like saving account deposit and current account deposit. In contrary, NBIL is making effort to attract bulk deposits which generally offer higher interest rate.

Bhattarai (2010) conducted a study on "*Financial Ratio Analysis of Agriculture Development Bank Ltd. and Nepal Bank Ltd*.". His study was based on the following objectives:

- To evaluate various financial ratio of the listed sample banks.
- To provide reliable financial information.
- To determine how well the bank is performing in order to evaluate where the bank can improve.
- To generalized the finding of liquidity ratios, leverage ratios, operational ratios, profitability ratios and solvency ratios.
- To offer suitable suggestions based on findings of this study.

On those objectives he has found the following findings:

- Non-Performing Loan of both sample banks are in decreasing trend but still high volume of assets in the form of NPA.
- The fee based incomes of both sample banks are low in comparison to other commercial banks of Nepal. Although cost of fund of NBL is lower than ADB.
- Lending portfolio of ADB is higher than NBL. Similarly, interest spread margin of ADB is higher than NBL.
- The profitability ratio of NBL is higher than ADB whereas growth ratio of ADB is higher than NBL.
- There is positive correlation between loan & advances and total deposit of ADB and NBL.

Bhatta (2011) conducted a study on "*Ratio Analysis of Joint Venture Banks of Nepal with special reference to NABIL Bank and Standard Chartered Bank Nepal Ltd.*". His study was based on the following objectives:

- To provide information about the financial strength, performance and changes in financial position of a bank that is useful to a wide range of users in making economic decisions.
- To determine financial performance and financial condition of a bank.
- To conduct a quantitative analysis of information in a bank's financial statements.
- To locate the financial weak spot of a bank, useful in inter-bank and intra-bank comparison of financial condition.
- To make relevant suggestions and practical ideas and materialize recommendations based on analysis of data.

On those objectives he has found the following findings:

- The financial positions of both banks are strong and satisfactory.
- Liquidity positions of both banks are strong although liquidity position of SCBN is higher than NABIL.
- Non-Performing Loan or Non-Performing Assets of sample banks are in decreasing trend.
- Profitability of index of NABIL Bank is higher than SCBN.

Sharma (2012) conducted a study on "*Evaluation of Financial Strength of Commercial Banks of Nepal with special reference to Nepal Investment Bank Limited and Bank of Kathmandu Limited.*". His study was based on the following objectives:

- To evaluate the financial strength of sample banks.
- To understand financial strength and financial condition of sample banks.
- To calculate the financial indicators.
- To make relevant suggestions and practical ideas and materialize recommendations based on analysis of data.

On those objectives he has found the following findings:

- The financial condition of Nepal Investment Bank is stronger than Bank of Kathmandu.

- Deposit trend and total investment trend of both sample banks are in increasing trend whereas loan and advances of NIBL is higher than BOK.
- Non-Performing Loan or Non-Performing Assets of sample banks are in decreasing trend.
- Net-Profit of NIBL is higher than BOK throughout the years.

2.3 Research Gap

The review of above relevant literature has explored the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. Ratio analysis should only be used as a first step in financial analysis. As it is a tool that is based in accounting information, it can be limited by any distortions that arise in financial statements due to historical cost accounting and inflation. It has found during the review of literature that all the existing thesis and research works had given emphasis on ratio analysis only which can be misleading and insufficient. Therefore, in this study, preference is given to financial ratios as well as statistical tools; statistical tools are more accurate than financial ratios.

In this study; a comparative study on financial analysis of government owned commercial banks with special reference to ADBL & RBB, is measured and generalized by using various financial tools and statistical tools. Financial tools like various liquidity ratios, activity ratios, profitability ratios, risk ratios and other ratios are calculated and statistical tools like mean, standard deviation and correlation coefficient are analyzed.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

In the broadest sense of the word, the definition of research includes any gathering of data, information and facts for the advancement of knowledge. The goal of the research process is to produce new knowledge or deepen understanding of a topic or issue. Research is a process of steps used to collect and analyze information to increase our understanding of a topic or issue. It consists of three steps: Pose a question, collect data to answer the question, and present an answer to the question.

The main objective of the study is the financial analysis of Rastriya Banijya Bank and Agricultural Development Bank Limited. In order to reach and accomplish the objectives of the study, different activities have been carried out. For this purpose, this chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter, which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

3.2 Research Design

A research design is an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data-collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically research design describes the general plan for collecting, analyzing and evaluating data after identifying.

The research design selected in this study is descriptive and analytical. The descriptive and analytical research design is selected as per the objective of study being “A Comparative Study of Financial Position of Government owned Commercial Banks with special reference to RBBL & ADBL". Some financial and statistical tools will be applied to examine facts and descriptive techniques have been adopted to evaluate financial position of government owned commercial banks in Nepal.

3.3 Population and Sample

The population refers to the industries of the same nature and its services and product in general. Thus, the total Commercial Banks constitutes the population of the data and the banks under study constitute the sample for the study. So, from the population of 33 Commercial Banks operating in Nepal, Rastriya Banijya Bank Limited and Agriculture Development Bank Limited have been selected as the sample for the study.

3.4 Sources of Data

Data are collected from two sources, primary sources and Secondary sources. The study is based primarily on the secondary sources of the information. The secondary sources of data are those that have been used from published sources or used by someone previously. The annual reports of the concerned Bank are the major sources of data for the study. However, besides the annual reports of the sample bank, the following sources of data have also been used in the course of the study:

- NRB reports and bulletins
- Various publications dealing in the subject matter of the study
- Various articles published in the News Papers
- Periodic reports submitted by the Bank's Head Office to NRB
- The NEPSE reports, etc.

Formal and informal talks with the concerned authorities of the banks were also helpful to obtain the additional information of the related problem as primary sources of data.

3.5 Data Collection Procedure

This study is mainly based on secondary data obtained from various sources mentioned above. The annual reports of RBB and ADB for the period of five years from fiscal year 2006/07 to 2011/12 A.D was obtained from Head office of concerned banks. NRB publications such as Quarterly Economic Bulletins, Banking and Financial Statistics, Economic report, etc. have been collected by the personal visit of concerned departments of Nepal Rastra Bank at Baluwatar. The unpublished data of sector wise loans and advances has been collected from reporting department of concern Banks. The data on some aspect of the banks have also been obtained from the publications and websites of Nepal Stock Exchange.

Some supplementary data and information and literature review have been made from the Shanker Dev Campus, Central Library T.U., NRB Library, different Journals, magazines and other published and unpublished reports documented by the concerned authorities.

3.6 Tools of Analysis

Presentation and Analysis of the collected data is the core of the research work. The collected raw data are first presented in systematic manner in tabular forms and are then analyzed by applying different financial and statistical tools to achieve the research objectives. Besides these, some graph charts and tables have been presented to analyze and interpret the findings of the study. The tools are:

3.6.1 Financial Tools

Financial tools basically help to analyze the financial strength and weakness of a bank. Ratio analysis is one of the important financial tools that will be used in the study. A ratio is simply one number expressed in term of another and such it expresses the quantitative relationship between any two numbers. Ratio can be expressed in terms of percentage, proportion and as coefficient. Logarithmic graph and break-even chart are the graphic forms of expressing a ratio. Financial ratio is the mathematical relationship between two accounting figures. Even though there are many ratios to analyze and interpret the financial statement, only those ratios that are related to the financial indication of the bank are have been covered in this study. Different types of ratios have been used in this study.

3.6.1.1 Liquidity Ratios

This ratio measures the liquidity position of a bank. It measures the bank's ability to meet its short-term obligations or its current liabilities. It measures the speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. As a financial analytical tool, following four liquidity ratios has been used to come into the facts and findings of the study.

Current Ratio

This ratio shows the banks short-term solvency. It shows the relationship between current assets and current liabilities. The ratio can be computed by dividing the total current assets by total current liabilities which can be presented as:

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

The widely accepted standard of current ratio is 2:1 but accurate standard depends on the circumstances of the business and the nature of business. Higher ratio indicates the strong short-term solvency position and vice versa.

Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as:

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Total cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit includes current deposits, saving deposits, fixed deposits, call deposits and other deposits.

Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets viz. cash and bank balance among the total current assets of the bank. Higher ratio shows the bank's ability to meet its demand for cash. The ratio is computed by dividing cash and bank balance by current assets.

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

Investment on Government Securities to Current Assets Ratio

This ratio is calculated to find out the percentage of current assets invested on government securities that is treasury bills and development bonds. The ratio is computed as under;

$$\text{Investment on Government Securities to Current Assets Ratio} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

3.6.1.2 Assets Management Ratio

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

Loan and Advances to Total Deposit Ratio

This ratio is also called credit- deposit ratio (C D ratio). It is calculated to find out how successfully the bank is able to utilize its total deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit as under;

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit creation to earn income. This implies the utilization of firm's deposit on investment on government securities, shares &debentures of other companies and banks. This ratio can be calculated by total investment divided by total deposit as:

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

Loan and Advances to Working Fund Ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of bank to utilize its deposits in the form of loan and advances to earn high return. The ratio is computed by dividing loan and advances by total working fund, which is stated as under;

$$\text{Loan and Advances to Working Fund Ratio} = \frac{\text{Loan and Advances}}{\text{Total Working Fund}}$$

Investment on Government Securities to Total Asset Ratio

This ratio shows that bank's investment on government securities in comparison to the total working fund. This ratio can be computed by dividing investment on government securities by total working fund, which can be presented as;

Investment on Government Securities to Total Asset Ratio

$$= \frac{\text{Investment on Government Securities}}{\text{Total Working Fund}}$$

Total Outside Assets to Total Deposits Ratio

Loans and advances and investment comprise the total outside assets of a bank. This ratio measures how well the deposits liabilities have been mobilized by the bank in income generation. This ratio is computed by dividing total loan and advances and investment by total deposits, which can be stated as under;

$$\text{Loan and Advances to Total Outside Assets Ratio} = \frac{\text{Total Outside Assets}}{\text{Total Deposit}}$$

Loan and Advances to Total Outside Assets Ratio

This ratio measures the proportion of loans and advances to total outside assets. The proportion between loans & advances to total outside assets measures the management attitude towards more risky assets and lower risky assets. This ratio is computed by dividing loan and advances by total outside assets as under;

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

Investment on Government Securities to Total Outside Assets Ratio

This ratio measures the proportion of the bank's investment in risk free areas. This ratio is computed by dividing investment on government securities by total outside assets as under;

Investment on Government Securities to Total Outside Assets Ratio

$$= \frac{\text{Investment on Government Securities}}{\text{Total Outside Assets}}$$

Total outside Assets to Total Assets Ratio

Loans & advances and investment are total outside assets of commercial banks. This ratio is calculated as dividing total outside assets by total assets as under;

$$\text{Total Outside Assets to Total Assets Ratio} = \frac{\text{Total Outside Assets}}{\text{Total Assets}}$$

This is the proportion of assets employed by the bank for the purpose of income generation. This ratio shows the ability of the bank to utilize the funds into income generating assets.

3.6.1.3 Profitability Ratio

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firm should be higher. Under this, the following profitability ratio will be computed:

Interest Income to Total Income Ratio

This ratio measures the volume of interest income in total income of the bank. The high ratio indicates the high contribution made by the lending and investing and vice-versa. This ratio can be completed by dividing interest income by total income presented as under;

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

Total Interest Earned to Total Outside Assets Ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets. Higher ratio implies efficient use of outside assets to earn interest. This ratio is calculated by dividing total interest earned by total outside assets and can be mentioned as under;

$$\text{Total Interest Earned to Total Outside Assets Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Outside Assets}}$$

The numerator includes total interest income from loans and advances and investment where as the denominator comprises loan and advances, bills purchased & discounted and all type investment.

Interest Expenses to Total Expenses Ratio

This ratio measures the portion of total interest expenses in the volume of total expenses. The high ratio indicates the low operation efficiency and vice-versa. This ratio is calculated by dividing interest expenses by total expenses which can be presented as under;

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

Total Interest Paid to Total Working Fund Ratio

This ratio depicts the percentage of interest paid on liabilities with respect to total working fund which can be presented as;

$$\text{Total Interest Paid to Total Working Fund Ratio} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

Total Income to Total Expenses Ratio

The comparison between total income and expenses measures the productivity of expenses in generating income .The amount of income that a unit of expenses generates is measured by the ratio of total income to total expenses. The high ratio is the indication of higher productivity of expenses and vice versa. This ratio is computed by dividing total income by total expenses presented as;

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

Total Income to Total Working Fund Ratio

This ratio measures how efficiently the assets of a business are utilized to generate income. It also measures the quality of assets in income generation. This ratio is calculated by dividing total income by total assets as stated here under;

$$\text{Total Income to Total Working Fund Ratio} = \frac{\text{Total Income}}{\text{Total Working Fund}}$$

Return on Loan and Advances Ratio

This ratio indicates how efficiently the bank utilizes its resources in the form of loans and advances. It also measures the earning capacity of loans and advances. This ratio is computed by dividing net profit (loss) by loans and advances which can be expressed as;

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

Return on Total Working Fund Ratio (ROA)

This ratio measures the overall profitability of all working fund i.e. total assets. It is also known as return on assets (ROA). This ratio is calculated by dividing net profit (loss) by total working funds. This can be presented as;

Return on Total Working Fund Ratio (ROA) = $\frac{\text{Net Profit (Loss)}}{\text{Total Working Fund}}$

The numerator indicates the portion of income left to the internal equities after deduction all costs, charges and expenses.

Return on Equity (ROE)

Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the bank has used funds of the shareholders. This ratio can be computed by dividing net profit by total equity capital (net worth).

Return on Equity (ROE) = $\frac{\text{Net Profit (Loss)}}{\text{Total Equity Capital}}$

Here, total equity capital includes shareholder's reserve including profit and loss account, general reserve, loan loss provision and share capital.

Loan Loss Provision to Total Loans & Advances Ratio

This ratio describes the quality of assets that a bank is holding. Nepal Rastriya Bank has directed the commercial banks to classify its loans and advances into the category of pass, sub-standard, doubtful and loss on the basis of the maturity of principal to make the provision of 1, 25, 50, and 100 percentages respectively. The provision for loan loss reflects the increasing probability of non-performing loans in the volume of total loans and advances. This ratio is calculated by dividing the loan loss provision by total loans and advances.

Loan Loss Provision to Total Loans & Advances Ratio = $\frac{\text{Total Loan Loss Provision}}{\text{Total Loan \& } Advances}$

Non-Performing Loan to Total Loan and Advances Ratio

This ratio measures the proportion of non- performing loans on the total volume of loans and advances. This reflects the quantity of quality assets that the bank has. Higher ratio reflects the poor performance of bank in mobilizing loans and advances and bad recovery rate and vice versa. This ratio is computed by dividing the non-performing loans by total loans and advances as under;

Non-Performing Loan to Total Loan and Advances Ratio = $\frac{\text{Total Non-Performing Loan}}{\text{Total Loan \& } Advances}$

3.6.1.4 Risk Ratio

Risk and uncertainty is a part of business loss. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank should have idea of the level of risk that has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the ADBL & RBB.

Credit Risk Ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non- performing loan to total Loan & Advances.

Bank utilizes its collected funds by providing credit to different sector. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of non-performing loan in total Loan & Advances. Higher ratio indicates more risky assets in the volume of Loan & Advances and vice-versa.

Credit Risk Ratio = $\frac{\text{Non-Performing Loan}}{\text{Loan \& } Advances}$

Liquidity Risk Ratio

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio will be high if funds are kept idle which result reduce in profit, whereas if the ratio is low, it means the bank won't be able to make immediate payment to the depositors. Thus, the higher ratio shows the bank's ability to meet its demand for cash and vice-versa.

$$\text{Liquidity Risk Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Asset Risk Ratio

Banks lend their collected funds in different sectors. There is always a risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally, asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank.

$$\text{Asset Risk Ratio} = \frac{\text{Total Investment + Loan \& Advance}}{\text{Total Deposit}}$$

3.6.1.5 Other Ratio

The following are the other ratios which are calculated for understanding the financial position of RBB and ADB.

Earning per Share (EPS)

EPS refers to net profit divided by total numbers of share outstanding. EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. This ratio is calculated as;

$$\text{Earning per Share (EPS)} = \frac{\text{Net Profit (Loss)}}{\text{Total Number of Shares Outstanding}}$$

Dividend Per Share (DPS)

Shareholders want to receive dividend from their investment. Dividend per share (DPS) is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares issued.

$$\text{DPS} = \frac{\text{D}-\text{SD}}{\text{S}}$$

Market Price per Share (MPS)

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

Price Earnings Ratio

It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock. A valuation ratio of a company's current share price compared to its per-share earnings.

$$\text{Price Earnings Ratio} = \frac{\text{MPS}}{\text{EPS}}$$

3.6.2 Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study statistical tool such as mean, standard deviation, coefficient of variation, coefficient of correlation and trend analysis have been used

3.6.2.1 Arithmetic Mean (Average)

Arithmetic mean is also called "the mean" or "average". Arithmetic mean represents the entire data by a single value. A mean is the average value or the sum of all the observations divided by the number of observations and it is denoted and given by the formula:

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

Where,

$\overline{X}$ = Mean of the values.

N = Number of Pairs of Observations.

During the analysis of data, mean is calculated by using the statistical formula 'AVERAGE' on excel data sheet on computer.

3.6.2.2 Standard Deviation (±)

The standard deviation measures the absolute dispersion. It is said that higher the value of standard deviation the higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 and this is denoted by the small Greek letter σ (read as sigma).

The formulas to calculate the standard deviation are given below:

$$\pm \text{ X}\sqrt{\frac{x^2}{N}}$$

Where, x = ($\overline{X}$ - X)

During the analysis of data, standard deviation is calculated by using the statistical formula 'STDEV' on excels data sheet on computer.

3.6.2.3 Coefficient of Variation

The standard deviation calculated in the above formulas gives an absolute measure of dispersion. Hence, where the mean value of the variables is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability. The coefficient of variation (C.V.) is given by the following formula and this gives the percentage.

$$\text{Coefficient of Variation (C.V.)} = \frac{\pm}{\overline{X}} \text{ x } 100$$

3.6.2.4 Correlation Coefficient (r)

Correlation refers to the degree of relationship between two variables. If between two variables, increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of the value of coefficient of correlation is measured by probable error. The correlation coefficient between two variables describes the degree of relationship between those two variables. It interprets whether two or more variables are correlated positively or negatively.

The Karl Pearson coefficient of correlation (r) is given by the following formula:

$$\text{Coefficient of correlation} \quad (r) = \frac{xy}{N \pm_x \pm_y}$$

Where,

x = (X - X^1),

y = (Y - Y^1),

$\pm_x$ = Standard deviation of series X,

$\pm_y$ = Standard deviation of series Y.

N = Number of Pairs of Observations.

During the analysis of data, correlation coefficient is calculated by using the statistical formula 'CARREL' on excels data sheet on computer.

3.6.2.5 Probable Error

The coefficient of correlation has been interpreted based on probable error (P.Er.). If the value of correlation coefficient is greater than 6 times the value of probable error, the correlation coefficient is deemed as significant and reliable. If the value of correlation coefficient is less than probable error, the correlation coefficient is said to be insignificant and there is no evidence of correlation.

$$\text{Probable Error of r (P.Er.)} = 0.6745 \frac{1 Z r^2}{\sqrt{N}}$$

Here,

r = Correlation coefficient

N = Number of pairs of observations

3.6.2.6 Trend Analysis

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method. Using this least square method, it has been estimated the future trend values of different variables. For the estimation of linear trend line following formula has been used.

$$y = a + bx$$

Where,

y= Dependent variable

x= Independent variable

a= y intercept

b= slope of the trend line

CHAPTER - IV
PRESENTATION AND ANALYSIS OF DATA

Introduction, review of literature and research methodology is presented in the previous chapters that provide the basic inputs to analyze and interpret the data. Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are secondary data. In this chapter, researcher has analyzed and diagnosed financial analysis of Agricultural Development Bank Ltd. and Rastriya Banijya Bank Ltd. Different tables and figures are shown to make the analysis simple and understandable.

4.1 Financial Analysis

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. Ratio analysis has been used and with the help of it; various data has been analyzed. Various financial ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial Banks ADBL & RBBL. Some important financial ratios are only calculated in the point of view of fund mobilization and investment patterns. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision. Four main categories of ratios have been taken in this study that is mainly related to investment policy of banks.

4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity posting to satisfy the credit needs of community, to meet demands for deposit–withdrawals, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

a. Current Ratio

Current ratio indicates the ability of the banks to meet its current obligation. This ratio measures the liquidity position of the financial institutions. It is calculated by dividing current assets with current liabilities. The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case to banking and finance it is not applicable.

Table 4.1

Current Ratios (In Times)

Fiscal year	ADBL	RBB
2006/07	0.92	0.84
2007/08	1.06	0.93
2008/09	1.20	0.92
2009/10	1.22	0.89
2010/11	1.26	0.84
Mean	**1.13**	**0.88**
S.D.	**0.14**	**0.04**
C.V.	**12.43**	**5.08**

Source: Annual Bank Supervision Report of NRB (See: Appendix 1)

From the above table the data of RBB is in increasing trend but last it is decreased because of the political and economical circumstances of the country, where as ADBL is in increasing. Mean of the ADBL is greater than RBB i.e. 1.13 >0.88. It shows that ADBL is sound in meeting short term obligation. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL. It is presented by the graph below.

Figure 4.1

Current Ratio

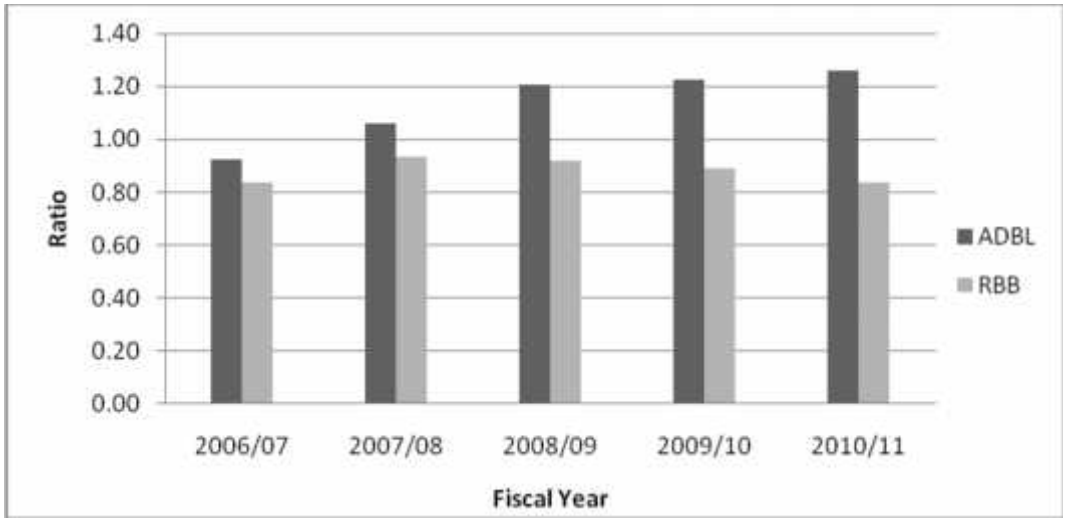


Figure 4.1 explains the current ration of ADBL and RBB. The current ration of ADBL is higher throughout the year in comparison to RBB. The current ratio of ADBL is highest in year 2010/11 whereas the lowest current ratio is in year 2006.

b. Cash and Bank Balance to Total Deposit Ratio

This ratio measures the availability of banks highly liquid or immediate funds to meet its unanticipated calls on all types of deposits, money at calls and short term notice and other deposits. It can be calculated by dividing the amount of cash and balance by the total deposits. Higher ratio indicates the greater ability to meet their deposits and vice-versa. Following table shows the cash and banks balance to total deposit ratios of ADBL & RBB.

Table 4.2

Cash and Bank Balance to Total Deposit Ratios (In Times)

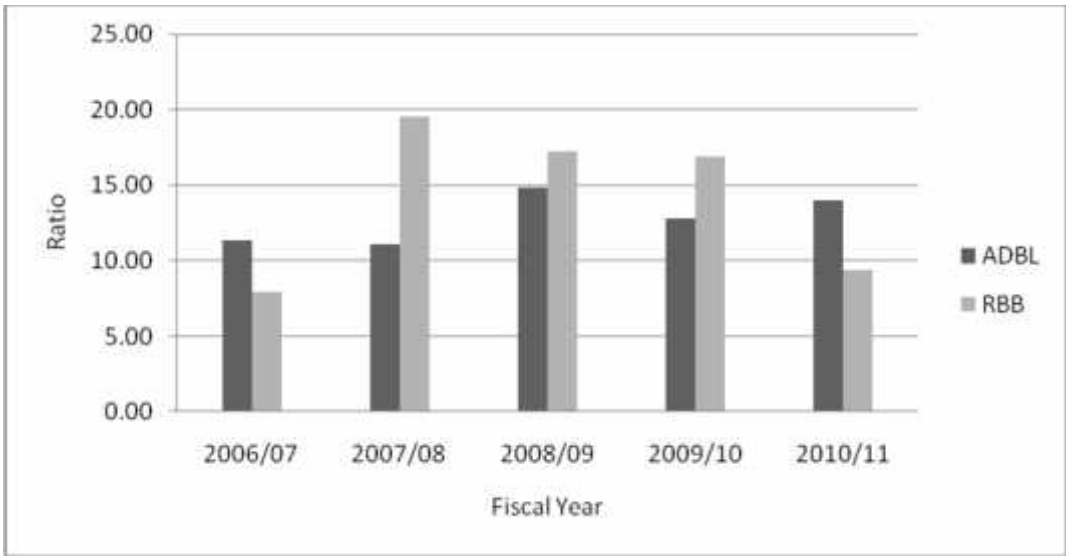
Fiscal year	ADBL	RBB
2006/07	11.38	7.91
2007/08	11.13	19.50
2008/09	14.81	17.27
2009/10	12.82	16.89
2010/11	13.98	9.34
Mean	**12.82**	**14.18**
S.D.	**1.60**	**5.19**
C.V. (%)	**12.47**	**36.61**

Source: Annual Bank Supervision Report of NRB (See: Appendix 2)

From the above table the data of both of the bank are in fluctuating trend. Mean of the RBB is greater than ADBL i.e. 14.18>12.82 which shows that RBB has greater ability to pay depositors money as they want. Likewise the S.D. and C.V. of ADBL is less so that it is more consistent than RBB. It is presented by the graph below.

Figure 4.2

Cash and Bank Balance to Total Deposit Ratios



Cash and bank balance to total deposit ratio of ADBL and RBB are in fluctuating trend. The ratio of both banks are high in year 2008 whereas the highest cash and bank balance to total deposit ratio is in year 2007 (RBB) ; similarly the lowest ratio is in year 2006 (RBB).

c. Cash and Bank Balance to Current Assets Ratio

This ratio reflects the portion of cash and bank balance in total current assets. Cash and bank balance are highly liquid assets than other in current assets portion. So this ratio visualizes higher liquidity position than current ratio. It is computed by dividing cash and bank balance by current assets. Higher ratio shows the bank's ability to meet its demand for cash.

Table 4.3

Cash and Bank Balance to Current Assets Ratio (In Times)

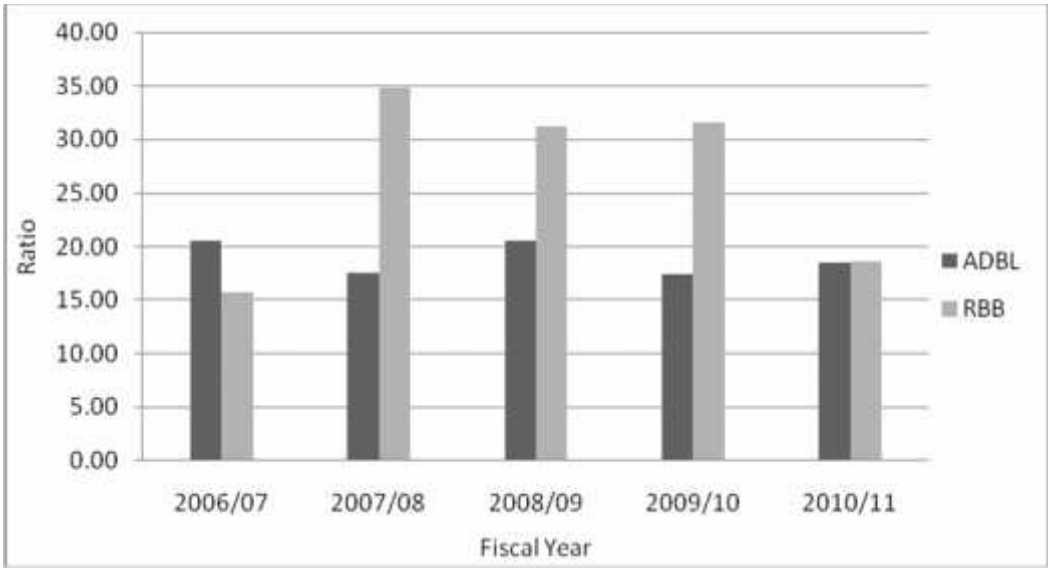
Fiscal year	ADBL	RBB
2006/07	20.58	15.72
2007/08	17.54	34.83
2008/09	20.51	31.25
2009/10	17.44	31.59
2010/11	18.52	18.63
Mean	**18.92**	**26.41**
S.D.	**1.55**	**8.60**
C.V. (%)	**8.17**	**32.58**

Source: Annual Bank Supervision Report of NRB (See: Appendix 3)

The above table reveals that cash and bank balance to current assets ratio of both banks is in fluctuating trend. The mean ratio of RBB is higher than ADBL i.e. 26.41>18.92. The higher mean ratio shows that RBB's liquidity position is better than ADBL. Whereas S.D. and C.V of ADBL is less than RBB so it seems to be more consistent. It is also described by the following figure.

Figure 4.3

Cash and Bank Balance to Current Assets Ratio



Cash and bank balance to current ratio of RBB is more fluctuating in comparison to ADBL. The ratio of RBB is lowest in year 2006 and it is highest in year 2007. Similarly, the cash and bank balance to current ratio of ADBL is more constant throughout the year.

d. Investment on Government Securities to Current Assets Ratio

This ratio examines that the position of commercial banks current assets, which is invested on different government securities, treasury bills and development bonds. This ratio can be calculated by dividing investment on government securities by current assets.

Table 4.4

Investment on Government Securities to Current Assets Ratio (In Times)

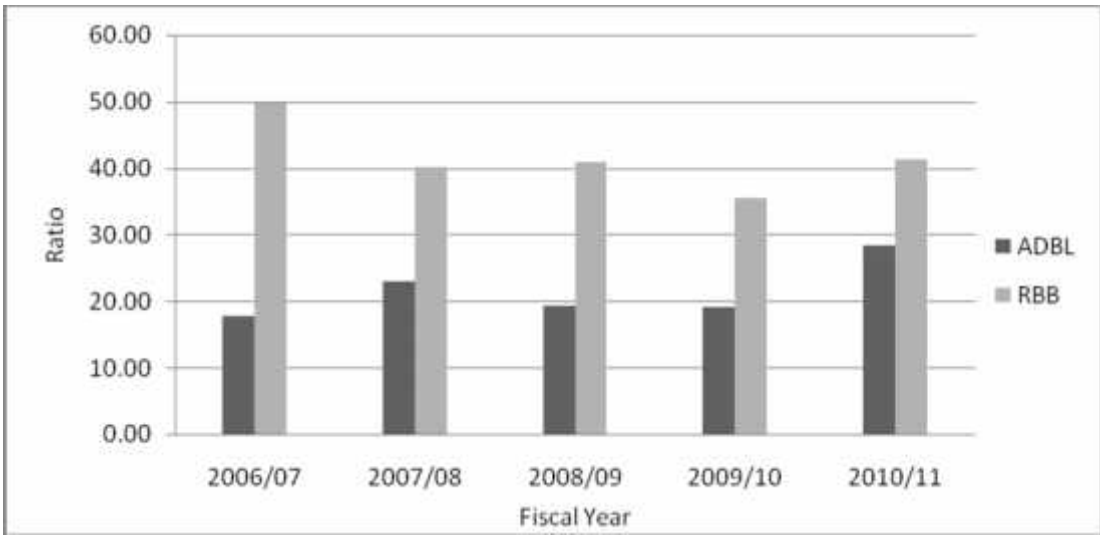
Fiscal Year	ADBL	RBB
2006/07	17.72	49.79
2007/08	23.02	40.10
2008/09	19.28	40.93
2009/10	19.03	35.41
2010/11	28.30	41.36
Mean	**21.47**	**41.52**
S.D.	**4.30**	**5.20**
C.V. (%)	**20.01**	**12.52**

Source: Annual Bank Supervision Report of NRB (See: Appendix 4)

In the above table the Data of ADBL and RBB are both in fluctuating trend. The mean ratio of RBB is higher than ADBL i.e. 41.52>21.47. This indicates that RBB has invested more money in risk free assets when compared to ADBL. In other words ADBL has emphasizes loan and advances and short term assets than investment in government securities. Similarly the C.V of RBB is less than ADBL which means RBB is more consistent than ADBL.

Figure 4.4

Investment on Government Securities to Current Assets Ratio



Investment on government securities to current assets ratio of RBB is highest throughout the years. The highest ratio is in year 2006/07 (RBB), and the lowest one is in year 2009/10. The investment on governent securities of RBB is in decreasing trend whereas the investment on government securities of ADBL is increasing trend.

4.1.1.2 Assets Management Ratio

Assets management or activity ratios are employed to evaluate the efficiently with the firms' managers and utilize its assets. These ratios generally indicate the speed with which assets are bank concerted or turnover. That is why these ratios are used to measure or indicate the bank's ability to utilize their available limited resources. The following ratios are used under the assets management ratios:

a. Loan and Advances to Total Deposit Ratio

This ratio used to find out, how successfully the banks are utilizing their total deposit on loan and advances for profit generation purpose. The higher ratio indicates the better utilization of loan and advances out of total deposit. It can be computed by dividing loan and advances by total deposits.

Table 4.5

Loan and Advances to Total Deposit Ratio (In Times)

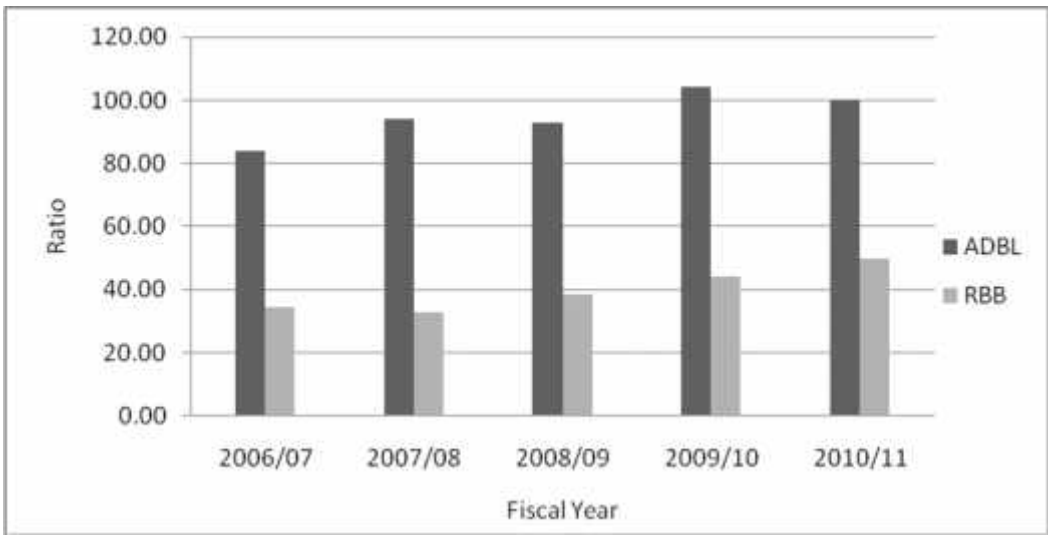
Fiscal Year	ADBL	RBB
2006/07	84.07	34.34
2007/08	93.97	32.95
2008/09	92.73	38.42
2009/10	104.32	44.09
2010/11	100.19	49.87
Mean	**95.06**	**39.93**
S.D.	**7.74**	**7.04**
C.V. (%)	**8.14**	**17.63**

Source: Annual Bank Supervision Report of NRB (See: Appendix 5)

In the above table loans and advance to total deposit ratio of ADBL and RBB both are in fluctuating trend. The mean ratio of ADBL is more than RBB i.e. 95.06>39.93. Which indicates that better mobilization of deposit by ADBL, and also it reveals that the deposit of ADBL is quickly converted in to loan and advance to earn income. The C.V of ADBL is less than RBB so ADBL is more consistent than RBB.

Figure 4.5

Loan and Advances to Total Deposit Ratio



Loan and advances to total deposit ratio of ADBL is higher than RBB throughout the year. It means ADBL is mobilizing the major portion of deposit in loan and advances in comparison

to RBB. Greater the loan and advances to total deposit ration, greater will be the profit since the return on loan and advances is higher than investment in government securities or other any securities.

b. Total Investment to Total Deposit Ratio

This ratio shows how properly firms deposit has been invested on government securities and shares and debentures of other companies and banks. Generally, it reflects which the banks are successful in mobilizing the total deposit on investment. The higher ratio indicates the higher success to mobilize the banking funds as investment and vice-versa. This ratio can be computed by dividing total investment by total deposit.

Table 4.6

Total Investment to Total Deposit Ratio (In Times)

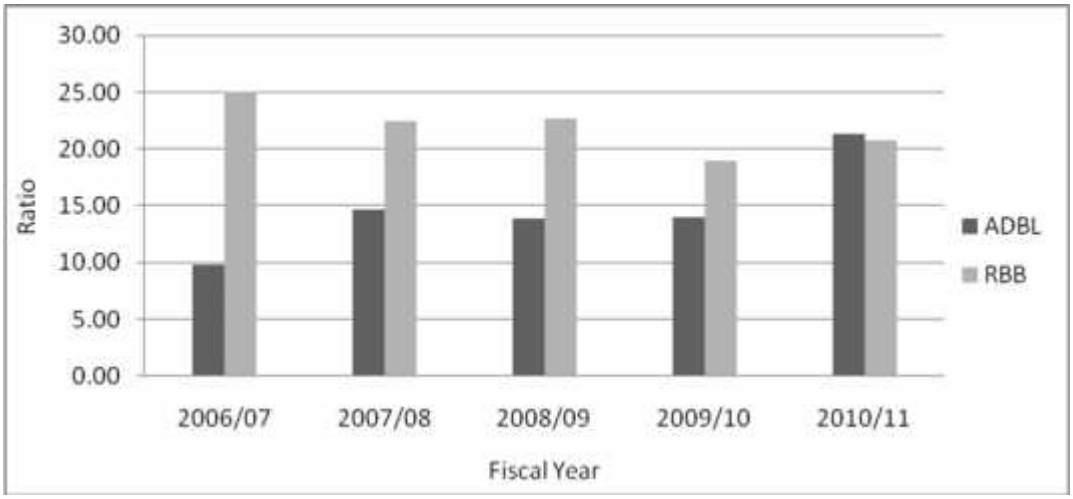
Fiscal Year	ADBL	RBB
2006/07	9.80	25.07
2007/08	14.61	22.45
2008/09	13.93	22.62
2009/10	13.98	18.93
2010/11	21.36	20.74
Mean	**14.74**	**21.96**
S.D.	**4.17**	**2.29**
C.V. (%)	**28.29**	**10.43**

Source: Annual Bank Supervision Report of NRB (See: Appendix 6)

From the above table the data of ADBL is in fluctuating trend where as the data of RBB is in decreasing trend. Mean of the RBB is greater than ADBL i.e. 21.96>14.74 which shows that RBB has successfully allocated its deposit in investment portfolio to get higher investment return. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL. It is presented by the graph below:

Figure 4.6

Total Investment to Total Deposit Ratio



Total investment ot total deposit ratio of RBB is higher than ADBL throughout the years. It means RBB is investing most of its fund in investment rather than loan and advances which offer low return in comparision to loan and advances.

c. Loan & Advances to Total Assets Ratio

A commercial bank s working fund plays very active role in profit generation thro ugh fund mobilization. This ratio reflects t he extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose o f income generation. A high ratio indicates better mobilization o f funds as loan and advance and vice-versa. The following table shows loan & advances to total assets of RBB and ADBL as follows.

Table 4.7

Loan & Advances to Total Assets Ratio (In Times)

Fiscal Year	ADBL	RBB
2006/07	71.42	37.56
2007/08	70.02	39.78
2008/09	62.92	38.11
2009/10	62.71	35.97
2010/11	58.09	45.39
Mean	65.03	39.36
S.D.	5.56	3.63
C.V. (%)	8.55	9.23

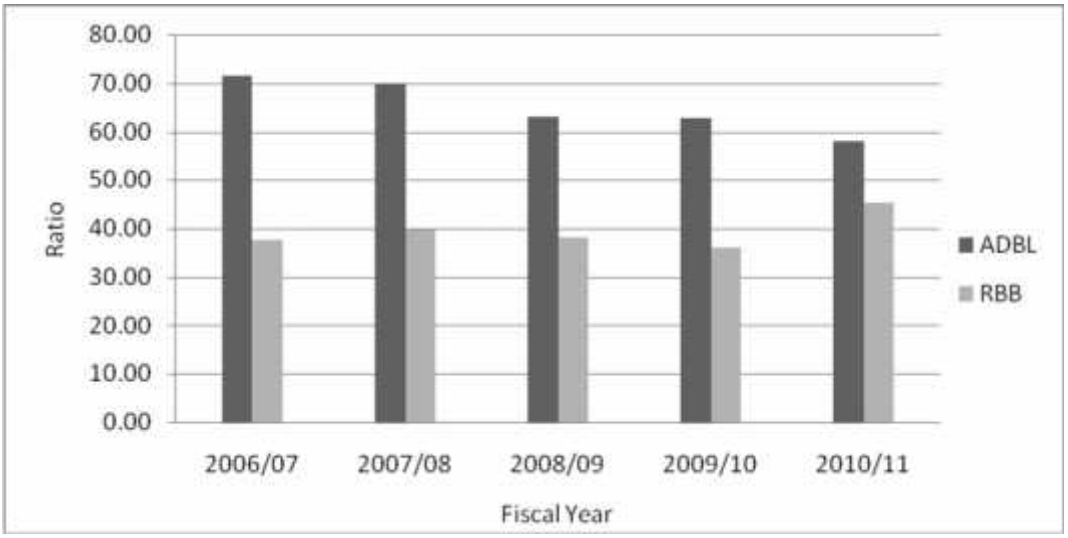
Source: Annual Bank Supervision Report of NRB (See: Appendix 7)

From the above table the data of ADBL is in fluctuating trend where as the data of RBB is in normal trend. While observing their ratios ADBL is better utilizing their fund as loans and advances and it seems quite successful in generating higher ratio in each year in comparison of RBB.

Mean of the ADBL is greater than RBB i.e. 65.03>39.36 which shows that in total assets ADBL has higher proportion in loans and advance, or ADBL has utilized its total assets more efficiently in the form of loans and advance. Likewise the S.D. of RBB is less so that it is more consistent than ADBL. It is presented by the graph below.

Figure 4.7

Loan & Advances to Total Assets Ratio



Loan and advances to total assets ratio of ADBL is in decreasing trend whereas the ratio of RBB is constant throughout the year. The highest ratio is in year 2006 (ADBL) and the lowest is in year 2009 (RBB).

d. Investment on Government Securities to Total Assets ratio

It is not possible to apply all collection, deposit and other resources in to loan & advances for the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is one, which is very less risky. Invest on government securities to total assets ratio measures how successfully selected banks have app lied their total assets on various forms of government securities in

profit maximization and risk minimization point o f view. The higher ratio represents the better position of fund mobilization into investment o n government securities and vice-versa.

Table 4.8

Investment on Government Securities to Total Assets Ratio (In Times)

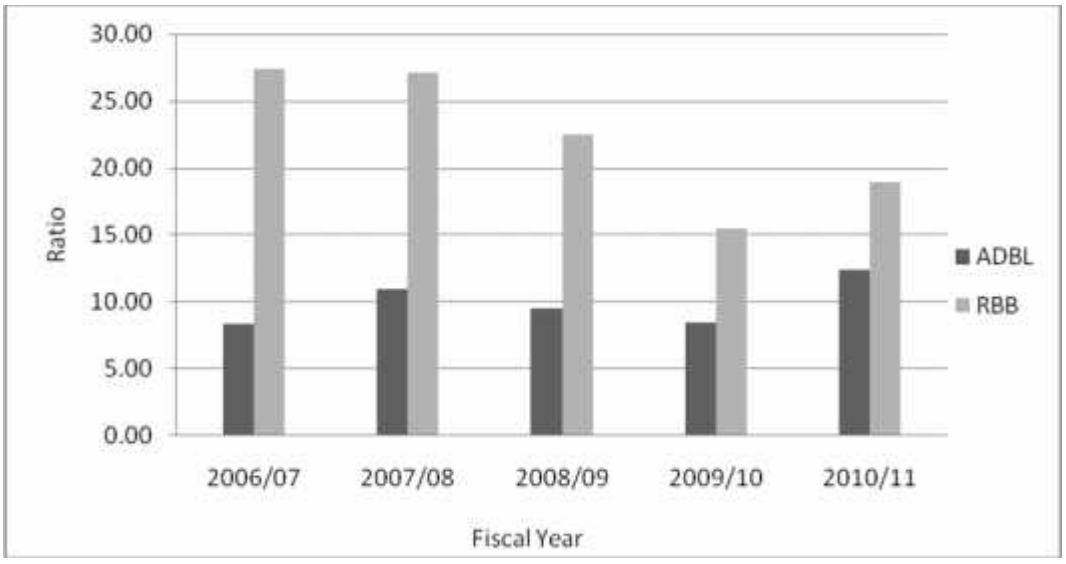
Fiscal year	ADBL	RBB
2006/07	8.33	27.42
2007/08	10.89	27.10
2008/09	9.45	22.43
2009/10	8.40	15.45
2010/11	12.39	18.88
Mean	**9.89**	**22.25**
S.D.	**1.74**	**5.19**
C.V. (%)	**17.57**	**23.34**

Source: Annual Bank Supervision Report of NRB (See: Appendix 8)

From the above table the data of ADBL is in normal trend where as the data of RBB is in fluctuating trend. Mean and ratio of the RBB is greater than ADBL in every year. This shows that RBB has invested more money in risk free assets than ADBL. Likewise the S.D. and C.V. of ADBL is less so that it is more consistent than RBB. It is presented by the graph below.

Figure 4.8

Investment on Government Securities to Total Assets ratio



Investment on government securities to total assets ratio of RBB is higher than ADBL

throughout the year. The highest ratio is in year 2006 (RBB) whereas the lowest ratio is in year 2006 (ADBL).

4.1.1.3 Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc. Profitability ratios are the best indicators of overall efficiently. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of RBB and ADBL.

a. Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

Table 4.9

Return on Total Assets Ratio (In Times)

Fiscal Year	ADBL	RBB
2006/07	2.77	3.50
2007/08	1.53	3.32
2008/09	2.04	2.80
2009/10	3.50	2.39
2010/11	4.02	2.17
Mean	2.77	2.84
S.D.	1.02	0.58
C.V. (%)	36.79	20.32

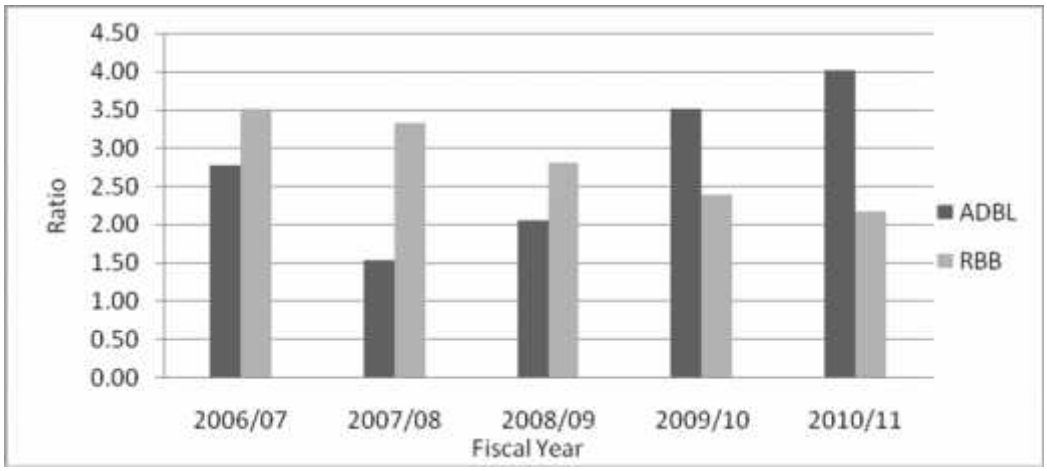
Source: Annual Bank Supervision Report of NRB (See: Appendix 9)

From the above table the data of ADBL is decreasing at first but from 2008/09 it is in increasing trend where as the data of RBB is in decreasing trend. This shows that ADBL's Profitability is increasing from year to year. But when we compare it on the basis of Average RBB is higher. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than

ADBL. It is presented by the graph below.

Figure 4.9

Return on Total Assets Ratio



Return on total assets ratios of ADBL and RBB are in fluctuating trend. The highest ratio is in year 2010 (ADBL) and the lowest is in year 2007 (ADBL). The return on total assets ratio of ADBL is in increasing trend whereas the ratio of RBB is in decreasing trend.

b. Earnings Per Share (EPS)

EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earning per share calculation made over years indicates whether the banks earning power on per share basis has changed over that period or not but it doesn't reflect how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

Table 4.10

Earning Per Share (Rs)

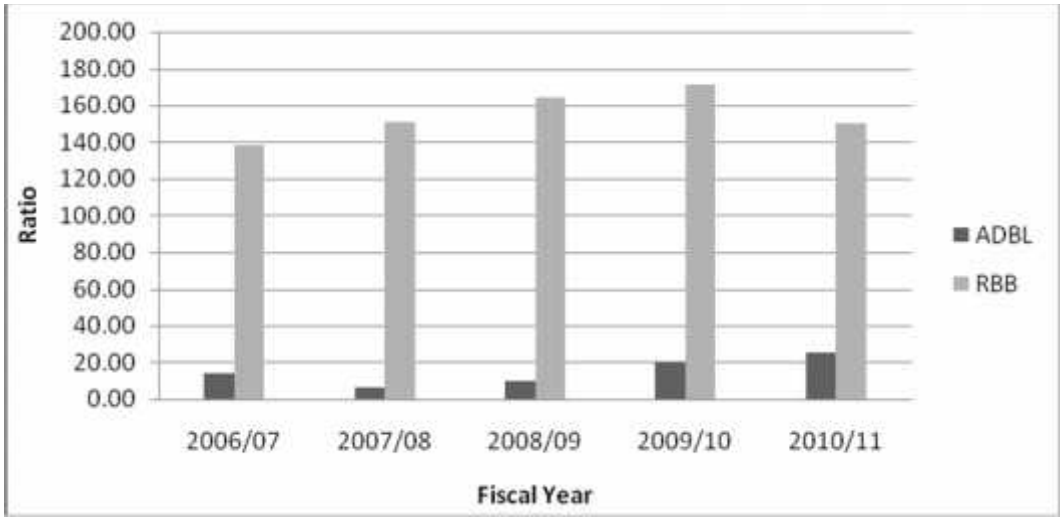
Fiscal Year	ADBL	RBB
2006/07	14.06	137.93
2007/08	6.21	150.88
2008/09	9.81	164.09
2009/10	20.05	171.52
2010/11	25.18	150.07
Mean	**15.06**	**154.90**
S.D.	**7.65**	**13.12**
C.V.	**50.79**	**8.47**

Source: Annual Bank Supervision Report of NRB (See: Appendix 10)

By looking at glance the earning per share of RBB is much better when compared to ADBL. Because the mean and ratios are comparatively higher than ADBL but the S.D. of ADBL is lower which shows ADBL is more Consistent.

Figure 4.10

Earnings Per Share



Earning per share of RBB is higher than ADBL throughout the year. EPS of RBB is in increasing trend till year 2009/10 and decresing in year 2010/11 whereas EPS of ADBL is more flucutaing.

4.2. Statistical Analysis

4.2.1 Correlation Coefficient Analysis

a. Correlation Coefficient between Deposit Loans & Advances

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

Table 4.11

Correlation Coefficient between Deposit Loans & Advances

Name of Banks	Evaluation			
	r	**r^2**	**P.E.r.**	**6P.E.r**
ADBL	0.51	0.26	0.22	1.32
RBB	0.89	0.80	0.06	0.36

Source: Annual report of ADBL & RBB (See: Appendix 11)

From the above table, it is found that coefficient of correlation between deposits and loan & advances of ADBL and RBB is 0.51 and 0.89. It refers to both of them have the positive relationship between these two variables also deposit and loan & advances of ADBL and RBB move together very closely. Moreover, the coefficient of determination of ADBL and RBB is 0.26 and 0.80 respectively. This shows that 26% and 80% variance in loan & advances are affected by total deposit. The correlation coefficient of ADBB is insignificant because the correlation is less than 6 P.Er but the correlation coefficient is of RBB is significant as it has r > 6 P.Er. In other words, there is significant relationship between deposits and loan & advances.

b. Correlation Coefficient between Total Deposits and Total Investment

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

The following Table 4.12 shows the coefficient correlation between deposits and total investments i.e. r, P.Er., 6 P.Er. and coefficient of determination r^2 of ADBL and RBB during the study period.

Table 4.12

Correlation Coefficient between Total Deposits and Total Investment

Name of Banks	Evaluation			
	r	**r^2**	**P.E.r.**	**6P.E.r**
ADBL	0.59	0.35	0.20	1.20
RBB	0.70	0.49	0.16	0.96

Source: Annual report of RBB & ADBL (See: Appendix 12)

From the above table, it is found that coefficient of correlation between deposit and total investment of ADBL and RBB is 0.59 and 0.70. It refers to ADBL and RBB both have positive correlation between deposit and investment.. Moreover, the coefficient of determination of ADBL and RBB is 0.35 and 0.49 respectively. This shows that 35% and 49% of total investment is explained by total deposit.

c. Correlation coefficient between Total Deposit of RBB and ADBL

Correlation Coefficient of total deposit between ADBL & RBB and shows their linear relationship.

Table 4.13

Correlation coefficient between Total Deposit of RBB and ADBL

	Evaluation			
	r	**r^2**	**P.E.r.**	**6P.Er**
Deposit	0.568	**0.32**	**0.2**	**1.2**

Source: Annual report of ADBL & RBB (See: Appendix 13)

This table shows how the total deposit of ADBL & RBB is correlated. The value of r = 0.568 indicates that there is highly positive correlation between these two banks in this regard. But this correlation coefficient is insignificant because the correlation coefficient is less than 6 P.E.r. As the 0.32 of coefficient of determination, this shows the 32% of the degree of relationship. The degree of relationship between these two banks is also high.

d. Coefficient of correlation of Total Investment between RBB & ADBL

The coefficient of correlation of total investment between selected commercial banks is shown as follow:

Table 4.14

Coefficient of correlation of Total Investment between RBB & ADBL

Evaluation				
Investment	**r**	**r^2**	**P.E.r.**	**6P.Er**
	0.7497	0.5621	0.1321	0.7926

Source: Annual report of ADBL & RBB (See: Appendix 14)

The above table reveals that there is poor positive correlation between ADBL & RBB in case o f total investment. It implies that the total investment of ADBL & RBB is good but in poor position. Here R < 6 P.E.r. Therefore, correlation coefficient is insignificant. This can be said that both ADBL & RBB increases total investment but in moderate rate.

4.2.2 Trend Analysis

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general term, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

a. Trend Analysis of Total Deposit

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit o f ADBL & RBB for further 5 year .

Where,

Y= a + bx

Y= dependent variable, (deposit)

a=Y-intercept,

Growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x$……. (I)

Where x = X - Middle year

During the analysis of data, trend is calculated by using the statistical formula 'TREND' on excel data sheet on computer.

a= 56974.32 (RBB) & 32708.72 (ADBL)

b=5240.47 (RBB) & 964.33 (ADBL)

Table 4.15

Linear Trend of Total Deposit of ADBL & RBB

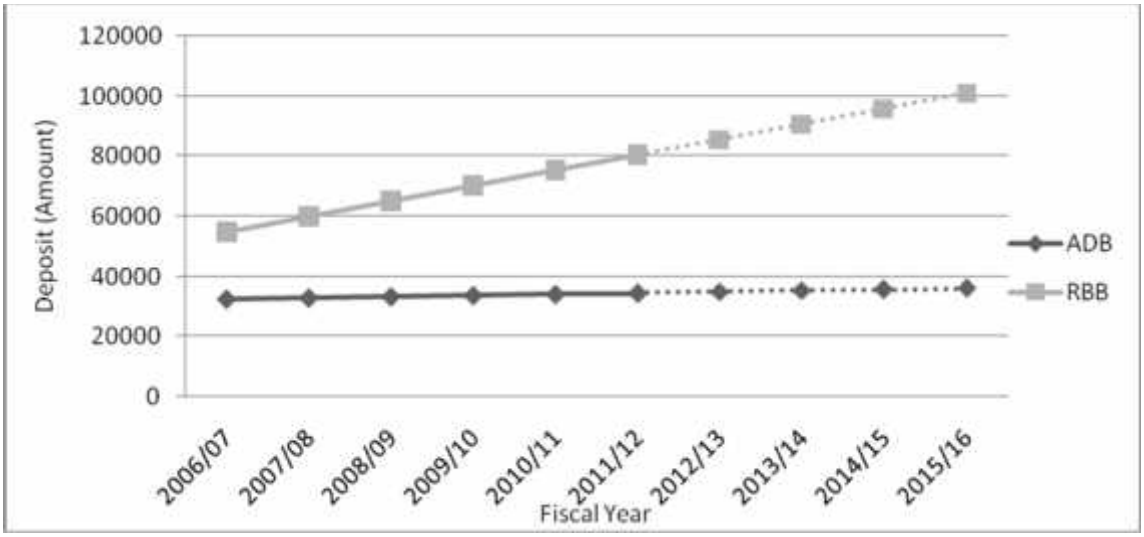
Year	ADBL	RBB
2006/07	32624.34	54862.23
2007/08	33011.87	59982.44
2008/09	33399.40	65102.65
2009/10	33786.93	70222.86
2010/11	34174.45	75343.07
2011/12	34561.98	80463.28
2012/13	34949.51	85583.49
2013/14	35337.04	90703.70
2014/15	35724.57	95823.92
2015/16	36112.09	100944.13

Source: Annual report of ADBL & RBB (See: Appendix 15)

Above table and figure shows that total deposit of ADBL and RBB is in increasing trend. The rate of increment of total deposit for RBB seems to be higher than that of ADBL. The increasing trend of total deposit of RBB is more aggressive and high rather than ADBL. It indicates RBB has more prospect of collecting Total deposit. The trend analysis has projected deposit amount in year 2006 to 2015. From the above trend analysis it is clear that RBB has higher position in collecting deposit than ADBL.

Figure 4.11

Linear Trend of Total Deposits



The straight line till 2011 represents the actual data whereas projections are given in dotted line. The trend line is upward slopping and in increasing trend. The deposit rate of RBB is higher than ADBL.

b. Trend Analysis of Loan & Advances

Here, the trend values of loan & advances Between ADBL & RBB been calculated for further 5 years. The following Table shows the actual and trend values of RBB and ADBL.

$Y = a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x$……. (I)

Where x = X - Middle year Here,

During the analysis of data, trend is calculated by using the statistical formula 'TREND' on excel data sheet on computer.

a= 27888.82 (RBB) & 101835 (ADBL)

b=960.93 (RBB) & 41106.90 (ADBL)

Table 4.16

Trend Analysis of Loans and Advance

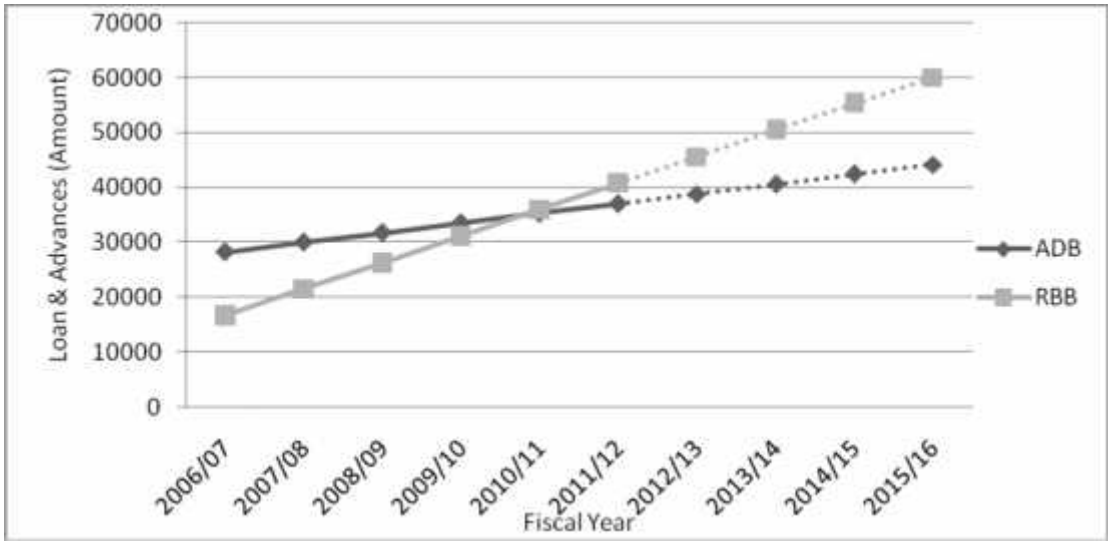
Year	ADBL	RBB
2006/07	28215.81	16742.80
2007/08	29986.08	21555.38
2008/09	31756.35	26367.96
2009/10	33526.62	31180.55
2010/11	35296.89	35993.13
2011/12	37067.16	40805.71
2012/13	38837.43	45618.30
2013/14	40607.70	50430.88
2014/15	42377.97	55243.46
2015/16	44148.24	60056.04

Source: Annual report of ADBL & RBB (See: Appendix 16)

Above table depicts that loan & advances of ADBL & RBB. Both Banks has in increasing trend. The increasing trend of RBB is higher than ADBL. From the above analysis, it is clear that both ADBL & RBB is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows the ADBL is highly mobilizing loan & advances than the RBB.

Figure 4.12

Trend Analysis of Loans and Advance



The straight line till 2011 represents the actual data whereas projections are given in dotted line. The trend line of ADBL and RBB both are in increasing trend. The slope of trend line of

RBB is higher than ADBL.

c. Trend Analysis of Total Investment ADBL & RBB

Under this topic, an attempt has been made to analyze trend analysis total investment of RBB and ADBL for further 5 years

$$Y = a + bx$$

Where,

Y= dependent variable, a=Y-intercept, b=slope o f trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b\ x$……. (I)

Where x = X - Middle year

During the analysis of data, trend is calculated by using the statistical formula 'TREND' on excel data sheet on computer.

a= 9655.8 (RBB) & 2137.94 (ADBL)

b=57.03 (RBB) & 721.40 (ADBL)

Table 4.17

Trend Analysis of Investment of ADBL & RBB

Year	ADBL	RBB
2006/07	3318.91	13384.04
2007/08	4131.33	13775.24
2008/09	4943.76	14166.44
2009/10	5756.18	14557.65
2010/11	6568.60	14948.85
2011/12	7381.02	15340.05
2012/13	8193.44	15731.25
2013/14	9005.86	16122.45
2014/15	9818.28	16513.66
2015/16	10630.70	16904.86

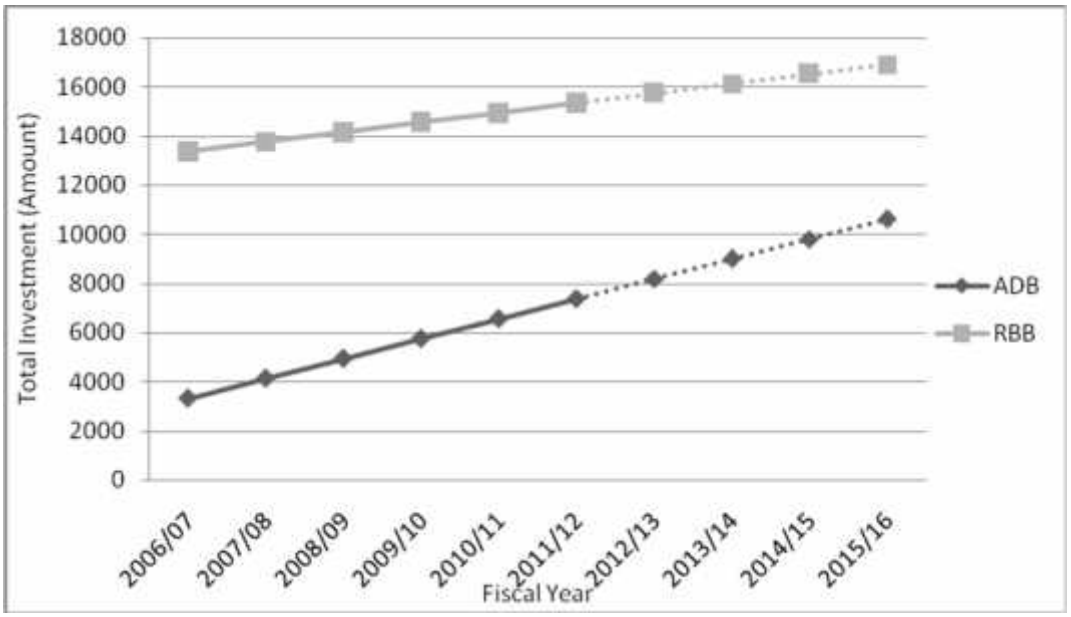
Source: Annual report of ADBL & RBB (See: Appendix 17)

Above table shows the Trend of Total Investment of ADBL & RBB. Both Bank ADBL &

RBB have increasing trend in making investment. RBB has little increasing trend of total investment, but ADBL is increasing faster. The forecasted trend projected that the ADBL has greater increment rate in total investment than the increment rate of RBB. The figure indicates ADBL has highly mobilized its investment rather than RBB.

Figure 4.13

Trend Analysis of Investment of ADBL & RBB



The straight line till 2011 represents the actual data whereas projections are given in dotted line. The trend line of investment of RBB is higher than ADBL. Whereas the slope of trend line of ADBL is higher than RBB.

4.3 Major Findings of the Study

From the above data presentation and analysis, some main findings are summarized, which are below:

4.3.2 Financial Analysis

i. Liquidity Ratio

- The mean of current ratio of RBB is viewed higher than that of ADBL. It shows that RBB is sound in meeting short term obligation. Likewise the S.D. and C.V. of ADBL is less so that it is more consistent than RBB.
- The mean ratio of cash and bank balance to total deposit of ADBL is much less than

RBB. It means that ADBL has better maintenance of its liquidity than RBB because higher liquidity indicates the inefficient utilization of liquidity. Where as in other sense it is good for bank to gain opportunity cost.

- The mean ratio of cash and banks balance to current assets of RBB is lower in comparison to ADBL. The higher mean ratio shows that ADBL's liquidity position is better than RBB. Whereas RBB is more consistent than ADBL in case of S.D. and C.V.
- The mean ratio of investment on government securities to current assets ratio of RBB is higher than ADBL. This indicates that RBB has invested more money in risk free assets when compared to ADBL. In other words ADBL has emphasizes loan and advances and short term assets than investment in government securities. Similarly the S.D. and C.V of RBB is less than ADBL which means RBB is more consistent than ADBL.

ii. Asset Management Ratio

- The mean ratio of loan and advances to total deposit of RBB is lower than ADBL. And its consistency is also less than ADBL. Which indicates that better mobilization of deposit by ADBL, and also it reveals that the deposit of ADBL is quickly converted in to loan and advance to earn income. The S.D and C.V of RBB is less than ADBL so RBB is more consistent than ADBL.
- The mean ratio of total investment to total deposit of RBB is higher in comparison to ADBL. This shows that RBB has successfully allocated its deposit in investment portfolio to get higher investment return. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL.
- Mean of the ADBL is greater than RBB in case of Loans and advance and total assets. This shows that in total assets ADBL has higher proportion in loans and advance, or ADBL utilize its total assets more efficiently in the form of loans and advance. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL.
- The mean ratio of investment on government securities to total assets ratio of the RBB is greater than ADBL in every year. This shows that RBB has invested more money in risk free assets than ADBL. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL.

iii. Profitability Ratio

- The mean ratio of return on total assets of RBB is slightly higher than ADBL which indicates RBB is earning more from total assets. But actually ADBL's return on total

assets is increasing from year to year this is good for ADBL. Likewise the S.D. and C.V. of RBB is less so that it is more consistent than ADBL.

- EPS measure the efficiency of a firm in relative terms. By looking at glance the earning per share of RBB is much better when compared to ADBL. Because the mean and ratios are comparatively higher than ADBL but the S.D. and C.V. of ADBL is lower which shows ADBL is more Consistent.

4.3.2 Statistical Analysis

i. Correlation Analysis

- Correlation between deposit and loan & advances of RBB and ADBL are positive. In this way, it has been found that there is significant strong relationship between deposit with loan & advances. Both banks have significance correlation regarding to deposit and loan & advances.
- Coefficient of correlation between deposit and total investment of ADBL and RBB is 0.95099 and -0.18269. It refers to ADBL have positive correlation between deposit and investment. But RBB have negative correlation; it shows that RBB is not investing properly since there is negative correlation between deposit and total investment of RBB.
- Correlation Coefficient of total deposit between ADBL & RBB i.e. r = 0.91153 indicates that there is highly positive correlation between these two banks .
- The Correlation Coefficient i.e. r = 0.05858 indicates that both of the bank have poor positive correlation in case of total investment.

ii. Trend Analysis

Trend values of deposit, loan and advances and total investment are projected for next five years of RBB and ADBL which are as follows

- Trend values of total deposit of both banks are found to be in increasing trend. The increasing trend on deposit of RBB is higher in comparison to ADBL.
- The trend values of loan and advances of both banks have to be found in increasing trend. But the trend of ADBL is much greater than RBB. It shows the ADBL is highly mobilizing loan & advances than the RBB.
- The trend values of total investment of both banks are in increasing trend. But RBB's growth seems to be less efficient than ADBL.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The researcher has identified that research problem and set objectives to solve research problems about financial position of Agricultural Development Bank Ltd and Rastriya Banijya Bank. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to undertake this research more precisely.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data Collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc. and authorize web site of Nepal stock exchange and security board of Nepal.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter fourth by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists current ratio, liquidity ratio, assets management ratio, profitability ratio and other ratios. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation and trend analysis, have been applied to fulfill the objective of this study. The major findings of the study are also included in the final section of the presentation and analysis chapter.

The major source of income of a bank is interest income from loans and investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most

of the bank failures in the world are due to the shrinkage in the value of loans and advances. Hence loan is known as risky asset and investment operation of commercial banks is very risky one. Risk of non-repayment of loan is known as credit risk or default risk. Performing loans have multiple benefits to the society by helping for the growth of economy while non-performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations.

Though several commercial banks have been established in our country within short period of time, stable, strong and appropriate investment policy has not been followed by the commercial banks to earn sufficient return. They have not been able to utilize their funds more efficiently and productively. Thus proper utilization of the resources has become relevant and current issue for the banks. The directions and guidance provided by Nepal Rastra Bank are the major policy statements for Nepalese commercial banks. However, a long term and published policy about their operation is not found even in the joint venture banks.

The main objective of the study is to evaluate the financial performance of government owned commercial banks in Nepal with special reference to Agriculture Development Bank Ltd and Rastriya Banijya Bank Ltd to suggest measures to improve the financial performance of the banks. The study has been constrained by various common limitations.

The study is based on secondary data from F/Y 2006/07 to 2010/11. The data have been basically obtained from annual reports and financial statements, official records, periodicals, journals and bulletins, various published reports and relevant unpublished master's thesis. Besides this, personal contacts with the banks personnel have also been made.

Financial as well as statistical tools have been deployed in order to analyze and interpret the data and information. Under financial analysis, various financial ratios related to the financial performance of commercial banks i.e. liquidity ratio, asset management ratio, activity ratio, loan and advances portfolio, profitability ratio and growth ratio have been analyzed and interpreted. Under statistical analysis, some relevant statistical

tools i.e. co-efficient of correlation and trend analysis have been used. This analysis gives clear picture of the performance of the banks with regard to their investment operation.

5.2 Conclusion

The overall aspect of liquidity position, assets management aspect of ADBL is comparatively better than RBB. But profitability ratio shows that the RBB is earning higher profit in relation to every aspect of ADBL. There is higher deposit in RBB but in case of loan, advances and total investment, ADBL seems to be higher. There is positive correlation between deposit and loan & advances, total deposit and total investment of both banks. But in case of deposit and investment the correlation of coefficient between them seems to be negatively correlated. Comparatively, both banks have strong relation between these variables.

By looking the overall both of the banks seems to be in good position, so both of them have good future. But overall ADBL seems to be more growth oriented than RBB because of the higher increment in rate of return. Whereas in average rate of return of RBB is higher because of the higher volume of amount.

5.3 Recommendations

This recommendation is the final output of the whole study. Generally, it helps to convey correct and good information of the improvement of concerned banks in future. Several analyses have been accrued to reach in this topic. The following recommendation and suggestions have been mentioned to overcome the weakness, inefficiency and improvement of present fund mobilization and investment policy of RBB and ADBL.

⁾ Liberal Lending Policy

To achieve success in this competitive banking environment, every bank must utilize their loan and advances. The loan and. advances is the main item of the bank in assets side. If it is medicated, it could be the main reason of liquidity crisis and bankrupt. From the analysis, it has been found that loan and advances to total deposit ratio of **RBB** is lower than **ADBL**. So,

RBB is strongly recommended to follow liberal lending policy, invest more total deposit in loan and advances and maintain more stability on investment policy.

⁾ Expand Investment on Government Securities

From the analysis, it has been found that **ADBL** has invested fewer amounts in government securities when compared to **RBB**. Investment on those securities issued by government (i.e. treasury bills, development bonds, saving certificates, etc) are free of risk and highly liquid such as securities yields the low interest rate of particular maturity lowest risk in future and it is more better in regard to safety that other means investment. So **ADBL** is strongly recommended to give more emphasis to invest on government securities.

⁾ Services to Rural Areas and Lower Level People

As we know that most of commercial banks have provided their services only in highly developed cities. They should extend their services towards rural areas and preserve the banking and saving habits of the lower level people of nation. As we know ADBL has invested more in rural as well as agricultural sector. But RBB is investing many more in Urban and Commercial sector. So it is highly recommended to RBB that they should provide cheap and best loan to the rural people, so they can earn bread and butter for themselves.

⁾ Effective Portfolio Management

Portfolio management is very much important for every investor. The term investment has included many parts of risk. So the effective portfolio management plays important role to divide total investment in different sectors so that risk is also divided into different secretors. It has been found that both banks have been increasing total investment every year. So both banks are strongly recommended to invest in different sectors and to follow a saying "Do not put all eggs in the same basket".

⁾ Innovative Marketing System

In these competitive banking sectors, a well marketing system plays tremendous role in development of banks. Every commercial bank should be customer oriented. Marketing is the one of the best and effective tool to attract the customers. So it has to be sound and effective. Different marketing methods can be applied like advertisement through newspapers,

magazine, audio-visual, websites, documentary, etc. Not only these but to draw the attentions of customers through new technology like E- banking , internet banking service, SMS banking, ATM, Debit Card, Visa and Master cards, etc. RBB and ADBL have provided such modem and advance service.

⁾ Expansion of Branches

Economic growth of a country depends upon the high growth of the commercial banks. If the product and services of commercial banks expands all over the nation, the idle money from different areas can be collected and utilized for income generation purpose. So commercial banks should expand their branches not only in urban area but also rural area of the nation. But here commercial banks are centralized in the capital.

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