CHAPTER I

INTRODUCTION

1.1 Introduction

Nepal is landlocked and small country, where most of the part is covered by hilly area, which is located in central of Asia and between two big country China and India. The total area is 1, 47,181 square kilometres. The area is 0.03% of the world and 0.3% of Asia. The east-west length of Nepal is 885 km. But the wide is not equal at every part. Its highest level is the highest peak of the world Mount Everest and the lowest level lies in Kechana Kalan of Jhapa district. This Himalayan kingdom is popularly known as the country of third pole and the world of Diversities. Himalayan range of Nepal occupies one-third area in length of the world. A country of a large number of hills and mountains has a narrow plain strip in the south. Nepal is popularly known and religiously known as the birthplace of Lord Buddha (Ojha, 2000).

Till date politically, Nepal has been divided into 5 regions, 14 zones and 75 districts. Today Nepal's political scenario is in transformation stage through restructuring of local development policy through various states and districts instead of current function structures and restructuring of administration bodies through new constitution. This transient situation of country is dark cloudy environment for business and market growth. The investors are confusing what to do or what not to do in this sector. The political instability and non constitutional and non economic policy condition may change at any time and may take any shape at any time which may bring disaster in any business sector. So the currently functioning business organizations are also suffering for their further development and their existence is also becoming a greater issue. At this scenario investors are not in mood to begin new business sectors and enterprises which will stop the economic activity and will be a vacant of employment and gross development product.

In international context political conflicts in Arabian countries like Syria, Libya, Oman and other countries creates huge deficiency in petroleum products in international markets so its price is rising day by day and the necessary goods, raw

materials as well as public daily necessary goods price is inflating. In other side global market is still affected by high recession and still there is problem of labour cut off, collapse of huge multinational companies and shortage in funding to poor countries and in public facilities. People's purchasing power is highly decreased and is effecting in small entrepreneurs also and the economic activity is shortening inside the country for their own economic growth and stability.

This global recession affected small countries like Nepal in international labour market through which our remittance source is compressed to a little amount and purchasing power is decreased that creates the low business rate in real estate. Likewise country is facing labour strikes and general strikes by political parties and country is facing huge rate load shedding and high shortage of fuel scarcity. In this condition operating cost of each organization and individual household is increasing but their purchasing power gets blocked from remittance.

In this market condition there is high investment in service sectors and almost zero in manufacturing. Government is also planned zero investment in international seminars training and purchasing of machinery and spare parts to overcome huge business loss and to maintain economic activity inside the country. People's huge demand in expensive jewellery and accumulating notes inside their own territory creates high deficient of liquidity in banking activities.

However the business obstructions are gathering, banking and financing organizations are establishing day by day. So many banks finances and saving and credit organizations are actively participant and county is facing financial frauding in the organizations and risk of collapsing of institutions. In this situation working capital, liquidity, loan transactions, cash collection, investment and their institutional turnover rate is always questioned marked and people are eagerly concerned in this matter to know that how the organization are sustaining. Which organization is really in profit and who is more believable in this scenario.

1.1.1 Modern Banking in Nepal

Commercial Bank Act, 2031 BS of Nepal has defined commercial bank as an organization which exchanges money, accepts, grants loans and performs

commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose.

Nepal has been ruled over by many rulers like Kirati, Lichchhavi, Mall, Ranas and Shahs. Mostly Kirati, Lichhavi, and Mall regimes were concerned with the construction of temples, pati, pouwa, chautari etc. At that period neither the people nor the government were interested to think about the economic development of the country. According to ancient "Vanshavali" in fourteenth century, the ruler of the then Kathmandu Jaysthiti Malla segregated the local domiciles into 64 different classes according to profession they had undertaken. Tankadhari was one of those classes who used to deal in coins and precious metals such as gold. These Tankadharis were said to have carried out the borrowings and lending on money (coins). Hence, Tankadharis can be regarded as the traditional bankers of Nepal (Singh & Khadka, 2056: 142)

After long time, during the Ran regime only handfuls prime minister thought about the economic development of the country. They established some offices in 1993 B.S. (1887 AD). "Tejarath Adda" was established during the tenure of Prime Minister Ranodip Singh Rana as a first institutionalized credit house. Tejarath adda provided loan under the security of gold and silver to the government employees and public. The government established its various branches and sub-branches at different places of the country for the sake of benefits of people. In the overall development of the banking system in Nepal, the Tejarath Adda many be regarded as the Father of modern banking institutions and for a quit long time it tendered a good service to government employee as well as to the general public (Shrestha, 1995). The government also implemented the rules against the vast interest rate taken by moneylenders. Thus, the government financial institution occupies an important role in the banking history of Nepal.

Until mid 1940s, only metallic coins were used as medium of exchange. So the Government of Nepal felt the need of separate institution or body to issues national currencies and promote financial organization in the country. Hence, the NRB Act 1955 was formulated. Accordingly, Nepal Rastra Bank was established in 1956 A.D. as a central bank of Nepal. play a key role in the economy. It gathers saving from all

over the country and provides liquidity for industry and trade (Singh 2062:13). In 1957 A.D., Industrial Development Nepal. The financial shapes of these two commercial banks have a tremendous impact on the economy. That is the reason why these banks still exist in spite of their bad position.

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

Nepal Bangladesh Bank was established in 2050 B.S. in technical collaboration with IFIC Bank joint venture with Punjab National Bank of India (PNB). PNB holds 20% equity stakes in the banks. Bank of Kathmandu was established in a joint venture with Syan Bank of India to handle its operation. At present Nepal Industrial & commercial bank (NIC), Lumbini Bank Ltd, Machhapurchhre Bank Ltd, Kumari Bank Ltd, Laxmi Bank Ltd, and Siddhartha Bank Ltd came into operation with cent percent domestic investment by Nepalese promoters which is the plus point of development of banking history of Nepal. Now, there is a strong competition between commercial banks for their existence so that the growing needs of the customers can easily be achieved.

Now there are 31 commercial banks in Nepal. Among them, some banks have been opened by private sector in joint venture with foreign banks. Other commercial banks later established in the country. These commercial banks have played a very significant role in creating banking habit among the people, widening area and serving business communities and the government in various ways.

1.1.2 Role of Commercial Banks in Nepal

For all countries of the world and more so far the developing countries like Nepal, fast economic development is one of the most important aspects of developmental activities. However, it is obvious that unless the development of the important sector like agriculture, industry, trade, and commerce are achieved, envenomed development is impossible. For all the development, the regular supply of financial resources is a prerequisite.

The role of commercial banking in the economy is obviously a prime prerequisite for the formulations of the bank policy as the role shapes, the nature and character of the bank. The deposit minded bankers may overstress conservation liquidity while the loan minded banker may under emphasize safety. Often Commercial bank performs a number of interrelated functions. There are not only the custodians of the community's money but the suppliers of its liquidity. For these banks customers who seldom borrow money from the bank an important function may be the acceptance and safe keeping of deposits.

The main objective of the Commercial Bank is to make profit whereas the Central Bank thinks of the effects of its operations on the working of the economic system. The Bank by contrast is usually owned by the government. The Commercial Bank may be few or many and they are to be found business with the general public all over the country. But, Commercial Banks are those banks that are engaged in commercial banking transactions and exclude from this description such banks are established for achieving certain specific goals such as co-operatives, agricultural and industrial banks, much wider activities in relation to the Economic Development of the country have been empowered to the banks. Apart from strictly performing commercial functions, Commercial Banks so described in the act are empowered to perform such functions as undertaking of agency business. In the issue of Shares & Debentures for public corporations guaranteeing & underwriting foreign exchange business under the restriction imposed by Foreign Exchange Act, Rules, Orders & Notifications; advancing loans for period not exceeding one year against the security of the jewelers , gold & silver ornaments the mortgage of land & buildings, for acquiring plant & machinery ; and receiving deposits of government money according to the order of government in those places where there are no branches of the NRB or RBB or where the NRB gives its consent to remit through bills of exchange and checks in Nepal and foreign countries and so on.

Nepal being an underdeveloped country, its industries, agriculture, sectors has been expanding. It provides the credit facilities for the development of agriculture in cases where Agricultural Development Banks & Cooperative Societies do not enter into the field. The agriculture sector needs more & more capital for the improved methods of farming viz. the fertilizers, equipment, irrigation facilities etc. require

obliviously more investment. Thus role commercial bank in promoting agriculture sector is increasing in many of other countries, especially in developing countries like Nepal. Nepal being an under developed country, majority of the farmers in the villages are very poor. They do not have the sufficient capital to invest in this sector. The commercial bank has an important role to play here by helping the agriculture sector through two channels:

- By providing fixed capital to Agricultural Development Bank by purchasing its shares of debentures
- By giving direct credit facility to the farmers on the mortgage of their land, house, food grains & other cash crops like jute, tobacco etc.

The lending policies of Nepalese banks resemble more closely to those of the 19th century that accelerated private sector investment is dependent on the commercial banks giving more emphasis in medium &long term credit for equipment & construction. Thus Role of Commercial Banks in Nepal has been helping farmers by providing different facilities in Nepal. These helps are in the fields of cultivation, exporting rice, jute, paddy etc. & providing facilities regarding better market for their product, helping to start livestock, poultry firm, rice mills, animal husbandry, bee firm etc. & also provide the guidance for them. The role of Commercial Banks is indispensable for industrial development of Nepal. Due to insufficiency of capital, industries are depending more & more upon the supply of capital by the banks. It would not be exaggeration to state that commercial banks are mainly responsible for whatever the financial institutions like NIDC has already been established for the development of agricultural & industrial sector of the country. The commercial banks are also continuously participating in these activities. Being a mountainous country many places are very remote & sometimes it requires many weeks to approach some of the places. Due to lack of transport & communication facilities & other geographical causes, the country has been still facing the problem of imbalances economic growth.

Today, Nepal Commercial Banks are also helping for the development of transport by providing funds for transport Industry. Similarly, Banks are playing important role in tourism industries by helping to expand Hotel facilities, dealing with foreign exchange & accepting traveler cheques from the tourists.

So, the role of Commercial Banks is extremely important for the development of industries, trade, commerce, agriculture etc. of the country. In fact, no nation can develop itself without the development of these banks. It is not only true in the capitalist countries but also true in the socialist countries & the mixed economic countries like Nepal as well.

1.2 Focus of the Study

This study focus on the financial performance of commercial banks specially on Nepal investment bank and Machhapuchhre bank limited about analysis on liquidity and profitability of their own and in comparison with them. This thesis gives the general description of these two banks and analyses the data obtained from their annual reports and analyses their past data with their annual performance and with these two banks.

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. Then the name of the bank has been changed to Nepal Investment Bank Ltd.

NIBL, which is managed by a team of experienced bankers and professionals having proven track record, can offer you what you're looking for. It is sure that one’s choice of a bank will be guided among other things by its reliability and professionalism. NIBL is firmly committed to the highest standards of governance. The Board of Directors ensures that the activities of the Bank are always conducted with the highest standards and in the best interests of its stakeholders. (www.nibl.com.np).

Machhapuchchhre Bank Limited was registered in 1998 as the first regional commercial bank to start banking business from the western region of Nepal with its

head office in Pokhara. Today, with a paid up capital of above 1,314 million rupees, it is one of the full fledged commercial bank operating in Nepal; and it ranks in the topmost among the private commercial banks. Machhapuchchhre Bank Limited is striving to facilitate its customer needs by delivering the best of services in combination with the state of the art technologies and best international practices.

Machhapuchchhre Bank Limited is the pioneer in introducing the latest technology in the banking industry in the country. It is the first bank in Nepal to introduce centralized banking software named GLOBUS BANKING SYSTEM. Currently it is using the latest version of GLOBUS, referred as T-24 BANKING SYSTEM. The bank provides modern banking facilities such as Any Branch Banking, Internet Banking and Mobile Banking to its valued customers.The bank in the last few years have really opened up with branches spread all around the country. (www.mbl.com.np).

1.3 Statement of Problems

- What is the saving and lending rate of commercial bank?
- Is there any significant change in financial ratios and financial activity in a five years period of time?
- What is the impact on profitability from liquidity?
- How efficiently banks are utilizing their assets in generating interest?

1.4 Objectives of the Study

Each and every activity should be motivated to achieve specific goals. It is desired outcomes. It defines path and courses of action to the human being. So the primary objective of study is to indicate the financial position of Nepal Investment Bank Limited (NIBL) and Machhapuchhre Bank Limited (MBL). And the secondary objective is to analyze & judge the financial stability of NIBL and MBL, and make suggestion to improve its financial efficiency. The specific objectives of the study are;

- To study the saving and lending rate of commercial bank.
- To find out significant change in financial ratios and financial activity in a five years period of time.

- To identify the impact on profitability from liquidity.
- To identify how efficiently banks are utilizing their assets in generating interest.

1.5 Significance of the Study

Commercial banks in developing countries like Nepal have the greatest responsibility towards the economic development of the country. The main objective of the bank as a commercial organization is to maximize the surplus by the efficient use of its fund and resources. Being a commercial bank, it also has a responsibility towards the socio economic up-liftment of the country by providing specially considered loans and advances towards less privileged sectors. The study has followings significance:-

- The study enlightens the shareholders about the financial performance of their respective bank. This allows them to have a comparative retrospect whether their fund was better utilized or not.
- The study also compels the management of respective banks for self assessment of what they have done in the past and guides them in their future plans and programs.
- The financial agencies, researcher, finance ministry, planning commission financial planners, industrialists, politicians and economists may be benefited from the banks status from the state of emergency to current transition phase. They may clearly understand the facts to create a effective business environment in the country.
- The business banks may know the competitive market position and get benifited in making effective business strategies.
- The customers, depositors and debtors, who can objectively identify the better bank to deal with in terms of profitability, safety and liquidity.
- Policy makers at the macro level that is government and Nepal Rastra Bank will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

1.6 Limitations of the Study

This study will be limited by the following factors.

- This research paper is prepared especially, in fulfillment of degree course for MBS.
- Since the collection of data through primary sources requires on the spot visit, consuming lots of time fund and not affordable by a student, all the relevant data and information are collected and consolidated from the published financial documents like balance sheet, profit and loss account and other related journals and websites.
- The study deals with certain financial tools such as ratio analysis and statistical tools.
- Only secondary data are used.
- Limited resources and time at the disposal of the researcher doesn't allow a much more wide analysis.
- The whole study is limited to the past five years (From 2061/62 to 2066/67) period.

1.7 Organization of the Study

This whole study is divided into five chapters. Each chapter is developed to some aspects of the study.

First Chapter contains introduction of the study. It is all about the background of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

Second chapter deals with review of literature relating to financial performance of NIBL and MBL. It contains conceptual review of study and review of related studies.

Third chapter describes about research methodology. It contains the assumption of the study, research design; source of the data for this study, which has secondary source and the period of the study, are mentioned. The important part of this chapter is that it highlights the methodology used for this study.

Fourth Chapter deals with the presentation, analysis and interpretation of data. In this chapter, data of the study is presented and is analyzed through the way of designed methodology in the fourth chapter.

Fifth chapter contains summary, conclusion and recommendation of study.

CHAPTER II

REVIEW OF LITERATURE

To develop the concept and ideas about the selected topic, the review of relevant material is very important and crucial. In fact, review of literature begins with a search for a suitable topic and continuous throughout the duration of the research, either a dissertation of a in the related areas of the study so that all the past studies, their conclusion ad deficiencies may be known and further search can be conducted. It is an integral and mandatory process should not exactly replicable unless the techniques used facilitate to trace out the doubtful conclusions or some new sources of information identified. So, in this chapter, the emphasis is given to review of major relevant literature on the deposit liabilities and their analyses with overall profitability. Different definitions or opinions expressed by experts in respect of deposit mobilization are considered to be relevant for the proposed study. Similarly, this chapter also sheds light on some of the rules and regulations prescribed by the central bank regarding the commercial banks' deposit liabilities and their mobilization aspects.

This chapter is basically concerned with review of literature relevant to the topic “profitability and liquidity analysis of commercial banks (Nepal Investment and Machhapuchhre Bank Limited)”. Every study is very much based on past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past studies.

“Literature Review is basically a “Stock Taking” of available literature in one’s field of research. The literature survey thus provides us with the knowledge of the status of the field of research.”(Wolf and Pant 2000: p 30) Therefore, this chapter has its own importance in the study.

2.1 Conceptual or Theoretical Review

It includes various related terms methods and techniques of the studies. Those terms and concepts will support and make easy to understand the study. Those conceptual aspects of the study are presented herewith.

2.1.1 Concept of Commercial Banks

According to the Sayers (1970:30), “Ordinary Banking business consists of changing cash for bank deposits and bank deposits for cash; transferring bank deposits from one person or corporation to another; giving bank deposits in exchange for bill of exchange, bonds the secured or unsecured.”

The term commercial bank is also misleading because the fact that commercial bank performs not only one but many type of functions. Today the commercial banks not only issue the transfer deposits through cheques but they also operate underwriters to new equity issue deal facilities handle tax matters on behalf of their clients etc" (Vaish, 1993: p 245).

Bank is a business organization that receives and holds deposits of funds from others make loan or extents credits and transfer funds by written order of deposits (The Encyclopedia America, 1984: p 302)

A commercial banker is a dealer in money and substitutes for money and substitutions for money, such as cheque or bill of exchange. It also provides a variety of financial service (The New Encyclopedia Britannica, 1985: p 1460)

Commercial banks are those banks that pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand of short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital financing (Vaidya, 2001: p 38)

A commercial bank can be defined as an institution which deals in money in the words of the Crowther “Banks collect money from those who have it to spare or

who are saving it out of their income and lend this money out against goods security to those who requires it" (Crowther, 1985: p 58) Hence, we can conclude from the above that the commercial banks are established under the rules and legislation of the central bank of the country. It has to move as per the directives given by the central banks. Though banks are established for the mobilization of the saved fund, central bank makes certain rules so that the public or the customer of the bank may not undergo on loss of their hard earned money by the disinvestment procedure of the bank.

2.1.2 Profitability and Liquidity

2.1.2.1 Profitability

Profitability is the relationship between profits and capital (the "static" resources set aside to earn those profits). Measuring profitability means that you have to relate a profit figure (from the Profit and Loss Account) to a resources figure (from the Balance Sheet). In short, profit is the measure of gain, and profitability the relation of this gain to the firm's assets. If profitability exceeds the cost of the firm's capital, that is the interest rate at which it can borrow money, it can call it successful.

It is beneficial to society as a whole if less profitable businesses give up their resources to more profitable, because the total profit earned will raise, other things being equal. For this to hold true private and public profit must be equivalent; this is not the case where, for example, profit earners cause there to be social costs, such as atmospheric pollution or noise.

2.1.2.2 Liquidity

Liquidity may be defined as the ability of a firm to meet its financial obligations as they fall due. The balance sheet (defined as "a structured statement of assets and liabilities") measures these resources and claims, and describes the liquidity of the firm i.e. the relationship between assets and liabilities.

Liquidity, which is much easier to measure than profitability, is simply an accumulation of timing differences. There is a quantity dimension and a time dimension to liquidity - it is no good having money coming in tomorrow if you need it now - that is unless you can persuade your creditor to wait. If you hold cash or readily realizable assets such as shares, your liquidity is soundly based. If it consists

of debtors, it is dependent on their ability and willingness to pay. If it consists of goods, liquidity is a function of the sale ability of those goods and may be low if they are not in demand.

Every stakeholder has interest in the liquidity position of a company. Suppliers of goods will check the liquidity of the company before selling goods on credit. Employees should also be concerned about the company's liquidity to know whether the company can meet its employee related obligations--salary, pension, provident fund, etc. Thus, a company needs to maintain adequate liquidity. (www.accounting-ebook.com/15/1.pdf)

The 'profitability position' of a company is measured using the 'gross profit margin' and the 'net profit margin'. The gross profit margin is an indicator of the profit a business makes on its cost of sales, or cost of goods sold. It is the profit earned before any administration costs; selling costs and so on are removed. The net profit margin is an indicator of the amount of net profit per rupee of turnover a business has earned. That is, after taking account of the cost of sales, the administration costs, the selling and distributions costs and all other costs, the net profit is the profit that is left, out of which the company will have to pay interest, tax, dividends and so on (www.bized.co.uk/compfact/ratios/profit3.htm).

Lack of cash or liquid assets on hand may force a company to miss the incentives given by the suppliers of credit, services, and goods as well. Loss of such incentives may result in higher cost of goods which in turn affects the profitability of the business (www.accounting-ebook.com/15/1.pdf).

2.1.3 Liquidity verses Profitability - Striking the Right Balance

A firm is required to maintain a balance between liquidity and profitability while conducting its day to day operations. Investments in current assets are inevitable to ensure delivery of goods or services to the ultimate customers. A proper management of the same could result in the desired impact on either profitability or liquidity (www.msrit.edu/dept/mba/iitpowai.pdf).

Liquidity is a precondition to ensure that firms are able to meet its short-term obligations. The 'liquidity position' in a company is measured based on the 'current ratio' and the 'quick ratio'. The current ratio establishes the relationship between current assets and current liabilities. Normally, a high current ratio is considered to be an indicator of the firm's ability to promptly meet its short term liabilities. The quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value (www.msrit.edu/dept/mba/iitpowai.pdf).

2.1.3.1 Priorities of Profitability and Liquidity

Potential investors are interested in dividends and appreciation in market price of stock, so they focus on profitability ratios. Managers, on the other hand, are interested in measuring the operating performance in terms of profitability. Hence, a low profit margin would suggest ineffective management and investors would be hesitant to invest in the company.

Thus, a financial manager has to ensure on one hand that the firm has adequate cash to pay for its bills, has sufficient cash to make unexpected large purchases and cash reserve to meet emergencies, while on the other hand, he has to ensure that the funds of the firm are used so as to yield the highest return (www.my-quickloans.com/liquidity-vs-profitability.html).

The liquidity and profitability goals conflict in most decisions which the finance manager makes. For example, if higher inventories are kept in anticipation of increase in prices of raw materials, profitability goal is approached, but the liquidity of the firm is endangered. Similarly, the firm by following a liberal credit policy, may be in a position to push up its sales, but its liquidity decreases (www.my-quickloans.com/liquidity-vs-profitability.html).

Similarly, there is a direct relationship between higher risk and higher return. A company taking higher risk could endanger its liquidity position. However, if a company has a higher return it will increase its profitability (www.my-quickloans.com/liquidity-vs-profitability.html).

2.1.4 Financial Analysis of Organizations

As it is clear that financial analysis is a important tool for to know the performance, earnings stability, long run survival and smooth run without any managerial, technical and financial problems. It is a very tough and unpredictable to measure the performance of any organization that it may survive for long run and can generate certain profit with recovery of the investment in certain time. Before commencement of any organizations investors are always worrying about either to invest in the business or not. If yes then how its financial and managerial portfolio could should be designed so that it could generate maximum profit and recover its investment in minimum time period. It isn't feasible then what could be alternative options? As the business environment depends on so many variables, the measurement and analysis method may not always sure to predict the future of organizations. It can't be predict that the profit generating company will also go for long run survival with the same or more earnings of today. This is why financial analysis is becoming only the options to identify the future of financial investment. The tools techniques and process of financial analysis is improving day by day. Financial institutions are the pillars of economic growth of society. That's why for a smooth financial growth and to maintain the investment in organizations, employment growth and to maintain financial crisis and frauding financial experts and the regulating bodies of financial organizations develop various models and process to determine the exact status and the future status of banks and financial institutions developed. Some the latest best appropriate, common and reliable practicing methods of analysis is discussed below.

2.1.5.1 Ratio Analysis

Lawrence, (1994) "A Ratio is simply a number expressed in terms of other number and it expressed the quantitative relation between any two Variables." Moreover, it is used as a technique to quantify the relationship between two sets of financial data taken from either profit and loss account or balance sheet. It provides information relation to strength and weaknesses of financial data in relation to others. However, the researcher has employed his utmost effort to use as many ratios as possible to reach the point of true financial position of the banks. These ratios include the following.

- Liquidity ratios

- Profitability ratios
- Activity ratios
- Solvency or leverage ratios

a. Liquidity Ratios

Liquidity Ratio measures the firm's ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short-term solvency. A very high degree of liquidity of liquidity is also bad, idle cash earn nothing. So, it is necessary to a firm to maintain optimum level of liquidity. A bank is subject to a minimum cash reserve requirements (CRR) imposed by central bank to ensure minimum amount of total assets to meet unexpected withdrawals. The following ratio has been applied to find out liquidity position of the banks (Poudel, 2009).

- Current ratio
- Cash and bank balance to total deposit ratio.
- NRB balance to current and saving deposit ratio
- Cash and bank balance to current and saving deposits ratio
- Fixed deposit to total deposit ratio

b. Profitability Ratios

Profitability ratio is one of the main indicators to analyzing the financial performance of a firm. It calculates to measure the earning performance and operational efficiency of the bank. A bank should be able to produce adequate profit on each rupee of investment, if investments do not generate sufficient profits, it would be very difficult for the bank to cover operating expenses and interest charges. The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors. If the bank is unable to earn satisfactory return of investment, its survival is threatened. Under this category the researcher has calculated the following ratios to obtain the stated objectives of the study (Poudel, 2009).

- Return on total assets ratio
- Interest earned to total assets ratio

- Total Interest expenses to total interest income ratio

c. Activity Ratios

Activity ratios are also known as assets management ratios. These ratios look at the amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels. Mostly, activity ratio is used to evaluate managerial efficiency and proper utilization of assets (Poudel, 2009).

- Investment to total deposit ratio
- Loans and advances to total deposit ratio.
- Loan advances total assets ratio

d. Solvency or Leverage Ratio

The solvency or leverage ratios throws light on the long term solvency of a firm reflecting its ability to assure the long term creditors with regard to periodic payment of interest during the period and loan repayment of principal on maturity or in predetermined installments at due dates. There are thus two aspects of the long-term solvency of a firm (Poudel, 2009).

- Ability to repay the principal amount when due
- Regular payment of the interest.

The ratio is based on the relationship between borrowed funds and owner's capital it is computed from the balance sheet, the second types are calculated from the profit and loss a/c. The various solvency ratios are

- Debt equity ratio
- Debt to total capital ratio
- Proprietary (Equity) ratio
- Fixed assets to net worth ratio
- Fixed assets to long term funds ratio
- Debt service (Interest coverage) ratio

2.1.5.2 Basel Accord II

Bank capital framework sponsored by the world's central banks designed to promote uniformity, make regulatory capital more risk sensitive, and promote enhanced risk management among large, internationally active banking organizations. The International capital accord, as it is called, will be fully effective by January 2008 for banks active in international markets. Other banks can choose to "opt in," or they can continue to follow the minimum capital guidelines in the original Basel Accord, finalized in 1988. The revised accord (Basel II) completely overhauls the 1988 Basel Accord and is based on three mutually supporting concepts, or "pillars," of capital adequacy. The first of these pillars is an explicitly defined regulatory capital requirement, a minimum capital-to-asset ratio equal to at least 8% of risk-weighted assets. Second, bank supervisory agencies, such as the Controller of the currency, have authority to adjust capital levels for individual banks above the 8% minimum when necessary. The third supporting pillar calls upon market discipline to supplement reviews by banking agencies.

Basel II is the second of the Basel accords, which are recommendations on banking laws and regulations issued by the Basel committee on banking supervision. The purpose of Basel II, which was initially published in June 2004, is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face. Advocates of Basel II believe that such an international standard can help protect the international financial system from the types of problems that might arise should a major bank or a series of banks collapse. In practice, Basel II attempts to accomplish this by setting up rigorous risk and capital management requirements designed to ensure that a bank holds capital reserves appropriate to the risk the bank exposes itself to through its lending and investment practices. Generally speaking, these rules mean that the greater risk to which the bank is exposed, the greater the amount of capital the bank needs to hold to safeguard its solvency and overall economic stability.

Basel II uses a "three pillars" concept – (1) minimum capital requirements (addressing risk), (2) supervisory review and (3) market discipline – to promote greater stability in the financial system.

Figure 2.1 The Three Pillars of Basel II

Source:Rani, (2010)

The Basel I accord dealt with only parts of each of these pillars. For example: with respect to the first Basel II pillar, only one risk, credit risk, was dealt with in a simple manner while market risk was an afterthought; operational risk was not dealt with at all (Rani, 2010).

2.1.5.3 CAMELS Analysis

During an on-site bank exam, supervisors gather private information, such as details on problem loans, with which to evaluate a bank's financial condition and to monitor its compliance with laws and regulatory policies. A key product of such an exam is a supervisory rating of the bank's overall condition, commonly referred to as a CAMELS rating.

The acronym "CAMEL" refers to the five components of a bank's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings, and Liquidity. A sixth component, a bank's Sensitivity to market risk was added in 1997; hence the acronym was changed to CAMELS. Ratings are assigned for each component in addition to the overall rating of a bank's financial condition. The ratings are assigned on a scale from 1 to 5. Banks with ratings of 1 or 2 are considered to present few, if any, supervisory concerns, while banks with ratings of 3, 4, or5 present moderate to extreme degrees of supervisory concern. (http://www.citefin.com/298-camel-model.html)

CAMELS evaluate banks on the following six parameters:-

(a) Capital Adequacy

Capital adequacy is measured by the ratio of capital to risk-weighted assets (CRAR). A sound capital base strengthens confidence of depositors.

(b) Asset Quality

One of the indicators for asset quality is the ratio of non-performing loans to total loans (GNPA). The gross non-performing loans to gross advances ratio is more indicative of the quality of credit decisions made by bankers. Higher GNPA is indicative of poor credit decision-making.

(c) Management

The ratio of non-interest expenditures to total assets (MGNT) can be one of the measures to assess the working of the management. . This variable, which includes a variety of expenses, such as payroll, workers compensation and training investment, reflects the management policy stance.

(d) Earnings

It can be measured as the return on asset ratio.

(e) Liquidity

Cash maintained by the banks and balances with central bank, to total asset ratio is an indicator of bank's liquidity. In general, banks with a larger volume of liquid assets are perceived safe, since these assets would allow banks to meet unexpected withdrawals.

(f) Systems and Control

Each of the above six parameters are weighted on a scale of 1 to 100 and contains number of sub-parameters with individual weightage (http://www.citefin.com/298-camel-model.html).

Table 2.1 Rating Symbol and Indications of Systems and Control

Rating Symbol	Rating symbol indicates
A	Bank is sound in every aspect
B	Bank is fundamentally sound but with moderate weaknesses
C	Financial, operational or compliance weaknesses that give cause for supervisory concern.
D	serious or immoderate finance, operational and managerial weaknesses that could impair future viability
E	Critical financial weaknesses and there is high possibility of failure in the near future.

Source http://www.citefin.com/298-camel-model.html)

2.1.5.4 Peer Comparison

Peer comparison is one of the most widely used and accepted methods of equity analysis used by professional analysts and by individual investors. It has proved to be efficient and effective, quickly showing which stocks may be overvalued, and which might make good additions to a portfolio. While there are other methods of determining when a stock is worth buying, such as discounted cash flow or technical analysis, peer comparison analysis remains a key tool for uncovering undervalued stocks. Read on to learn more about how to use peer comparison as well as how this method stacks up against other types of analysis (www.investopedia.com).

Relative valuation is a method of valuing a firm by comparing standardized valuation metrics with those of similar companies, and it is generally the starting point in peer comparison analysis. It is really quite simple: First, choose relevant ratios, such as price-earnings (P/E), price-to-sales (P/S) or others that you deem relevant to the investment decision, then find these ratios for each company in the peer group and see how each company stacks up to the rest (www.investopedia.com).

Leverage and profitability metrics when employing peer comparison analysis, leverage and profitability metrics alone will not point directly to the fair value of a firm, but they can give an investor an idea of how a firm should be valued relative to its peers. If you know that company X has a return on equity (ROE) of 10%, but the rest of its close competitors carry an ROE of 15%, it is a sign that company X may not turn capital into profits as efficiently as its competitors, and should be valued at a lower multiple than its peers. Of course, an investor should look at several metrics before making a decision on how a firm stacks up to its peers, including ROE, return on assets (ROA), gross margin, operating margin, profit margin, debt/equity ratio and others that may be relevant for a firm's particular circumstances or industry (www.investopedia.com).

2.1.5.5 EAGLES

The EAGLES is able to measure and compare banks performance in a more determinate, objective and consistent manner. The name is derived from the key success factors confronting banks today, i.e. earning ability, asset quality, growth, liquidity, equity and strategy. This approach has been pioneered by the writer and has gained creditability among the banking community and fund management industry in Asia, for competitor analysis and investment planning respectively. It also predicted the Asian financial crisis in the 1980s when the writer was “banned” from data collection in many countries. (Bankers Journal Malaysia, 2009)

Earning ability is shown by three noteworthy indicators – return on assets (ROA), return on shareholders’ fund (ROSF) and income/overheads ratio (IOR). The importance of the IOR is usually not well understood. The main point lies in that Income depends on external market forces, while overheads are highly influenced by internal staffing. So the bank must know how to adjust the staffing according to market demand for its products and services. (Bankers Journal Malaysia, 2009)

Asset quality is best assessed by on-site inspection of the bank’s loan portfolio. If this is not possible, the asset quality can be measured by the level of bad debt provisions, that is, bad and doubtful debts (BDD) as a percentage of total loans. A conservative approach will dictate that the quantum of provision to err on the high side rather low (Bankers Journal Malaysia, 2009).

Growth rates of loans and core deposits are the most important indicators of a how a bank wants to position itself in the marketplace. A high growth loan book without a corresponding growth in deposit base signifies an intention to increase interest margins. A higher deposit growth without a corresponding growth in loans means that the bank suffers from low interest margins. For some banks lower interest margins could hamper overall profitability (Bankers Journal Malaysia, 2009).

Liquidity can be described as the ability of a bank to have sufficient funds to meet cash demands for loans deposit withdrawals and operating expenses. For this reason, a balance should be found between the amount of deposits garnered and the quantum of loans extended. The indicator is the deposit-to-loan ratio (Bankers Journal Malaysia, 2009).

Equity level and capital adequacy have profound impact upon the bank. Not only is there an international guideline (Basle II) that stipulates a bank must have a minimum capital equivalent to 8% of risk adjusted asset. Many banks are restricted to open additional branches unless they meet minimum capital requirements (Bankers Journal Malaysia, 2009).

The effective management of a bank strategy is indicated by the strategic response quotient. It is an intriguing ratio because it assesses management's ability to lend, to garner deposits, obtain fee-based income and to manage the operating cost. As to what is an appropriate balance of the three core banking activities will depend on the bank's strategy. The SRQ is obtained by dividing the interest margin by net operating cost (that is, total operating cost less fee income). The higher figure the better combined with excellent risk controls (Bankers Journal Malaysia, 2009).

2.2 Review of Related Studies

In this segment it has tried to write the major findings of the various related articles used by various magazines on different time period and the major findings and analysis of the various thesis that are found to be related to the study.

2.2.1 Review of Articles/Journals

In this section effort has been made to examine and review of some related articles in different economic journals. World Bank discussion papers, magazines, newspapers and other related books.

Himalayan News Service in their article "Liquidity stress hurts credit flow" mentioned that the liquidity crunch in the financial sector, squeezing of credit to realty sector, and lack of investment-friendly environment attributed to less than favorable expansion of credit in the last fiscal year. As per the Nepal Rastra Bank (NRB)'s macroeconomic report of fiscal year 2009-10, loan and advances of commercial banks has increased by Rs 72.9 billion to Rs 593.6 billion in fiscal year 2009-10 but the credit to private sector has increased by only 16.1 per cent compared to a growth of 32.3 per cent in a fiscal ago.

"Since NRB intervened in lending to the over-heated sector of realty and housing, and put the cap on single sector exposure, credit expansion has been cropped," "Likewise, NRB has now become vigilant on banks and financial institutions maintaining credit-deposit ratio. So, they are also careful not to float excessive loans and also credit to unproductive sector (www.thehimalayantimes.com).

Eljelly, (2004) an empirical investigation in an emerging market" empirically examines the relation between profitability and liquidity, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock companies in Saudi Arabia. Using correlation and regression analysis the study found significant negative relation between the firm's profitability and its liquidity level, as measured by current ratio. This relationship is more evident in firms with high current ratios and longer cash conversion cycles. At the industry level, however, the study found that the cash conversion cycle or the cash gap is of more importance as a measure of liquidity than current ratio that affects profitability. The size variable is also found to have significant effect on profitability at the industry level. Finally, the results are stable over the period under study (International Journal of Commerce and Management, 1999).

Jacobson, (1996) in his article, “Effects of Profitability and Liquidity on R&D Intensity: Japanese and U.S. Companies Compared” investigates the proposition that Japanese companies have a greater propensity than U.S. companies to sustain commitment to R&D in the face of fluctuating profits and liquidity. The analysis showed that profitability declines led to increased R&D intensity in Japan. These effects were not confined to members of Japanese financial keiretsu, or industrial groups. The R&D intensity of U.S. companies fluctuated directly with two-year lagged profitability and liquidity variables, but these relationships might have been confined to more research-intensive companies.

2.2.2 Review of Related Unpublished Thesis

Under this segment, it has tried to find out the major conclusion and recommendations of the previous study made by the international researchers and by the T.U. student. The unpublished thesis which is found relevant to the study is as follows: -

Buyinza, (2010) had published a thesis on determinants of profitability of commercial banks in Sub Saharan Africa (SSA) countries. The purpose of this study is to extend earlier work on the determinants of profitability of SSA commercial banks and examine to what extent the profits of banks are influenced by internal factors that are under the control of bank management (bank's-specific characteristics) and to what extent by external factors in form of macroeconomic factors and financial industry structure which are not under the control of bank management influence variation in banks profitability.

Conclusions obtained from the thesis are summarized as follows. There is no econometric study that has examined the important issue of the determinants of the banking profitability for the SSA banking market taking into account the different tax regimes in the different countries. An unbalanced pooled time series data set of 23 SSA commercial banks operating during the period of 1999 to 2006 provided the basis for the econometric analysis. The results indicate that individual bank characteristics explain variation in bank profitability. In addition, per capital GDP growth rate and inflation have a significant and positive impact on bank profitability, while inflation showed mixed effects. The financial industry structure

indicators, banks' assets to GDP are statistically significant and negatively related to bank profitability.

Chen, (2009) had published a research report on bank liquidity risk and performance. This study is to employ alternative liquidity risk measures besides liquidity ratio, and investigate the causes of liquidity risk (causes of liquidity risk model), using an unbalanced panel dataset of 12 advanced economies commercial banks over the period 1994-2006. It applies panel data instrumental variables regression, using two-stage least squares estimators to estimate bank liquidity risk and performance model.

In brief, the research findings are summarized as follows. It found that liquidity risk is the endogenous determinant of bank performance. The causes of liquidity risk include components of liquid assets and dependence on external funding, supervisory and regulatory factors and macroeconomic factors. Besides, it also found that liquidity risk may lower bank profitability (return on average assets and return on average equities) because of higher cost of fund, but increase bank's net interest margins. Besides, it classifies countries as bank-based or market-based financial system. The result shows that liquidity risk is negatively related to bank performance in market-based financial system. However, it has no effect on bank performance in bank-based financial system.

Athanasoglou, (2006) published a research report on determinants of bank profitability in the south eastern European region (SEE). This paper seeks to examine the effect of bank specific, industry-related and macroeconomic variables on the profitability of the SEE banking industry (namely Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Romania and Serbia- Montenegro) over the period 1998-2002. It focuses on two main directions: Firstly, while a number of studies have examined the effects of internal and external factors on bank profitability in several countries and geographic regions, as far as we are aware of, hardly any systematic research has been carried out for the rapidly evolving SEE region; and secondly, while distinguishing between the structure-conduct-performance and the efficient-structure hypotheses, it also account for the effect of the reform process,

that took place during this period, and the macroeconomic environment on profitability.

This paper, had analyzed the effect of a carefully selected set of determinants on bank profitability in the SEE region. The study involved three phases: (*i*) a brief description of the banking system under review; (*ii*) a discussion of the determinants of bank profitability; (*iii*) the empirical testing of a random effects model, followed by the presentation of the results and some policy implications. The empirical results provide a rigorous consensus that the SEE countries need a stable, profitable and efficient banking system in order to finance both private and public investment and expenditures. As mention in the analysis, the increasing levels of financial reform (closely related to general economic growth) and improvement in the structure of the credit institutions' aggregated balance sheet, are joint determinants of bank profitability. Enhancement of bank profitability, as a condition for enabling national banking sectors to survive in a single market by affording competitive interest rates, requires new standards in risk management (capital and credit) and operating efficiency, which, according to the evidence presented here, crucially affects profits. Concentration is positively (and usually significantly) correlated with bank profitability even when market share is also included in the estimated model.

Finally, with respect to the macroeconomic variables, inflation has a strong effect on profitability, while bank profits are not significantly affected by real GDP per capita fluctuations, probably owing to the small sample period.

Bordeleau and Graham, (2010) had studied on "The Impact of Liquidity on Bank Profitability" has mostly presented the theoretical or empirical works-in-progress on subjects in economics and finance.

It is mentioned that the recent crisis has underlined the importance of sound bank liquidity management. In response, regulators are devising new liquidity standards with the aim of making the financial system more stable and resilient. In this paper, the authors analyze the impact of liquid asset holdings on bank profitability for a sample of large U.S. and Canadian banks. Results suggest that profitability is improved for banks that hold some liquid assets, however, there is a point at which

holding further liquid assets diminishes a banks' profitability, all else equal. Moreover, empirical evidence also suggests that this relationship varies depending on a bank's business model and the state of the economy. These results are particularly relevant as policymakers devise new standards establishing an appropriate level of liquidity for banks. While it is generally agreed upon that banks undervalued liquidity prior to the recent financial crisis, one must also consider the tradeoff between resilience to liquidity shocks and the cost of holding lower-yielding liquid assets as the latter may impact banks' ability to generate revenues, increase capital and extend credit.

This paper presents empirical evidence regarding the relationship between liquid asset holdings and profitability for a panel of Canadian and U.S. banks over the period of 1997 to 2009. In short, results suggest that a nonlinear relationship exists, whereby profitability is improved for banks that hold some liquid assets, however, there is a point beyond which holding further liquid assets diminishes a banks' profitability, all else equal. Conceptually, this result is consistent with the idea that funding markets reward a bank, to some extent, for holding liquid assets, thereby reducing its liquidity risk. However, this benefit is can eventually be outweighed by the opportunity cost of holding such comparatively low-yielding liquid assets on the balance sheet. At the same time, estimation results provide some evidence that the relationship between liquid assets and profitability depends on the bank's business model and the risk of funding market difficulties.

This is particularly important in terms of discussing any optimal level of liquid asset holdings relative to profits. Going forward, this paper could serve as a stepping stone for additional work. One could apply the current framework to additional countries, perhaps focusing on those with and without pre- existing bank liquidity requirements. One could also explicitly model the determinants of bank liquid asset holdings or go one step further and establish a general equilibrium model including bank profitability and liquidity. In any event, the current paper serves as an initial step, highlighting an important, if elementary, relationship, relevant to the regulation of banks.

Shrestha, (2004) has analyzed the financial performance of the commercial banks using descriptive and diagnostic approach. In her study she has concluded the points as below;

Per capital deposits as well as per capital credit in commercial banks have increased tremendously. The contribution of deposits on GDP has also been seen increasing. The assets holding of commercial banks are growing with 42.12% rate that is supposed to be higher for a developing country. It can be concluded that the commercial banks in Nepal are performing their function of collecting the domestic property. The structural ratio of commercial banks shows that banks invest on the average 75% of their total deposits on government securities and the shares of other financial institutions. The analysis of reserve position of commercial banks showed quite high percentage of deposit as cash reserve.

The debt equity ratio of commercial banks is more that 100% in most of the time period under study period. It lead to conclude that the commercial banks are highly leverage and highly risky. Joint venture banks had higher capital adequacy ratio but has been declining every year. Return ratios of all banks show that most of the time foreign banks have higher return as well as higher risk that the government owned banks. In case of the analysis of management achievement, foreign banks were found to have comparatively higher risk than local banks.

Shrestha, (2003) had conducted a research on topic “A comparative Analysis of Financial Performance of Selected Joint Ventures Banks”. She had mainly focused her research on comparative examining the overall performance of NABIL, HBL and NB Bank through financial Analysis. She had collected necessary data and other information from the secondary sources of data. She had pointed out various findings of the research were;

Positions of HBL & NABIL are lower; they were still able to meet their current obligation. Profitability of these banks were reflected by the determination of return on investment, return on shareholders’ equity, interest earned to total assets ratio, interest income to interest expenses ratio. Activity/Turnover ratio indicated that the loan and advance to total deposits and to saving deposit ratio of NB Bank was the

highest with NABIL in the second place while that of HBL was the least. This implied NB Bank was efficiently utilizing its deposits on loan and advances.

Gupta, (2004) had conducted a research on topic "Financial Performance Analysis of Everest Bank Ltd." He had mainly focused his research in examining the technique of financial analysis such as liquidity, activity, profitability ratios of EBL. In his research he had pointed out various findings.

The banks liquidity position is below the normal standard and also inconsistency in liquidity policy. The EBL should utilize its risky assets and shareholders fund to gain profit margin. Similarly it should reduce its expenses and should try to collect cheaper fund being more profitable. EBL should encourage the small depositors for promoting small investors. Return on equity is found satisfactory, as it has not efficiently utilized its equity capital.

Singh, (2004) concludes that the both banks are in a better position to discharge current liabilities and utilization of deposits. Himalayan bank is utilizing deposits more efficiently in loan advances than NABIL. Both of the banks have highly geared capital structure. However both banks have maintained higher capital adequacy ratio than the required ratios. Comparatively both of the banks performances are satisfactory. The research suggests increasing equity base operational profit and liquidity position as per the new regulation of NRB.

Paudyal, (2006) had conducted a research on topic, "A Comparative study on financial performance of NABIL Bank Ltd. and Nepal Bangladesh Bank Ltd." On his study he concludes that overall liquidity position of NBBL was stronger than that of NABIL. It can be concluded that NBBL could discharge its depositor's obligation more comfortably. Analyzing the activity or turnover of both banks, NBBL mobilized its deposits more on loan and advances where as NABIL mobilized its deposits more prudently and efficiently in generating income. Similarly, capital adequacy position of NABIL was found to be better than that if NBBL. Regarding to capital structure of the bank, NBBL was found to have adopted 'high risk- high return' strategy as suggested by its highly leveraged i.e. debt dominated capital structure. Under favorable condition, it could offer a handsome return to its owners.

According to profitability analysis, NABIL was found sound profitability due to its higher ratio. Also, other indicators in terms of earning per share (EPS) and dividend per share (DPS) found sharply higher in NABIL which implies positive attitude of stakeholders toward NABIL.

Ghimire, (2005) had conducted a research on a topic "Non Performing Assets of Commercial Banks: Cause and Effect." He had mainly focused his research in analyzing and identifying the impact, cause and consequences of NPA of Commercial banks namely NBBL Nepal SBI bank and BOK. Time period covered by the researcher was five years from fiscal year 1997/98 to 2001/02. Necessary data and other information were collected from secondary sources. He had pointed out various findings of the research were;

There is positive growth of operating profit maintained by all the sample banks but the growth of net profit is negative due to increase in loan loss provisions. It is found that there is some relationship between credit expansion and increment of NPA. NBA (Non Banking Assets) is created due to having NPA. But it is not certain that NPA always creates NBA.

In regard to the creation of high level of NPA, it has been found that relationship of borrowers with top management is the major determining factor in lending. Commercial banks are giving least weight on personal integrity of the borrower.

Awasthi, (2003) had conducted a research on a topic "A Comparative Study on Financial Performance between HBL and Bank of Kathmandu Ltd." In his research he had pointed out various findings;

K.C., (2000) in his thesis entitled, "comparative study of working capital management of NBL and NABIL", aims to examine the management of working capital in NBL and NABIL. In his study he has mentioned the following Findings: The average cash and bank balance and loan and advance are higher on NABIL than NBL. Management of loan and advances is more problematic is NBL than NABIL. NBL interest incomes are better than NABIL. NABIL has the better utilization of deposits in income generating activity than NBL. It also shows that NABIL has

better investment efficiency in loan and advances. Liquidity management policies of these two banks are significantly different. Cost of funds is higher on NBL than NABIL. NBL earned higher interest income than NABIL, but the profitability position of NABIL is better.

Ghimire, (2003) had conducted a research on a topic of "financial performance of commercial banks: A comparative case study of NB Bank HBL and EBL". He had mainly focused on his study in examining the financial performance of those three banks such as liquidity, Profitability, activity and capital structure analysis. He had based on secondary data such as annual reports and other related journals and books etc. In this research Ghimire, had pointed out various findings.

The liquidity position of the all banks was not satisfactory interest rate for loan and advances for more competitiveness. The EPS of NB Bank and EBL had been increasing trend but the EPS of HBL had been rapidly decreasing over the period.

Gupta, (2005) had conducted a research on a topic "Financial performance Analysis of Everest Bank ltd". He had mainly focused his research in examining the technique of financial analysis such as liquidity, activity. profitability ratios of EBL. The period covered by the research was five years and Necessary data and other information had been collected from the primary and secondary sources of data. In this research Mr. Gupta pointed out some remarkable findings these are.

The banks liquidity position is below the normal standard and also inconsistency in liquidity policy.EBL should be encouraging the small depositors for promoting small investors. The EBL should utilize its risky assets and shareholder fund to gain profit margin. Similarly it should reduce its expenses and should try to collect cheaper fund being more profitable. Return on equity is not satisfactory, as it has not efficiently utilized its equity capital.

Tuladhar, (2007) had undertaken a study entitled "A comparative study of working objective of her study was to study the current assets and current liabilities and their impact on liquidity and profitability as well as to analyze the liquidity, assets

utilization, long -term solvency and profitability position of those two banks. She had analyzed and concluded the following points.

NABIL and SCBNL had maintained current Ratio of 1.55 and 1.31 respectively. The average quick ratio of NABIL and SCBNL were 0.64 and 0.75 respectively. Liquidity of SCBNL was always better than NABIL during the study period. SCBNL had more short term and less costly resources of fund than NABIL. NABIL had better investment efficiency on loans and Advances. Both banks follow conservative working capital policy. Profitability position of SCBNL is better than NABIL.

Shrestha, (2008) in her thesis, "Management of deposit and liquidity and its impact on profitability" study about deposit and analysis of commercial banks from their annual reports.. The study is to assist the liabilities and assets structure of joint ventures banks. She concluded the following points:-

Liabilities and assets management is the primary focus of funds management. Total deposit of NABIL is higher than others therefore NABIL has more funds to make it utilize. The non interest bearing deposits of NABIL i.e. current deposit and margin deposit is more than others. After NABIL, HBL has quite improving conditions. The deposits analysis concludes that NABIL and HBL perform best in collecting the total deposits thus they could get profit by mobilizing their deposits in productive sector. Banks have higher liquidity ratio than that of the current ratio standard 2:1 it means deposits are not properly utilized in profit generation sector. NABIL has highest ROA ratio among all banks with the ratio 2.25% in the fiscal year 2004/05.

A study on financial analysis of NABIL bank limited Khadka, (2009) concerns more focus on liquidity and profitability of NABIL bank. The study covered the data of five years from 2059/60 to 2063/64. His major findings are as follows:-

The bank has been able to maintain its position in the country as one of the leading joint venture commercial banks in country. The average current ratio is observed to be 1.1 times during the study period. The average ratio of cash and bank balance to total deposit was found to be 5.54.Investment to total deposit range from 44.85 to

29.25 percentages. The lowest ratio is in the fiscal year 2061/62 and highest ratio is in the fiscal year 2059/60.Total liabilities to equity ratio are in fluctuating trend, which is not satisfactory. The average ratio is observed to be 10.93 percent which is below than fiscal year 2063/64 and 2059/60(12.25, 11.60). The return on total assets of NABIL bank shows good trend. The average ration of ROE is 2.29%. The highest ratio occurred in 2061.62 with 3.02 % and lowest fall in 2063/64 with 2.47 %.The earnings per share ratio of NABIL bank is satisfactory. It is in increasing trend with good percent every year. The lower ratio is 84.65% in 2059/60 and high is 137.07 in 2063/64.

Analysis on deposit mobilization of commercial banks, Maharjan, (2009) focus on study on financial factors especially on liquidity and profitability. His study focus on NBL and SCBNL and the data taken are from 2005 to 2008. His major findings are as follows:-

The liquidity position of the banks, both banks have satisfactory level of liquidity but SBNL has the larger portion of liquid assets in total assets. Return on liquid fund of NBL is not more satisfactory and the portions of liquid fund to total deposit of both banks are in satisfactory level in comparison to total commercial banking system. In case of profitability these two have higher ratios than other commercial but among these two SCBNL have well. In the analysis of growth ratios of the commercial banking system, NBL and SCBNL, these all have the positive growth in deposit and investment but NBL has the negative growth in loan and advance and return.

2.3 Research Gap

Efficient banking is not only the output of interaction of institutions involved mechanism and process of investment of the shareholders. However it is also the thing that is influenced by the rationality in mobilizing the deposits in various sectors in a balanced proportion, cash collection minimum operating cost along with proper decision making by the management in lending and financing as well as making a trustful business environment with customers to attract them for deposits.

High liquidity is a loss to any business organization however the ratio of liquidity in banking institution should be quite higher than in any service or manufacturing organizations. Higher the liquidity means lesser mobilization of deposits as investment in organizations so less in interest income which reduce the profitability of the organization. Lesser the liquidity means cash crunch in institutions which will lose the reliability of bank towards the depositors due to failure in issuance their demand of cash as per their requirement.

Today no one knows about the actual scenario of banks how they are surviving and what is their liquidity and profitability. Do the banks have sufficient liquidity and are they generating profitability for their financial performance and business success. One more thing is that we don't know the exact relationship of liquidity and profitability. These types of research aren't seen in our institutions. The past researches focus on comparing various ratio of different banks only. It is found that liquidity and profitability are dependent to each other and their little changes affects either on profitability or on long run survival of the institution. The past research doesn't provide the information about the lending and deposit rate of banks. The interest rate isn't compared and the best bank for lending and depositing is not suggested for the customer.

So some efforts is given to find the appropriate ratio of liquidity and profitability on which an institution will grow high through the study of their ratios as well as the lending and depositing rate their financial performance and analysis and efficiency of the banks and comparison of the two banks.This thesis concerns to compare the banks through ratio analysis and CAMELS analysis and describes about the methods of financial analysis.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is the technique to achieve the stated objectives of the study. This chapter studies how research is conducted, how the research is made effective and what are the steps of research so that the study and goal of the study are easily achieved. Especially research refer sequential step's to be followed by researcher at the time of solving problem or studying the concerned subject matter in detail that include following steps.

- Research design
- Population and sample
- Period covered
- Sources and types of data
- Data procedure
- Method of data analysis

3.1 Research Design

This study is carried out by using the secondary data has been used for analysis. Hence, research design is highlighted for ascertaining the basic objectives of the study. Research design includes define procedures and techniques which guide to sufficient way for analysis and evaluating the study. As already mentioned the main objectives of this study are to analyze the financial performance of NIBL and MBL and to analyze the profitability and liquidity relations. Basically, this study deals with the financial performance analysis of NIBIL and MBL as case study. Hence this, analytical as well as descriptive approach has been used to evaluate the financial performance of the bank and to obtain stated objectives.

3.2 Population and Sample

At present, there are 31 commercial banks are operating in Nepal. They constitute the population sample among them, NIBL which is awarded as bank of the year and MBL as the growing regional commercial banks are chosen for the study.

3.3 Period Covered

The study covers the secondary data of five years. The study period covers latest fiscal year 2062/63 to 2066/67.

3.4 Sources and Types of Data

To conduct this study, secondary data are taken from annual reports of related office and their websites. So the major sources and types of data include these published sources,

- Financial statement of NIBL and MBL
- Annual report of the bank
- Different previous studies
- Related bulletins, reports, periodically published by various organizations.

3.5 Data Procedure

The collected data through different sources can't be used directly for the analysis in their original form. So, these data are checked, re-evaluated, edited and tabulated to bring them into appropriate form for the analysis purpose.

Moreover, different graph charts are presented according to necessity to interpret visually and to make the reports attractive. The data are tabulated according to subject matter and are shown in table in sequential way. Similarly, the financial ratios are used for the analysis and interpretation of the financial performance of selected sample.

3.6 Method of Data Analysis

The data analysis is carried out as follows:-

- Statistical methods
- Financial methods

In statistical methods percentage and average of various ratios is calculated and is analysed with the future trends and its values is compared with the two banks. The ratios and percentages are presented in table and finally in graphical form.

In financial methods liquidity, profitability and efficiency ratios of the sampled two banks is calculated and analyzed by comparing with the previous years and in between the sampled banks.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

In this chapter efforts have been made to analyze the liquidity, profitability and financial status of NIBL and MBL. This chapter, first proceeds with financial analysis by tabulation and then, at last with their graphs for trend analysis. The financial analysis is done through presentation of data and calculating various financial ratios and CAMEL analysis. This reflects the relationship variables affecting liquidity and profitability for analysis. Data presentation and analysis is conducted as mentioned below in two categories

- Ratio analysis
- CAMEL analysis

4.1 Ratio Analysis

It refers to the systematic use of ratios to interpret the financial statements in terms of the operating performance and financial position of a firm. It involves comparison for a meaningful interpretation of the financial statements. The ratios, which can be calculated from the accounting data, are classified into the following broad categories

- Liquidity ratio
- Profitability ratios
- Efficiency ratios
- Turnover ratio
- Solvency or leverage ratios

4.1.1 Liquidity Ratio

It measures the ability of the firm to meet its short-term obligations that is capacity of the firm to pay its current liabilities as and when they fall due. Thus these ratios reflect the short-term financial solvency of a firm. A firm should ensure that it does not suffer from lack of liquidity. The failure to meet obligations on due time may result in bad credit image, loss of creditors confidence, and even in legal

proceedings against the firm on the other hand very high degree of liquidity is also not desirable since it would imply that funds are idle and earn nothing. So therefore it is necessary to strike a proper balance between liquidity and lack of liquidity. The various ratios that explains about the liquidity of the firm are

- Current ratio
- Cash reserve ratio

4.1.1.1 Current Ratio

The current ratio measures the short-term solvency of the firm. It establishes the relationship between current assets and current liabilities. It is calculated by dividing current assets by current liabilities.

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

Current assets include cash and bank balances, marketable securities, inventory, and debtors, excluding provisions for bad debts and doubtful debtors, bills receivables and prepaid expenses. Current liabilities includes sundry creditors, bills payable, short- term loans, income-tax liability, accrued expenses and dividends payable.

Table 4.1 Comparison of current ratio between MBL and NIBL

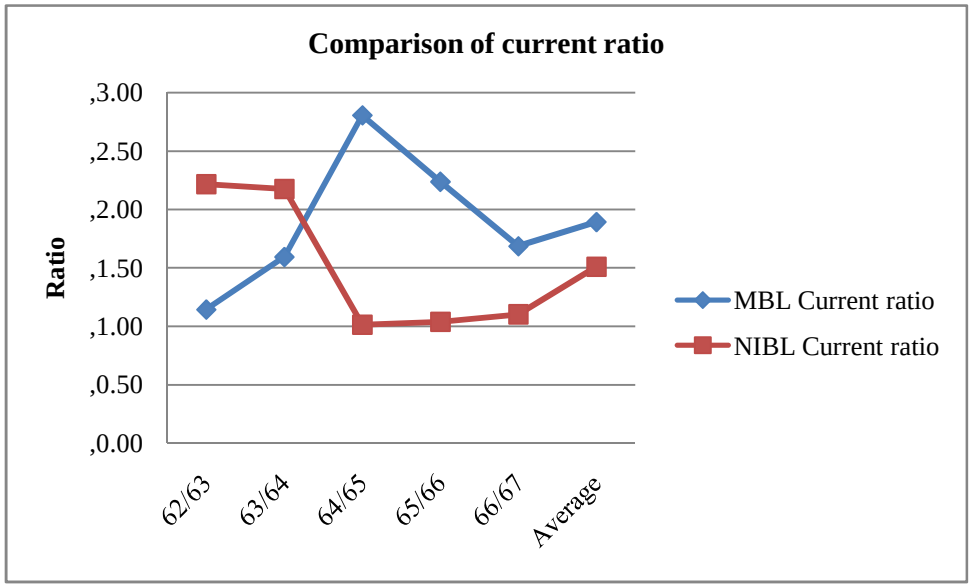
In millions (000,000)

Bank	**Year**	**62/63**	**63/64**	**64/65**	**65/66**	**66/67**	**Average**
MBL	Current assets (Rs)	4,521	8,137	9,229	12,752	17,893	
	Current liabilities (Rs)	3,953	5,106	3,290	5,701	10,618	
	Current ratio (%)	1.14	1.59	2.80	2.24	1.69	1.89
NIBL	Current assets (Rs)	19,198	22,929	31,870	44,096	46,212	
	Current liabilities (Rs)	8,667	10,546	31,431	42,449	41,927	
	Current ratio (%)	2.22	2.17	1.01	1.04	1.10	1.51

Source: Annual report of MBL and NIBL

Observing the assets and liabilities of the sampled bank it can be clearly seen that both the banks current ratio is in the range of 1-2 %. The maximum and minimum ratio of MBL is 2.8% in the year 064/65 and 1.14% in the year 062/63 respectively while its average ratio of five years is 1.89%. The maximum and minimum ratio of NIBL is 2.22% in the year 062/63 and 1.04% in the year 065/66 respectively while its average ratio of five years is 1.51%. But more consistent is seen in the NIBL, its ratio is quite near to range in each year while MBL has quietly more to range in comparison with NIBL.

Figure 4.1 Comparison of current ratio between MBL and NIBL



Source: Annual report of MBL and NIBL

Analyzing the graph of current ratio it is observed that the MBL has the ratio in upper limit of the standard ratio while NIBL has in lower limits. The ratio of each year is seems to be more consistent for NIBL. However both the banks have a good ratio there doesn't seem to trend of increasing or decreasing. It seems that the banks are trying to manage the ratio within the limit if it increased in one year it went to a lower side in the next year and then if it is too low then it was increased in the next year.

4.1.1.2 Cash Reserve Ratio

This ratio is calculated by dividing cash and bank balance with total deposits. Total deposits consist of current deposits, saving deposit, fixed deposit money at call and

short notice and other deposits. This ratio shows the proportion of total deposits held as compared to the most liquid assets. High ratio shows the strong liquidity position of the bank but very high ratio is not favorable the bank because doesn't produce appropriate profit to bear the high interest.

Table 4.2 Comparison of CRR between MBL and NIBL

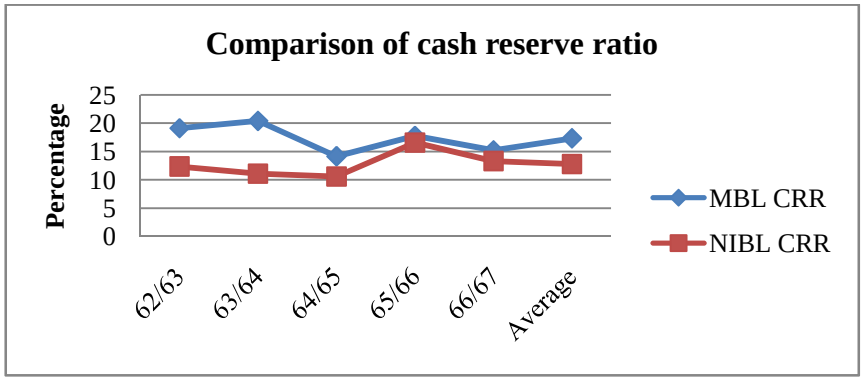
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Cash and cash equivalence (Rs)	1,532	1,978	1,570	2,767	2,841	
	Total deposits (Rs)	8,025	9,704	11,102	15,597	18,686	
	CRR (%)	19.10	20.38	14.14	17.74	15.21	17.31
NIBL	Cash and cash equivalence (Rs)	2,407	2,804	3,755	7,918	6,816	
	Total deposits (Rs)	19,477	25,289	35,502	47,787	51,182	
	CRR (%)	12.36	11.09	10.58	16.57	13.32	12.78

Source: Annual report of MBL and NIBL

The cash reserve ratio of both banks is good enough to handle the future responsibility and to earn profit. The maximum and minimum ratio of MBL is 20.38% in the year 063/64 and 14.14% in the year 064/65 respectively while its average ratio of five years is 17.31%. The maximum and minimum ratio of NIBL is 16.57% in the year 065/66 and 10.58% in the year 064/65 respectively while its average ratio of five years is 12.78%.

Figure 4.2 Comparison of CRR between MBL and NIBL



Source: Annual report of MBL and NIBL

MBL has the ratio in upper limit in each year than that of NIBL. The ratio of each year is seems to be more consistent for MBL. However both the banks have a good ratio there doesn't seem to trend of increasing or decreasing. It seems that the banks are trying to manage the ratio within the limit of 15%. In the year 64/65 both the banks have minimum ratio and both of them have increased the ratio in the succeeding year.

4.1.1.3 Net Working Capital

It is just the difference between current assets and current liabilities. It gives the actual fund available in institutions after paying the amount that have to be paid within a year. It should be just positive; if it becomes too high any organization won't be more profitable. Mathematically it can be expressed as

Net working capital = Current assets – Current liabilities

Table 4.3 Comparison of net working capital between MBL and NIBL

In millions (000,000)

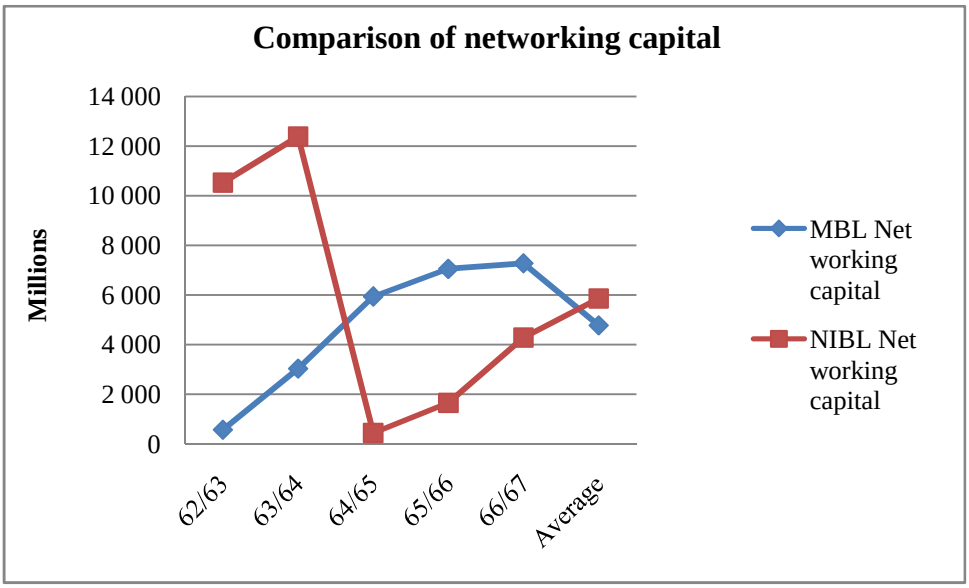
Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Current assets (Rs)	4,521	8,137	9,229	12,752	17,893	
	Current liabilities (Rs)	3,953	5,106	3,290	5,701	10,618	
	Net working capital (Rs)	568	3,031	5,939	7,051	7,275	4,773
NIBL	Current assets Rs)	19,198	22,929	31,870	44,096	46,212	
	Current liabilities (Rs)	8,667	10,546	31,431	42,449	41,927	
	Net working capital (Rs)	10,531	12,384	439	1,647	4,285	5,857

Source: Annual report of MBL and NIBL

As the current ratio both the bank is good enough, its proportional character net working capital is also in excellent condition. The highest and lowest value of MBL is Rs 7274.96 million in the year 066/67 and Rs 568.23 million in the year 062/63 respectively while its average ratio of five years is Rs 4274.96 million. The highest and lowest value of NIBL is Rs 12383.5 million in the year 063/64 and Rs 438.94

million in the year 064/65 respectively while its average ratio of five years is Rs 5857.00 million.

Figure 4.3 Comparison of net working capital between MBL and NIBL



Source: Annual report of MBL and NIBL

Net working capital of MBL is in increasing trend is year as straight line equation having positive slope. But the NIBL net working capital was initially too high and goes on decreasing to a least value at the year 64/65 and it was started to increase to balance the net working capital for smooth operation.

4.1.2 Profitability Ratios

Profitability is the relationship between profits and capital. It describes the firm's profits achieved from the investment made in the organizations.

4.1.2.1 Net Profit Margin Ratio

It measures the relationship between net profit and sales of a firm. It indicates management's efficiency in manufacturing, administrating, and selling the products. It is calculated by dividing net profit after tax by sales.

Net profit margin or ratio = $\frac{\text{Earnings after tax} \times 100}{\text{Net Sales}}$

Table 4.4 Comparison of net profit margin between MBL and NIBL

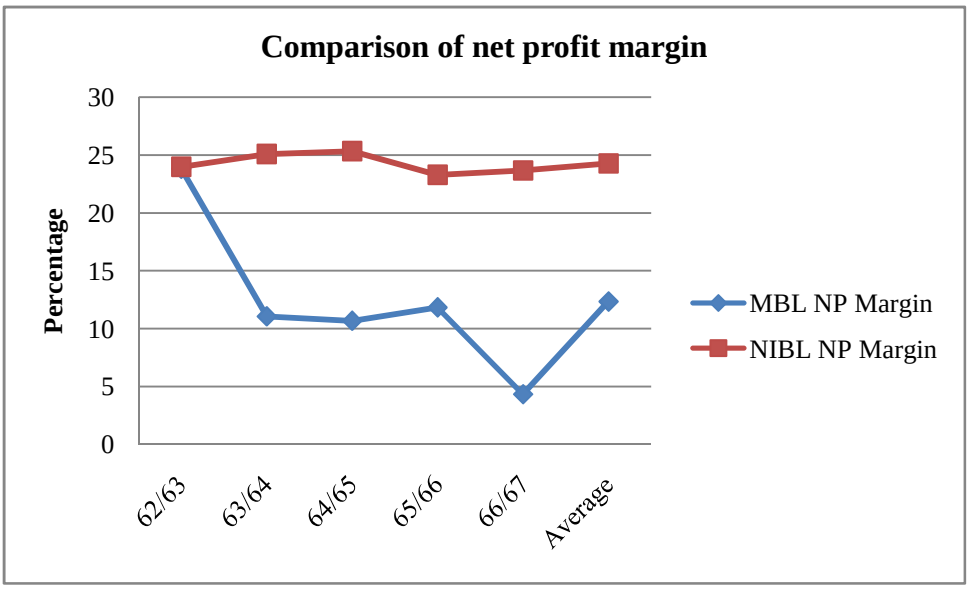
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	NPAT (Rs)	134	77	85	123	73	98
	Total sales (Rs)	563	694	797	1,041	1,689	
	NP Margin (%)	23.79	11.06	10.67	11.83	4.34	12.34
NIBL	NPAT (Rs)	351	501	697	901	1,266	743
	Total sales (Rs)	1,461	2,000	2,750	3,868	5,349	
	NP Margin (%)	23.99	25.07	25.33	23.28	23.67	24.27

Source: Annual report of MBL and NIBL

The data of five years showing the net profit margin of two banks clearly states that NIBL has well enough profit margins and is highly profitable at an average value of around one fourth of the total sales while MBL net profit margin is not consistent and has its average value of 12.34% only. The upper value for NIBL is 25.33% in the year 64/65 and lower is 23.28 % in the year 65/66 while upper and lower value for MBL is 23.79% in the year 62/63 and 4.34% in the year 66/67 respectively.

Figure 4.4 Comparison of net profit margin between MBL and NIBL



Source: Annual report of MBL and NIBL

Net profit margin for NIBL is in consistent around 25% in each of the sampled five years and is too high than that of MBL. While the MBL net profit margin was high in 62/63 around 25% but it was decreased in the 3 succeeding years and remain constant at an around 11% and then decreased in the final year.

4.1.2.2 Earnings per Share

It measures the profit available to the equity shareholders on a per share basis. It is computed by dividing earnings available to the equity shareholders by the total number of equity share outstanding

Earnings per share = $\frac{\text{Earnings after tax – Preferred dividends (if any)}}{\text{Equity shares outstanding}}$

Table 4.5 Comparison of earning per share between MBL and NIBL

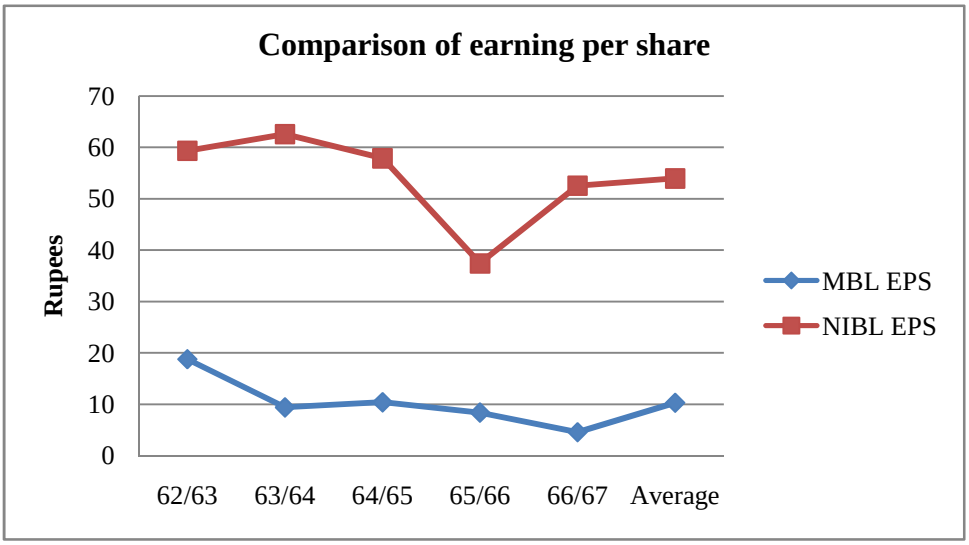
In millions (000,000)

Bank	**Year**	**62/63**	**63/64**	**64/65**	**65/66**	**66/67**	**Average**
MBL	NPAT (Rs)	134	77	85	123	73	
	Number of shares	7	8	8	15	16	
	EPS(Rs)	18.74	9.35	10.35	8.33	4.51	10.25
NIBL	NPAT (Rs)	351	501	697	901	1,266	
	Number of shares	6	8	12	24	24	
	EPS(Rs)	59.35	62.57	57.87	37.42	52.55	53.95

Source: Annual report of MBL and NIBL

Earnings per share of NIBL are very high in comparison to that of MBL. The average earnings of a share for NIBL is Rs 53.95 while MBL is only Rs 10.25. The peak amount for NIBL is Rs 62.57 in the year 63/64 and the drop amount is Rs 37.42 in the year 65/66. The peak and drop amount for MBL is in the year 62/63 and 66/67 are Rs 18.74 and Rs 4.33 respectively.

Figure 4.5 Comparison of earning per share between MBL and NIBL



Source: Annual report of MBL and NIBL

Earnings per share for NIBL remains almost stable for the first three years and suddenly drop down to the lowest point around Rs 37 and then shoot out at the last year. Beginning year seems to be the luckiest year among the five years having a value of around Rs19 but it shrinks to Rs 10 in the succeeding year and almost stays at the same level for 3 years and suddenly it falls to a value Rs 4.5.

4.1.2.3 Price Earnings Ratio

The reciprocal of the earnings yield is called price earnings ratio. It is calculated by dividing the market price of the share by the earnings per share.

$$\text{Price earnings (P/E) ratio} = \frac{\text{Market price of share}}{\text{Earnings per share}}$$

Table 4.6 Comparison of price earnings ratio between MBL and NIBL

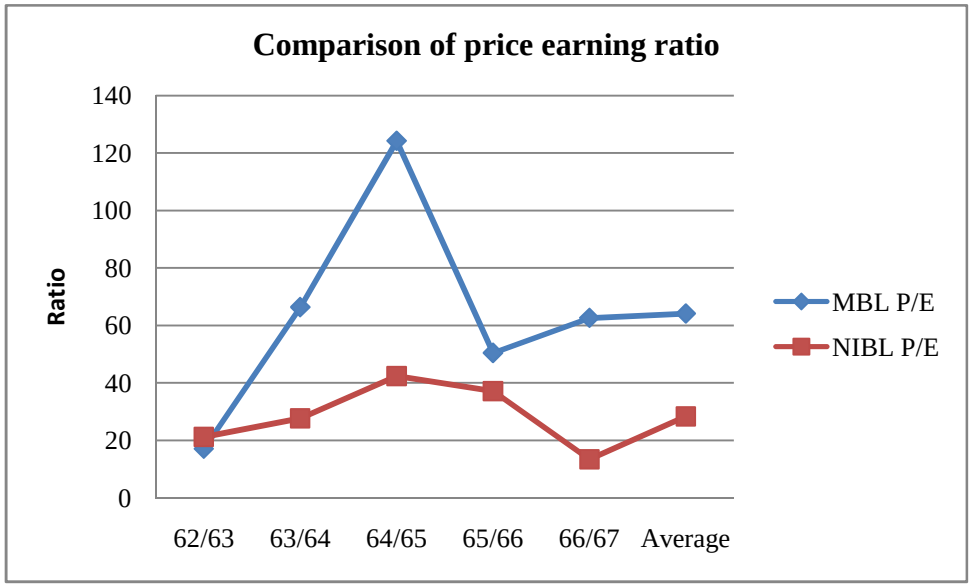
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	MPPS (Rs)	320	620	1,285	420	282	
	EPS (Rs)	18.74	9.35	10.35	8.33	4.51	
	P/E(Times)	17.08	66.33	124.19	50.41	62.59	64.12
NIBL	MPPS (Rs)	1,260	1,729	2,450	1,388	705	
	EPS (Rs)	59.35	62.57	57.87	37.42	52.55	
	P/E (Times)	21.23	27.63	42.33	37.10	13.42	28.34

Source: Annual report of MBL and NIBL

The price earnings ratio of MBL for the five year ranges from 17.08 times to 124.19 times and its average is 64.12 times. The range of price earnings ratio for NIBL is 13.42 times to 42.33 times and its average value for the five year is 28.34 times.

Figure 4.6 Comparison of price earnings ratio between MBL and NIBL



Source: Annual report of MBL and NIBL

In the year 62/63 both the bank have nearly same price earnings ratio of around 20 times but in the next two years the ratio soar and reach the peak then a downturn

occurs and increased slightly while the NIBL doesn't have a rapid growth and decline scenario of price earnings ratio throughout the periods.

4.1.2.4 Interest Income to Loan and Advances

This is the ratio that defines the percentage obtained by the total loan and advances that banks utilized for income generating activities. Mathematically it can be expressed as

$$\text{Interest income to loan and advances} = \frac{\text{Interest income}}{\text{Loan advances and bills purchased}}$$

Table 4.7 Comparison of interest income to loan and advances between MBL and NIBL

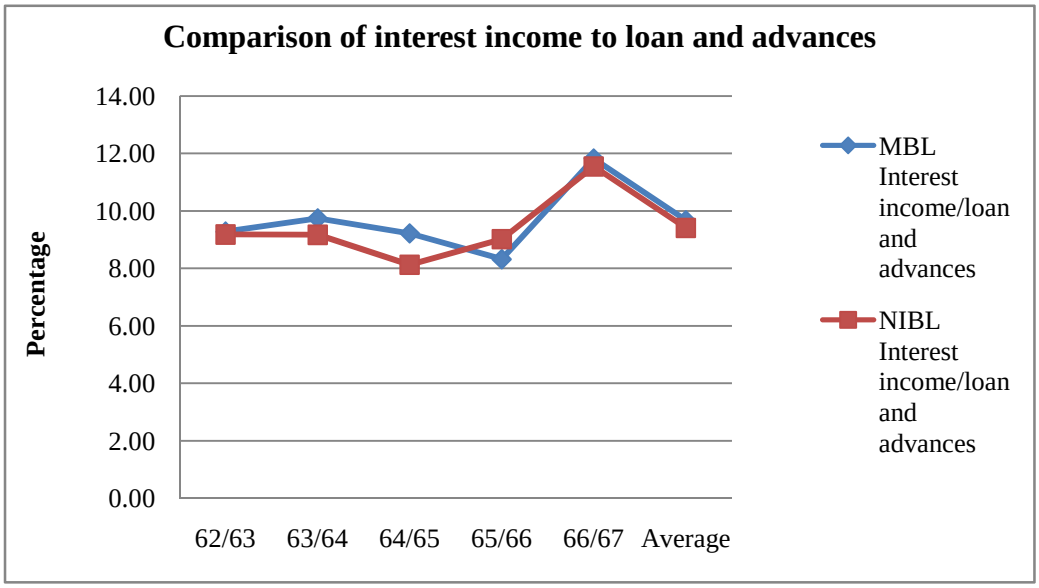
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Interest income (Rs)	563	694	797	1 041	1 689	
	Loan, Advances & Bills Purchased (Rs)	6 068	7 130	8 642	12 516	14 290	
	Interest income/loan and advances (%)	9.28	9.74	9.22	8.32	11.82	9.67
NIBL	Interest income (Rs)	1 173	1 585	2 194	3 268	4 654	
	Loan, Advances & Bills Purchased (Rs)	12 776	17 286	26 997	36 241	40 318	
	Interest income/loan and advances (%)	9.18	9.17	8.13	9.02	11.54	9.41

Source: Annual report of MBL and NIBL

Interest income to loan and advances of MBL are very high in comparison to that of NIBL. The average ratio of five years for NIBL is 9.41% while MBL is 9.67%. The peak amount for NIBL is 11.54% in the year 66/67 and the drop amount is 8.13% in the year 64/65. The peak and drop amount for MBL in the year 66/67 and 62/63 are 11.82% and 8.32% respectively.

Figure 4.7 Comparison of interest income to loan and advances between MBL and NIBL



Source: Annual report of MBL and NIBL

The trend of graphs seems to be more identical the difference is in their value only. MBL has slightly higher values otherwise all the values are identical. The increasing and decreasing trend of both the banks in each year is same.

4.1.2.5 Net profit to Loan and Advances

It is the ratio of net profit divided by loan advances and bills purchased. This ratio measures the percentage of profit generated by the loans issued by the bank in profit generating activities. Mathematically it can be expressed as follows:-

$$\text{Net profit to loan and advances} = \frac{\text{Net profit}}{\text{Loan and advances}}$$

Table 4.8 Comparison of net profit to loan and advances between MBL and NIBL

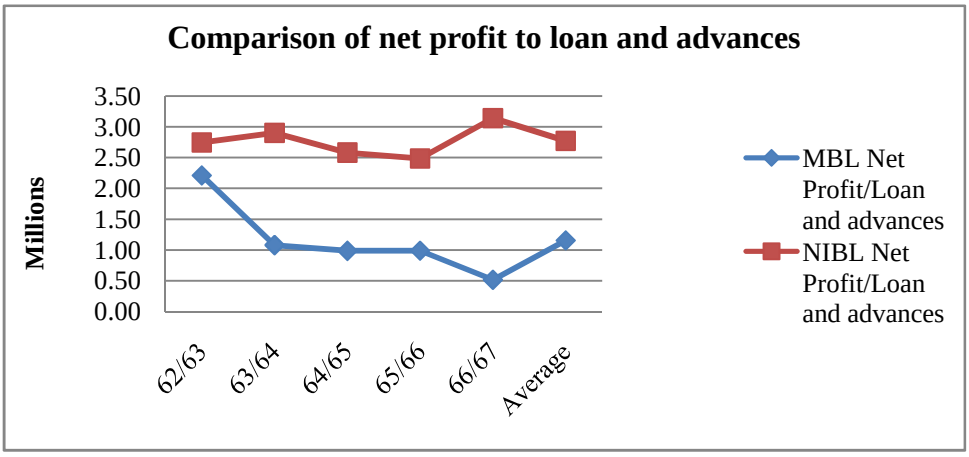
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	NPAT (Rs)	134	77	85	123	73	
	Loan, Advances & Bills Purchased (Rs)	6,068	7,130	8,642	12,516	14,290	
	Net Profit/Loan and advances (%)	2.21	1.08	0.98	0.98	0.51	1.15
NIBL	NPAT (Rs)	351	501	697	901	1,266	
	Loan, Advances & Bills Purchased (Rs)	12,776	17,286	26,997	36,241	40,318	
	Net Profit/Loan and advances (%)	2.74	2.90	2.58	2.49	3.14	2.77

Source: Annual report of MBL and NIBL

Both the banks generate a good profit from their utilization of funds in interest generating activities. Through analyzing the data it can be said that net profit to loan and advances ratio of MBL for the five year ranges from 0.51% to 2.21%. Highest percentage of net profit achieved from the issued loan is in 62/63 and lowest in 66/67 and its average net profit obtained is 1.15 percentage of total loan and advances. Likewise net profit to loan and advances ratio of NIBL for the five year ranges from 2.49% to 3.14%. Highest percentage of net profit achieved from the issued loan is in 66/67 and lowest in 65/66 and its average net profit obtained is 2.77 percentage of total loan and advances.

Figure 4.8 Comparison of net profit to loan and advances between MBL and NIBL



Source: Annual report of MBL and NIBL

The ratio for NIBL remains slightly in the range of average value during the first four years but in the last year it jumps to a peak point of around 3.2%. The ratio for MBL significantly drops in the second year and remains almost stagnate for next two years but it drops to a value of around 0.5% in the final year.

4.1.2.6 Exchange Gain to Total Income

This ratio generally used in financial institutions where foreign money exchanging is a part of operating profit. This ratio is measured by foreign exchange gain divided with total income. It shows the importance or weightage of foreign exchange in total income.

Table 4.9 Comparison of exchange gain to total income between MBL and NIBL

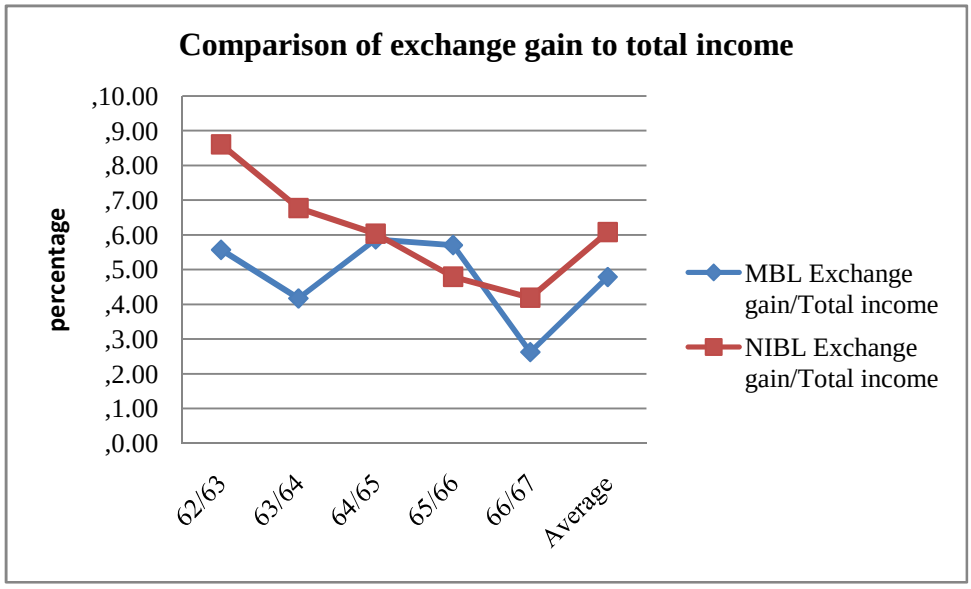
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Exchange profit (Rs)	35	29	46	60	43	
	Total income (Rs)	631	696	779	1,048	1,625	
	Exchange gain/Total income (%)	5.57	4.17	5.87	5.71	2.63	4.79
NIBL	Exchange profit (Rs)	126	135	166	185	224	
	Total income (Rs)	1,461	2,000	2,750	3,868	5,349	
	Exchange gain/Total income (%)	8.60	6.77	6.03	4.79	4.19	6.08

Source: Annual report of MBL and NIBL

The data clearly shows that the foreign money exchange activity is quite higher in NIBL than that of MBL. The average foreign exchange to total income for NIBL is 6.08 % while MBL is only 4.79%. The peak amount for NIBL is 8.6% in the year 62/63 and the drop amount is 4.19% in the year 66/67. The peak and drop amount for MBL in the year 64/65 and 66/67 are 5.87% and 2.63% respectively.

Figure 4.9 Comparison of exchange gain to total income between MBL and NIBL



Source: Annual report of MBL and NIBL

The ratio for both the bank in the first year is almost highest among the period but suddenly drops for the banks in the succeeding year. After the MBL recover it for two year while the trend of downturn continues till the last fiscal year 66/67. In the last year both the bank has the least performance in contributing foreign exchange gain. However the ratio is highly low for MBL it breaks the trend and leads to be higher than NIBL in the year 65/66.

4.1.2.7 Return on Assets (ROA)

It measures the productivity of the assets. It is a measure in terms of relationship between net profit and assets. The income figure used in computing this ratio should be operating income. This ratio is calculated by

$$\text{Return on assets} = \frac{\text{Net profit after tax} \times 100}{\text{Total assets}}$$

Table 4.10 Comparison of net profit to total assets between MBL and NIBL

In millions (000,000)

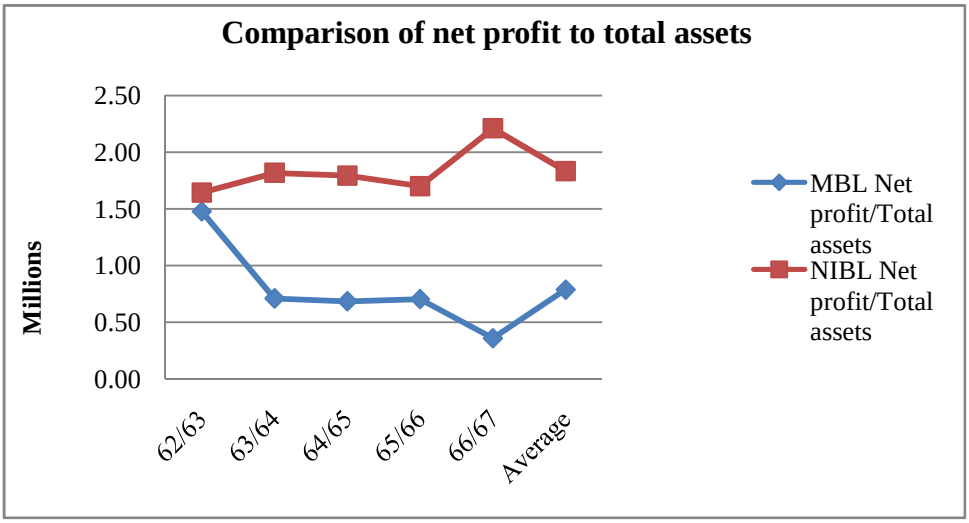
Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	NPAT (Rs)	134	77	85	123	73	
	Total assets (Rs)	9,070	10,810	12,410	17,491	20,399	
	Net profit/Total assets (%)	1.48	0.71	0.69	0.70	0.36	0.79
NIBL	NPAT (Rs)	351	501	697	901	1,266	
	Total assets (Rs)	21,330	27,591	38,873	53,011	57,305	
	Net profit/Total assets (%)	1.64	1.82	1.79	1.70	2.21	1.83

Source: Annual report of MBL and NIBL

Through analyzing the data it can be said that return on assets ratio NIBL is higher than that of MBL. The ratio of MBL for the five year ranges from 0.36% to 1.48%. Highest profit achieved in terms of percentage of total assets is in 62/63 and lowest in 66/67 and its average net profit obtained is 0.79%. The range of profit for NIBL is

1.64% to 2.21%. The highest profit is in the year 66/67 and lowest is in the year 62/63. Its average value for the five year is 1.83 percentages of the total assets.

Figure 4.10 Comparison of net profit to total assets between MBL and NIBL



Source: Annual report of MBL and NIBL

The graph clearly shows that the ratio remains almost similar in the first year; while the ratio remains considerable identical for four years for NIBL but in case of MBL it shows a downward trend for a year and remains same for the next two years from the dropped value. In the next year the ratio shows a dramatic trend for each bank, it improves and reaches the top for NIBL but for MBL it slips down to a least value.

4.1.2.8 Interest Income to Total Assets

It is a measure of interest income to total assets. This ratio is calculated by

$$\text{Interest income to total assets} = \frac{\text{Interest income} \times 100}{\text{Total assets}}$$

Table 4.11 Comparison of interest income to total assets between MBL and NIBL

In millions

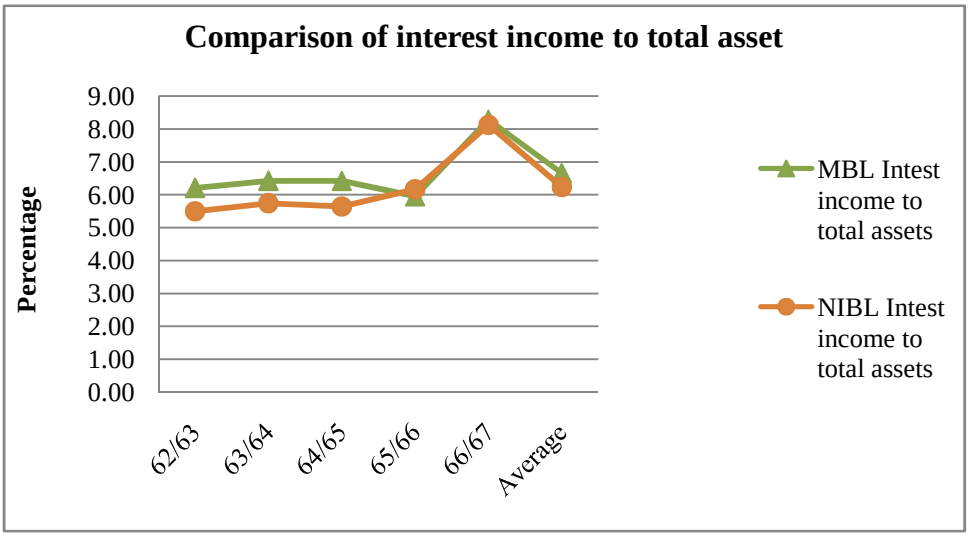
(000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Interest income (Rs)	563	694	797	1,041	1,689	
	Total assets (Rs)	9,070	10,810	12,410	17,491	20,399	
	Interest income to Total assets (Ratio)	6.21	6.42	6.42	5.95	8.28	6.66
NIBL	Interest income (Rs)	1,173	1,585	2,194	3,268	4,654	
	Total assets (Rs)	21,330	27,591	38,873	53,011	57,305	
	Interest income to Total assets (Ratio)	5.50	5.74	5.64	6.16	8.12	6.23

Source: Annual report of MBL and NIBL

Through analyzing the data it can be said that interest income to total asset ratio of MBL is higher than that of NIBL. The ratio of MBL for the five year ranges from 5.95 to 8.28. Highest ratio achieved in terms of percentage of total assets is in 66/67 and lowest in 62/63 and its average ratio is 6.66. The range of ratio for NIBL is 5.5 to 8.12. The highest ratio is in the year 66/67 and lowest is in the year 62/63. Its average for the five year is 6.23 percentages of the total assets.

Figure 4.11 Comparison of interest income to total assets between MBL and NIBL



Source: Annual report of MBL and NIBL

The graph clearly shows that the ratio for both the bank remains almost constant in the first four years, while the ratio was highly changed in the last year for both the banks. However, the average value for both the banks is almost same.

4.1.2.9 Share Dividend to Share Capital

This ratio is obtained by dividing share dividend with share capital. It measures the yearly dividend paid out percentage for the share capital. Mathematically it is defined as

$$\text{Share dividend to share capital} = \frac{\text{Share dividend} \times 100}{\text{Share capital}}$$

Table 4.12Comparison of return on capital between MBL and NIBL

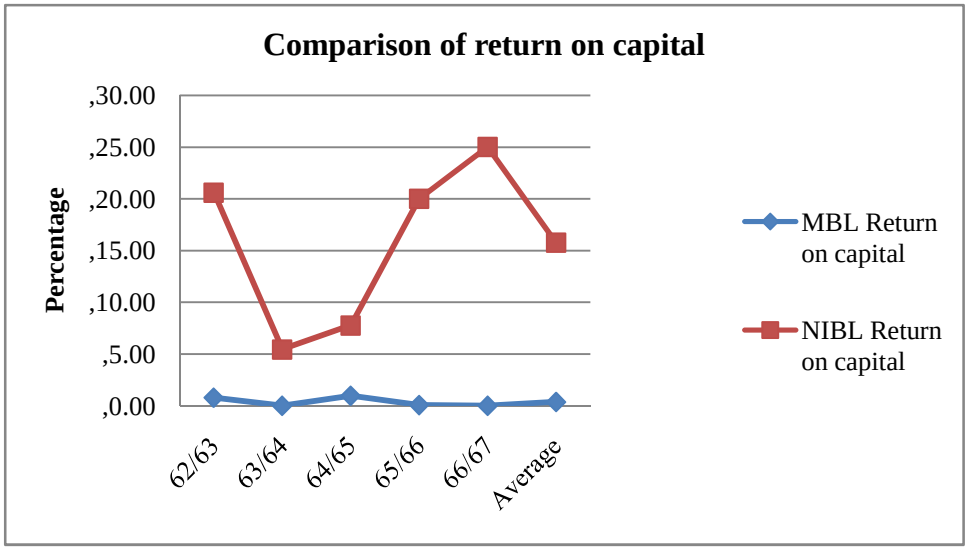
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Share dividend (Rs)	5.64	0.00	8.76	1.12	0.00	
	Share capital (Rs)	715	822	901	1,479	1,627	
	Return on capital (%)	0.79	0.00	0.97	0.08	0.00	0.37
NIBL	Share dividend (Rs)	122	44	93	481	602	
	Share capital (Rs)	591	801	1,204	2,407	2,409	
	Return on capital (%)	20.59	5.45	7.76	20.00	25.00	15.76

Source: Annual report of MBL and NIBL

The ratio of MBL for the five year ranges from 5.45% to 25%. Highest ratio achieved is in 66/67 and lowest in 63/64 and its ratio is 15.76%. The range of profit for NIBL is 0 to 0.97%. The highest ratio is in the year 64/65 and lowest is in the year 63/64 and 66/67. Its average for the five year is 0.37 percentages.

Figure 4.12Comparison of return on capital between MBL and NIBL



Source: Annual report of MBL and NIBL

The ratio for MBL is almost negligible and is stable throughout the years in comparison to NIBL. For NIBL it drops down in the second year and then it

continues to increase throughout the year. The zero value of ratio for MBL means that there is no dividend provided in the year 63/64 and 66/67.

4.1.2.10 Book value

Book value of share is the most important ratio for any institutions. It is the ratio of book net worth to number of shares outstanding. It shows the real value of share for an organization. Mathematically it can be expressed as

$$\text{Book value} = \frac{\text{Book net worth}}{\text{Number of share}}$$

Table 4.13 Comparison of book value between MBL and NIBL

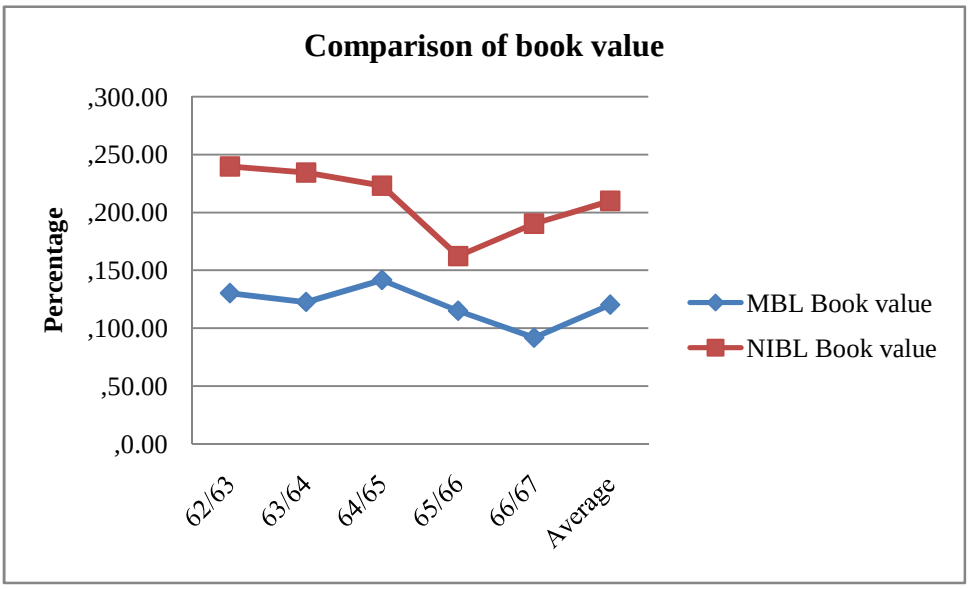
In millions (000,000)

Bank	**Year**	**62/63**	**63/64**	**64/65**	**65/66**	**66/67**	**Average**
MBL	Total Book networth (Rs)	931	1,007	1,163	1,700	1,494	
	Number of shares	7	8	8	15	16	
	Book value (Rs)	130.22	122.59	141.59	114.93	91.78	120.22
NIBL	Total Book networth (Rs)	1,415	1,878	2,687	3,908	4,585	
	Number of shares	6	8	12	24	24	
	Book value (Rs)	239.67	234.37	223.17	162.35	190.34	209.98

Source: Annual report of MBL and NIBL

The average book value for NIBL is Rs 209.98 while MBL is only Rs 120.22. The peak amount for NIBL is Rs 239.67 in the year 62/63 and the lowest amount is Rs 162.35 in the year 65/66. The highest and lowest book value of MBL are Rs 141.59 and Rs 91.78 in the year 64/65 and 66/67 respectively.

Figure 4.13 Comparison of book value between MBL and NIBL



Source: Annual report of MBL and NIBL

The graph clearly shows that lowest value of NIBL is also higher than that of MBL. The value remains almost around average value throughout the years but for NIBL it drops to extreme value in the year 645/66 and then starts to increase in the later years.

4.1.2.11 Book Net Worth

Book net worth is the real assets of an organization after paying all the debts to debtors. It is the difference between the total assets and total liabilities of the organization. Mathematically it can be expressed as

Book net worth = Total assets – total liabilities

Table 4.14 Comparison of book net worth between MBL and NIBL

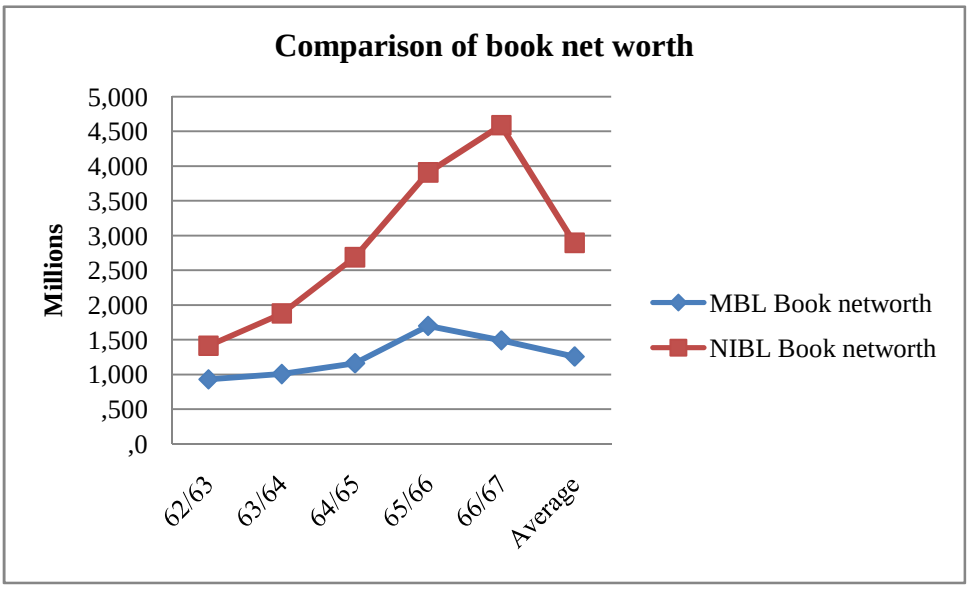
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Total assets (Rs)	9,070	10,810	12,410	17,491	20,399	
	Total liabilities (Rs)	8,139	9,803	11,247	15,791	18,905	
	Total Book networth (Rs)	931.09	1,007.29	1,163.35	1,700.20	1,493.51	1,259.09
NIBL	Total assets (Rs)	21,330	27,591	38,873	53,011	57,305	
	Total liabilities (Rs)	19,915	25,713	36,187	49,103	52,720	
	Total Book networth (Rs)	1,415.44	1,878.12	2,686.79	3,907.84	4,585.39	2,894.72

Source: Annual report of MBL and NIBL

The total asset as well as total liabilites of NIBL is very high in comparison to that of MBL . The average book net worth for NIBL is Rs 2894.72 million while MBL is only Rs 1259.09 million. The peak amount for NIBL is Rs 4585.39 million in the year 66/67 and the lowest amount is Rs 1415.44 million in the year 62/63

Figure 4.14 Comparison of book net worth between MBL and NIBL



Source: Annual report of MBL and NIBL

The book net worth of MBL is very low in comparison to the NIBL. MBL net worth is increasing slightly from the first year to fourth year and it drops slightly in the last year and the changes in the value are very low. In the scenario of NIBL the value remains drastically increasing throughout the years.

4.1.2.12 Interest expenses to total deposit

This ratio gives the average interest rate for the customer that the bank is providing. This is calculated as follows

$$\text{Interest expenses to total deposit} = \frac{\text{Total interest expenses} \times 100}{\text{Total deposit}}$$

Table 4.15 Comparison of interest expenses to total deposit between MBL and NIBL

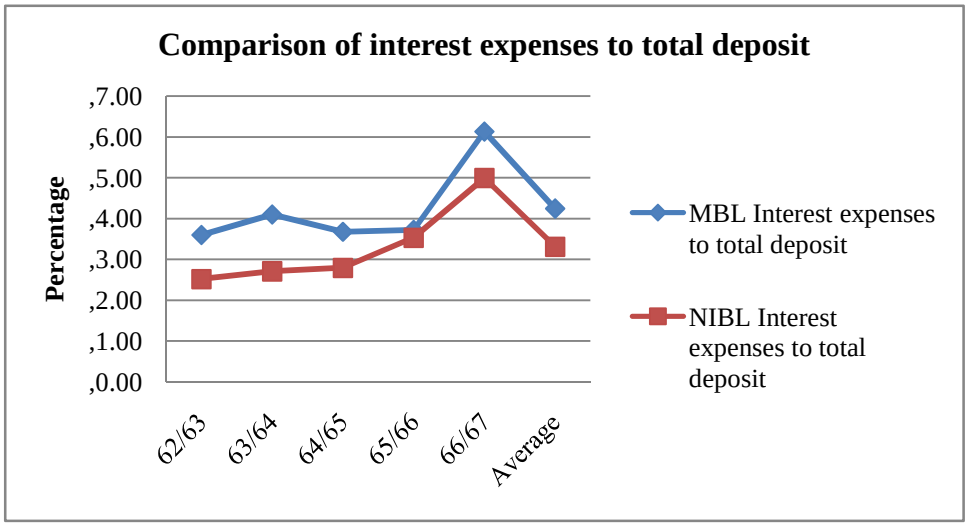
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Interest expenses (Rs)	289	398	408	580	1,145	
	Total deposits (Rs)	8,025	9,704	11,102	15,597	18,686	
	Interest expenses to total deposit (%)	3.60	4.10	3.67	3.72	6.13	4.24
NIBL	Interest expenses (Rs)	491	686	992	1,687	2,554	
	Total deposits (Rs)	19,477	25,289	35,502	47,787	51,182	
	Interest expenses to total deposit (%)	2.52	2.71	2.79	3.53	4.99	3.31

Source: Annual report of MBL and NIBL

This data clears that to deposit cash MBL is better than NIBL that is average interest rate for MBL is 4.24% and for NIBL is only 3.31%. The highest and lowest ratio for MBL are in the year 66/67 and 62/63 and the value is 6.13% and 3.6%. The highest and lowest ratio for NIBL are in the year 62/63 and 66/67 and the value is 2.52% and 4.99%.

Figure 4.15 Comparison of interest expenses to total deposit between MBL and NIBL



Source: Annual report of MBL and NIBL

NIBL ratio is quite low throughout the years. However it continues to increase the ratio from the beginning year to the final year. In context of MBL also the ratio remains slightly consistent throughout the first four years but it rapidly increases in the fifth year.

4.1.3 Efficiency

It is the ratio of total input to output of the organization. Generally it is measured in the form of total investment provided by the organization in their employee and output appeared from them in the form of profit and their performance.

4.1.3.1 Staff Bonus to Total Staff Expenses

This ratio defines how the banks are motivating their staffs economically. This ratio is the ratio of staff bonus to total staff expenses. Mathematically it can be expressed as

$$\text{Staff bonus to total staff expenses} = \frac{\text{Staff bonus} \times 100}{\text{Total expenses}}$$

Table 4.16 Comparison of staff bonus to total staff expenses between MBL and NIBL

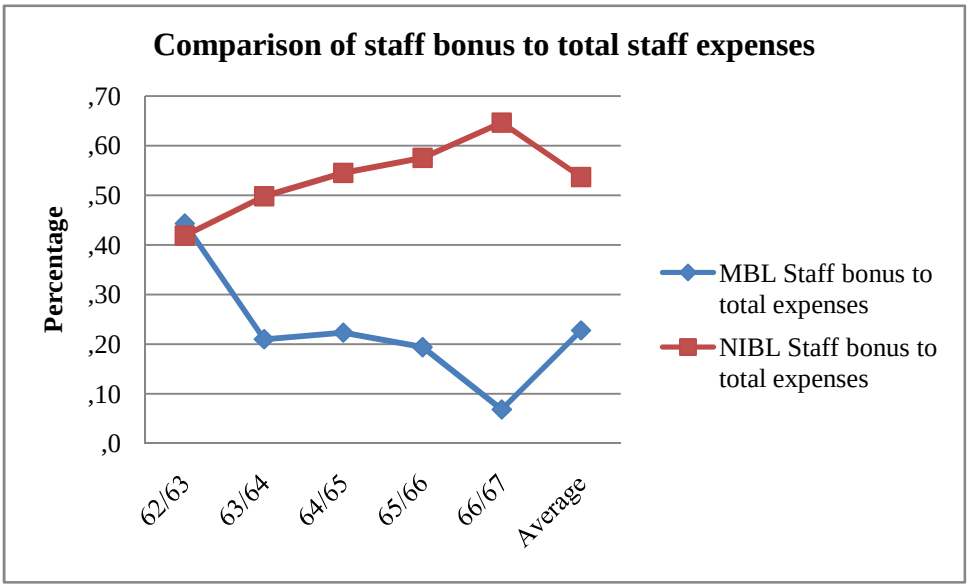
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Staff bonus (Rs)	19	11	16	18	10	
	Total staff expenses (Rs)	43	54	71	91	152	
	Staff bonus to total expenses (%)	44.30	20.98	22.29	19.37	6.82	22.75
NIBL	Staff bonus (Rs)	50	72	102	130	181	
	Total staff expenses (Rs)	121	145	187	226	280	
	Staff bonus to total expenses (%)	41.84	49.76	54.50	57.53	64.61	53.65

Source: Annual report of MBL and NIBL

The average ratio for MBL is 22.75% and for NIBL is 53.65%. The highest and lowest ratio for MBL are in the year 62/63 and 66/67 and the value is 44.3% and 6.82%. The highest and lowest ratio for NIBL are in the year 66/67 and 62/63 and the value is 64.61% and 41.84%.

Figure 4.16 Comparison of staff bonus to total staff expenses between MBL and NIBL



Source: Annual report of MBL and NIBL

The ratio was almost equal to a value of 42% for the both the bank in the first year but a downward trends continuously occurred in MBL and finally drops to value around 6%. However its average value is almost equal to the value of the second year. While a continuous upward increasing trend is found in NIBL and reach the peak in the final year to the value of around 65%.

4.1.3.2 Loan to Debt

This ratio is the ratio of loan to debt. It describes the issuance of loan from the amount that is deposited in the bank. Higher the ratio in the range of 1 is risk for the depositor for high profit for the bank but if the loan becomes non performing loan then there may be risk of bankruptcy.

Table 4.17 Comparison of loan to debt between MBL and NIBL

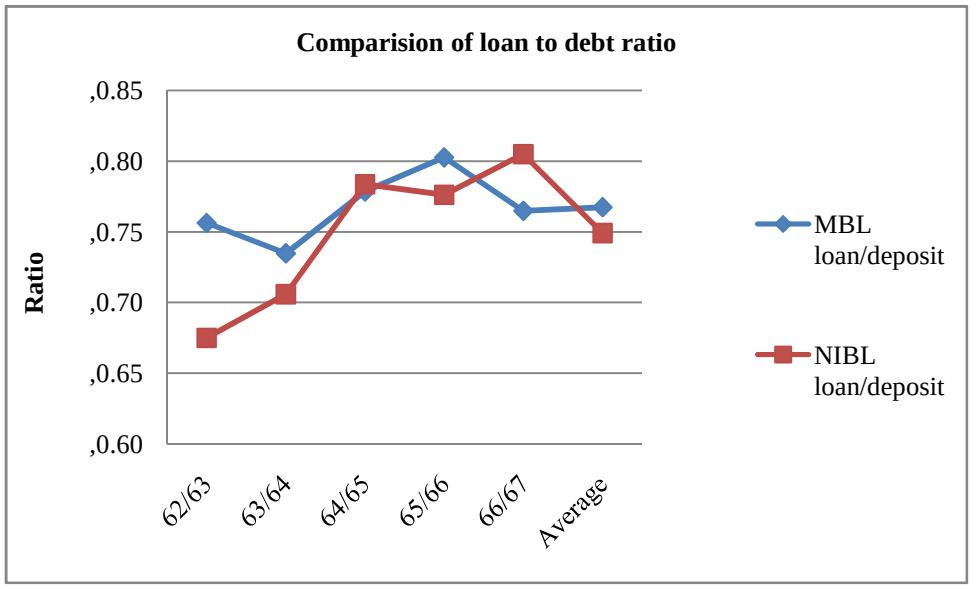
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Loan, advances & bills purchased (Rs)	6,068	7,130	8,642	12,516	14,290	
	Deposits and liabilities (Rs)	8,025	9,704	11,102	15,597	18,686	
	Loan to debt (%)	0.76	0.73	0.78	0.80	0.76	0.77
NIBL	Loan, advances & bills purchased (Rs)	12,776	17,286	26,997	36,241	40,318	
	Deposits and liabilities (Rs)	18,927	24,489	34,452	46,698	50,095	
	Loan to debt (%)	0.68	0.71	0.78	0.78	0.80	0.75

Source: Annual report of MBL and NIBL

The average ratio for MBL is 0.77% and for NIBL is 0.75%. The highest and lowest ratio for MBL are in the year 65/66 and 63/64 and the value is 0.8% and 0.73%. The highest and lowest ratio for NIBL are in the year 66/67 and 62/63 and the value is 0.8% and 0.68%. Ratio of NIBL is increasing and it shows that NIBL is continuously investing the deposit in profit generating activity.

Figure 4.17 Comparison of loan to debt between MBL and NIBL



Source: Annual report of MBL and NIBL

Initially the ratio for NIBL is lower than MBL but it rapidly changes it structure and goes on increasing throughout the years and meet the point in the third year and becomes greater than MBL in the final year. But the MBL had also increased the ratio after second year through fourth year and then dropped it in the final year. However, whatever is the trend the average ratio is still greater than NIBL.

4.1.3.3 Nonperforming Loan to Total Loan

This ratio describes the ratio of loan which is subjected to fail to collect from the customers. It means it is the inactive part of that loan which interest and payment amount is not collected in proposed time and may be failed to withdrawn. Mathematically it is expressed as

$$\text{Nonperforming loan to total loan} = \frac{\text{Non performing loan} \times 100}{\text{Total loan}}$$

Table 4.18 Comparison of nonperforming loan to total loan between MBL and NIBL

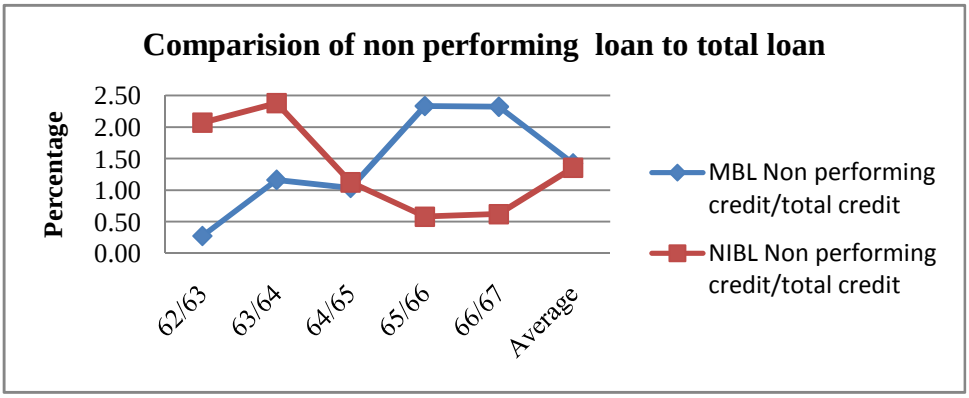
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Nonperforming loan (Rs)	17	85	93	303	348	
	Total loan (Rs)	6,147	7,320	8,964	12,984	14,973	
	Nonperforming loan to total loan (%)	0.28	1.16	1.04	2.33	2.32	1.43
NIBL	Nonperforming loan (Rs)	272	422	309	214	254	
	Total loan (Rs)	13,178	17,769	27,529	36,827	40,948	
	Nonperforming loan to total loan (%)	2.07	2.37	1.12	0.58	0.62	1.35

Source: Annual report of MBL and NIBL

The average ratio for MBL is 1.43% and for NIBL is only 1.35%. The highest and lowest ratio for MBL are in the year 65/66 and 62/63 and the value is 2.33% and 0.28%. The highest and lowest ratio for NIBL are in the year 63/64 and 65/66 and the value is 2.37% and 0.58%. This means MBL is continuously increasing its ratio while NIBL is decreasing and it shows that NIBL is continuously improving the loan issuance activity than MBL.

Figure 4.18 Comparison of nonperforming loan to total loan between MBL and NIBL



Source: Annual report of MBL and NIBL

The graph clearly shows that initially the ratio of MBL was too low than that of NIBL which is an excellent result for MBL but the scenario was changed in the last four years unexpectedly MBL ratio becomes higher than that of NIBL which is a very worst scenario.

4.1.3.4 Deposit Status per Employee

This gives the performance of employee in collection of deposits. This ratio is the ratio of deposits collected to the total number of staffs. Mathematically it is expressed as

$$\text{Deposit status per employee} = \frac{\text{Total deposit}}{\text{Number of staff}}$$

Table 4.19 Comparison of deposit status per employee between MBL and NIBL

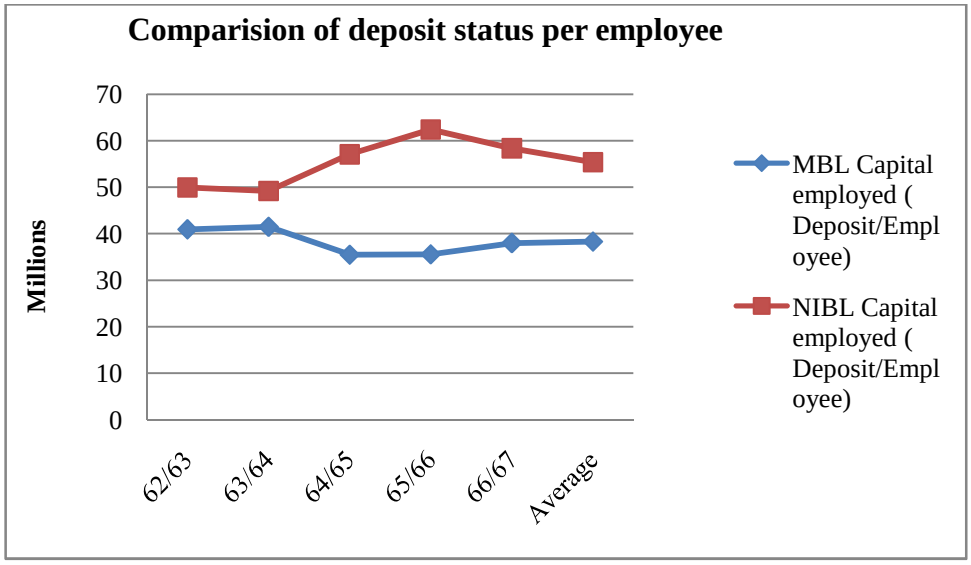
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Total deposit (Rs)	8,025	9,704	11,102	15,597	18,686	
	No. of staffs	196	234	313	439	492	
	Deposit status per employee (Rs/employee)	40.94	41.47	35.47	35.53	37.98	38.28
NIBL	Total deposit (Rs)	19,477	25,289	35,502	47,787	51,182	
	No. of staffs	390	514	622	766	877	
	Deposit status per employee (Rs/employee)	49.94	49.20	57.08	62.38	58.36	55.39

Source: Annual report of MBL and NIBL

The average deposit status per employee (Rs/employee) for MBL is 38.28 million and for NIBL is only 55.39 million. The highest and lowest ratio for MBL are in the year 63/64 and 64/65 and the value is 41.47 million and 35.47 million. The highest and lowest ratio for NIBL are in the year 65/66 and 63/64 and the value is 62.38 million and 49.2 million. This shows the efficiency of NIBL staff is better than that of MBL and is in increasing trend.

Figure 4.19 Comparison of deposit status per employee between MBL and NIBL



Source: Annual report of MBL and NIBL

The ratio of NIBL is higher in each year than that of MBL. The upward performance is observed for NIBL while at the mean time MBL drops it value in the third year and remains almost identical in rest of the years.

4.1.3.5 Lending Status per Employee

This gives the performance of employee in issuance of loan. This ratio is the ratio of loan issuance to the total number of staffs. Mathematically it is expressed as

$$\text{Lending status per employee} = \frac{\text{Total lending}}{\text{Number of staff}}$$

Table 4.20 Comparison of lending status per employee between MBL and NIBL

In millions (000,000)

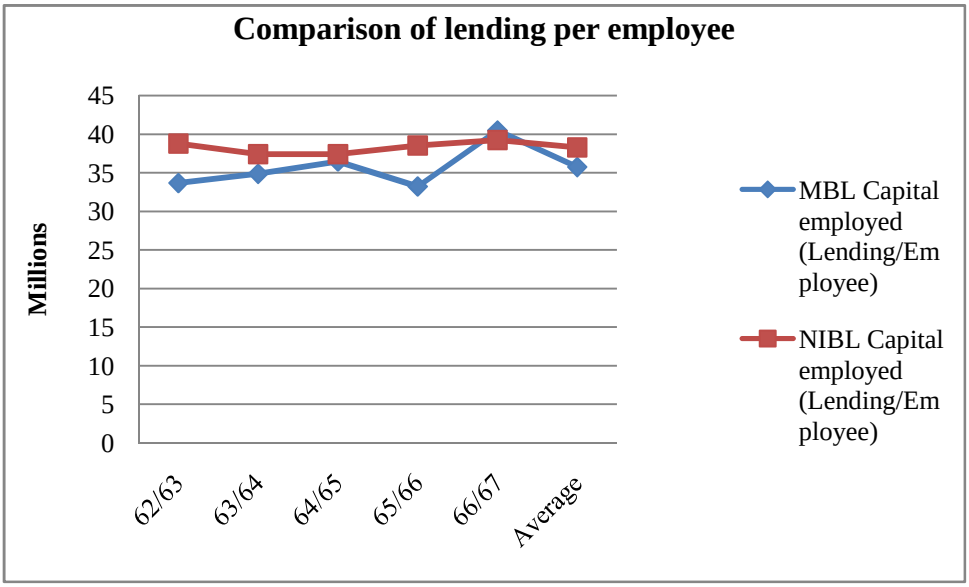
Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Loan, advances & bills purchased (Rs)	6,068	7,130	8,642	12,516	14,290	
	No. of staffs	196	234	313	439	492	
	Lending status per employee (Rs /employee)	30.96	30.47	27.61	28.51	29.04	29.32
NIBL	Loan, advances & bills purchased (Rs)	12,776	17,286	26,997	36,241	40,318	
	No. of staffs	390	514	622	766	877	
	Lending status per employee (Rs /employee)	32.76	33.63	43.40	47.31	45.97	40.62

Source: Annual report of MBL and NIBL

The average lending status per employee (Rs /employee) for MBL is 29.32 million and for NIBL is 40.62 million. The highest and lowest ratio for MBL are in the year 64/65 and 62/63 and the value is 30.96 million and 27.61 million. The highest and

lowest ratio for NIBL are in the year 65/66 and 62/63 and the value is 47.31 million and 32.76 million.

Figure 4.20 Comparison of lending status per employee between MBL and NIBL



Source: Annual report of MBL and NIBL

The ratio of NIBL is higher in each year than that of MBL. Initially the ratio is quite close to each other but the value starts to increase thereafter. The upward performance is observed for NIBL while at the mean time MBL drops it value in the third year and remains almost identical in rest of the years.

4.1.3.6 Net Profit/Employee

This gives the performance of employee in generating profit. This ratio is the ratio of net profit to the total number of staffs. Mathematically it is expressed as

$$\text{Net profit/employee} = \frac{\text{Net profit}}{\text{Number of staff}}$$

Table 4.21 Comparison of net profit/employee between MBL and NIBL

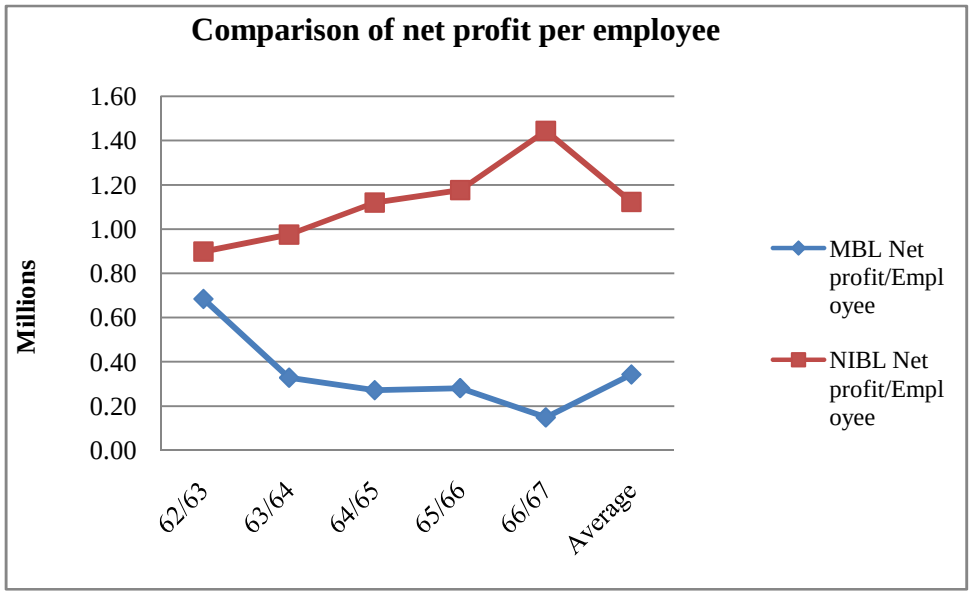
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Net profit (Rs)	134	77	85	123	73	
	No. of staffs	196	234	313	439	492	
	Net profit/Employee (Rs /employee)	0.68	0.33	0.27	0.28	0.15	0.34
NIBL	Net profit (Rs)	351	501	697	901	1,266	
	No. of staffs	390	514	622	766	877	
	Net profit/Employee (Rs /employee)	0.90	0.98	1.12	1.18	1.44	1.12

Source: Annual report of MBL and NIBL

The average net profit/employee (Rs /employee) for MBL is 0.34 million and for NIBL is 1.12 million. The highest and lowest ratio for MBL are in the year 62/63 and 66/67 and the value is 0.68 million and 0.15 million. The highest and lowest ratio for NIBL are in the year 65/66 and 62/63 and the value is 1.18 million and 0.9 million. This shows the efficiency of NIBL staff is better than that of MBL and is in increasing trend.

Figure 4.21 Comparison of net profit/employee between MBL and NIBL



Source: Annual report of MBL and NIBL

The ratio of NIBL is higher in each year than that of MBL. Initially the ratio is quite close to each other but the value starts to increase thereafter. The upward performance is observed for NIBL while at the mean time MBL drops it value in the second year and remains almost identical in rest of the years.

4.1.3.7 Sales/Employee

This gives the performance of employee in generating sales revenue (total earning). This ratio is the ratio of total sales revenue to the total number of staffs. Mathematically it is expressed as

$$\text{Sales/employee} = \frac{\text{Total sales}}{\text{Number of staff}}$$

Table 4.22 Comparison of sales/employee between MBL and NIBL

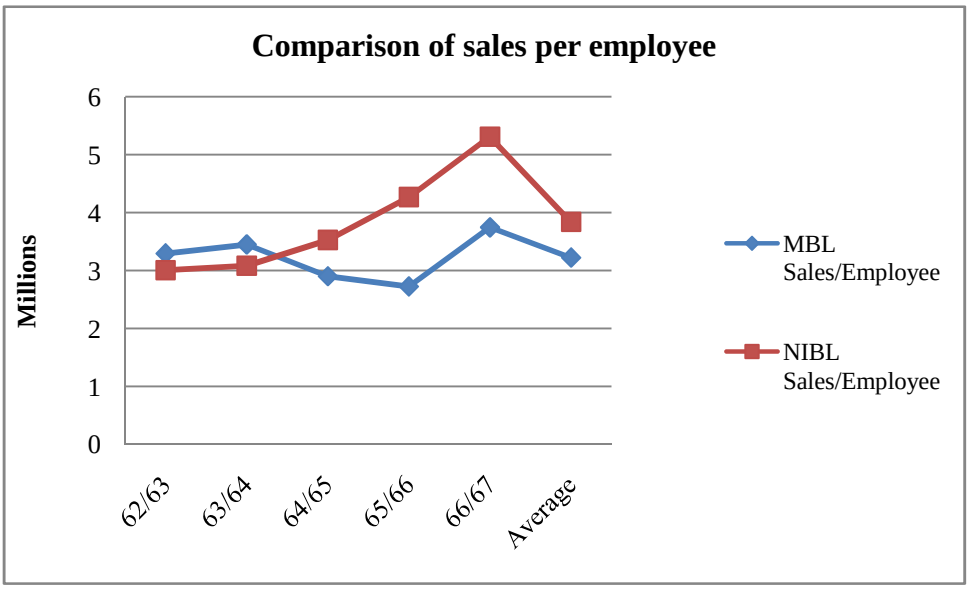
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Sales revenue (Rs)	646	807	908	1,196	1,842	
	No. of staffs	196	234	313	439	492	
	Sales/Employee (%)	3.29	3.45	2.90	2.73	3.74	3.22
NIBL	Sales revenue (Rs)	1,173	1,585	2,194	3,268	4,654	
	No. of staffs	390	514	622	766	877	
	Sales/Employee (%)	3.01	3.08	3.53	4.27	5.31	3.84

Source: Annual report of MBL and NIBL

The ratio of MBL for the five year ranges from 2.73 million to 3.74 million. Highest profit achieved is in 66/67 and lowest in 65/66 and its average ratio obtained is 3.22 million. The range of ratio for NIBL is 3.01 million to 5.31 million. The highest ratio is in the year 66/67 and lowest is in the year 62/63. Its average for the five year is 3.84 million.

Figure 4.22 Comparison of sales/employee between MBL and NIBL



Source: Annual report of MBL and NIBL

The ratio of NIBL is lower in first two years than that of MBL but it rapidly increases thereafter in each and becomes higher in each year. Whereas the MBL ratio decreases after second year up to next two years and then suddenly increased to a higher point around 3.8 million per employee.

4.1.3.8 Staff Expenses to Total Operating Expenses

This ratio defines the weightage of the total staff expenses to total operating expenses. This is the ratio of staff expenses to total operating expenses. Mathematically it is expressed as

$$\text{Staff expenses to total operating expenses} = \frac{\text{Staff expenses} \times 100}{\text{Total operating expenses}}$$

Table 4.23 Comparison of staff expenses to total operating expenses between MBL and NIBL

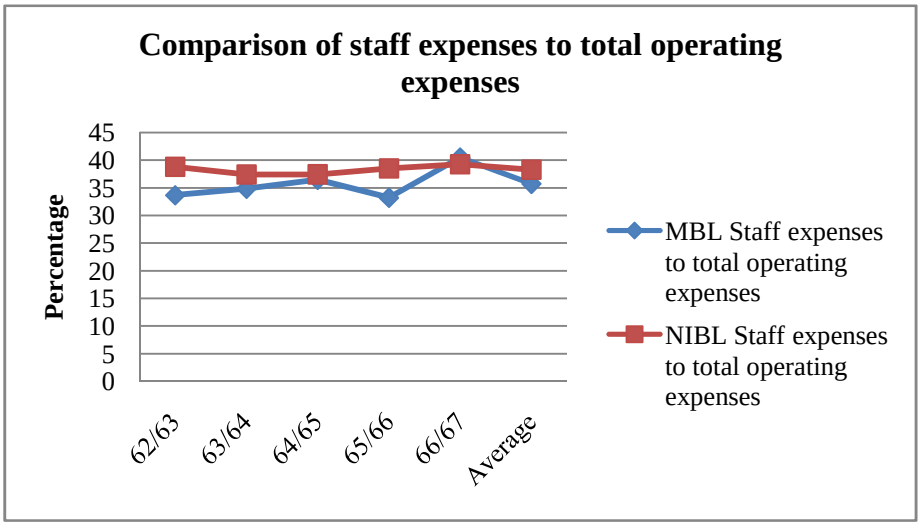
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Staff expenses (Rs)	43	54	71	91	152	
	Total operating expenses (Rs)	129	156	196	274	376	
	Staff expenses to total operating expenses (%)	33.65	34.85	36.44	33.21	40.46	35.72
NIBL	Staff expenses (Rs)	121	145	187	226	280	
	Total operating expenses (Rs)	311	389	500	586	713	
	Staff expenses to total operating expenses (%)	38.77	37.39	37.41	38.50	39.23	38.26

Source: Annual report of MBL and NIBL

The average ratio for MBL is 35.72% and for NIBL is 38.26%. The highest and lowest ratio for MBL are in the year 66/67 and 65/66 and the value is 40.46% and 33.21%. The highest and lowest ratio for NIBL are in the year 66/67 and 63/64 and the value is 39.23% and 37.39%.

Figure 4.23 Comparison of staff expenses to total operating expenses between MBL and NIBL



Source: Annual report of MBL and NIBL

The staff expenses to total operating expenses of MBL is low than that of NIBL. Staff expenses to total operating expenses for MBL is increasing slightly from the first year to third year and it drops slightly in the fourth year and then drop in the final year. In the scenario of NIBL the value remains almost similar throughout the years.

4.2 CAMELS analysis

The acronym "CAMEL" refers to the five components of a bank's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings, and Liquidity and Sensitivity to market risk.

4.2.1 Capital Adequacy

Capital adequacy ratio is defined as the ratio of total capital to risk weighted assets. Mathematically it can be expressed as

$$\text{Capital adequacy ratio (CAR)} = \frac{\text{Capital}}{\text{Risk}}$$

Where risk can either be weighted assets (a) or the respective national regulator's minimum total capital requirement. If using risk weighted assets, CAR ≥ 8%. The

percent threshold 8% in this case, is a common requirement for regulators conforming to the Basel Accords.

Table 4.24 Capital adequacy for MBL and NIBL

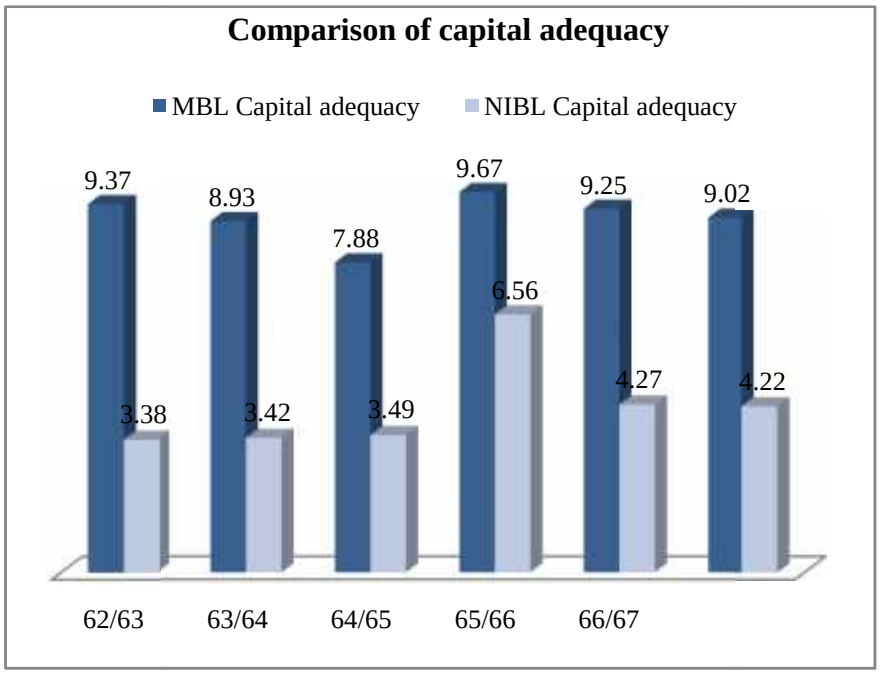
In millions (000,000)

Bank	**Year**	**62/63**	**63/64**	**64/65**	**65/66**	**66/67**	**Average**
MBL	Share capital (Rs)	715	822	901	1 479	1 627	
	Total risk weighted exposures (Rs)	7 634	9 200	11 435	15 298	17 601	
	Capital adequacy (%)	9.37	8.93	7.88	9.67	9.25	9.02
NIBL	Share capital (Rs)	591	801	1 204	2 407	2 409	
	Total risk weighted exposures (Rs)	17 492	23 435	34 484	36 707	56 474	
	Capital adequacy (%)	3.38	3.42	3.49	6.56	4.27	4.22

Source: Annual report of MBL and NIBL

The adequacy of MBL for the five year ranges from 7.88% to 9.67%. Highest capital adequacy achieved is in 65/66 and lowest in 64/65 and its average ratio obtained is 9.02%. The range of adequacy for NIBL is 3.38% to 6.56%.the highest ratio is in the year 65/66 and lowest is in the year 63/64. Its average for the five year is 4.22%.

Graph 4.24 Comparison of capital adequacy for MBL and NIBL



Source: Annual report of MBL and NIBL

The ratio of NIBL is lower in all five years than that of MBL. It seems to be consistent in each year except in the year 64/65 a low value of 7.88%. Whereas the NIBL adequacy is very low as that of standard value 8%. Its initial value was decreased in the second and third year and then increased but still remains below the standard.

4.2.2 Asset Quality

One of the indicators for asset quality is the ratio of non-performing loans to total loans. The gross non-performing loans to gross advances ratio is more indicative of the quality of credit decisions made by bankers. Higher GNPA is indicative of poor credit decision-making.

Table 4.25 Comparison of asset quality for MBL and NIBL

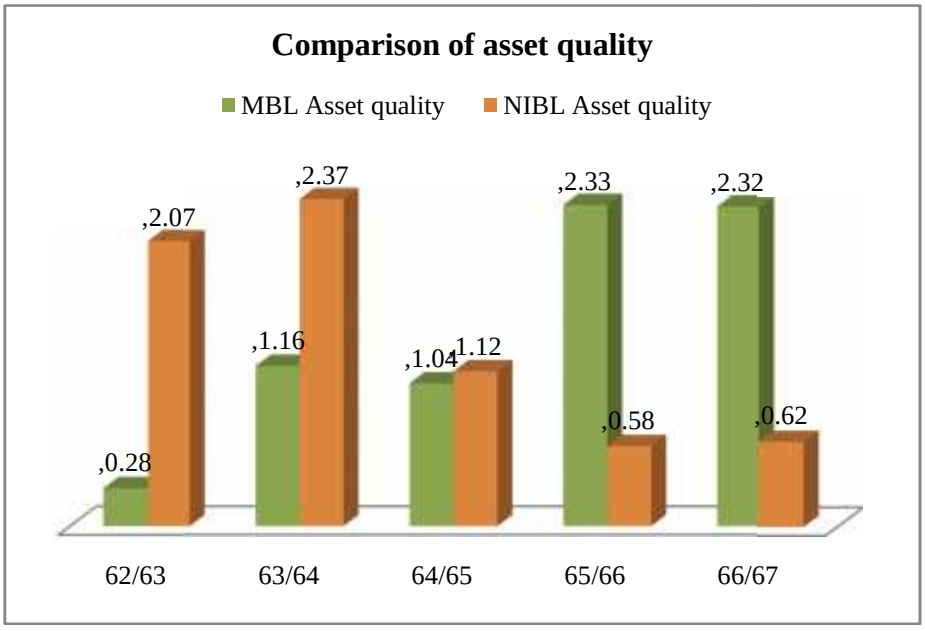
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Nonperforming loan (Rs)	16.92	85.17	92.92	302.84	347.58	
	Total loan (Rs)	6,146	7,319	8,964	12,984	14,972	
	Asset quality (%)	0.28	1.16	1.04	2.33	2.32	1.43
NIBL	Nonperforming loan (Rs)	272.49	421.97	309.47	213.91	254.03	
	Total loan (Rs)	13,178	17,769	27,529	36,827	40,948	
	Asset quality (%)	2.07	2.37	1.12	0.58	0.62	1.35

Source: Annual report of MBL and NIBL

The average ratio for MBL is 1.43% and for NIBL is only 1.35%. The highest and lowest ratio for MBL are in the year 65/66 and 62/63 and the value is 2.33% and 0.28%. The highest and lowest ratio for NIBL are in the year 63/64 and 65/66 and the value is 2.37% and 0.58%.

Graph 4.25 Comparison of asset quality for MBL and NIBL



Source: Annual report of MBL and NIBL

The graph clearly shows that initially the ratio of MBL was too low than that of NIBL which is an excellent result for MBL but the scenario was changed in the last four years unexpectedly MBL ratio becomes higher than that of NIBL which is a very worst scenario.

4.2.3 Management Soundness

The ratio of non-interest expenditures to total assets can be one of the measures to assess the working of the management. . This variable, which includes a variety of expenses, such as payroll, workers compensation and training investment, reflects the management policy stance.

Table 4.26 Comparison of management soundness for MBL and NIBL

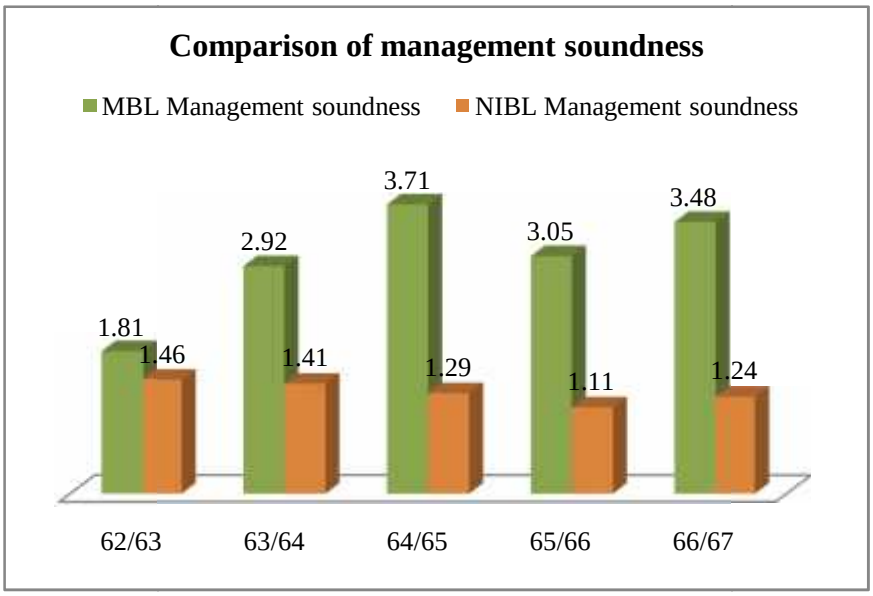
In millions (000,000)

Bank	**Year**	**62/63**	**63/64**	**64/65**	**65/66**	**66/67**	**Average**
MBL	Noninterest expenses in staff (Rs)	164.04	315.33	460.32	532.78	710.62	
	Total assets (Rs)	9069	10810	12410	17490	20398	
	Management soundness (%)	1.81	2.92	3.71	3.05	3.48	2.99
NIBL	Noninterest expenses in staff (Rs)	311.27	388.80	500.30	586.25	713.45	
	Total assets (Rs)	21330	27590	38873	53010	57305	
	Management soundness (%)	1.46	1.41	1.29	1.11	1.24	1.30

Source: Annual report of MBL and NIBL

Management soundness for MBL is increased in each year whereas NIBL has no consistency and neither increasing nor decreasing trends but have mixed trends. The highest and lowest soundness for MBL are in the third year with a value of 3.71% and in the first year with a value of 1.81%. The average value for MBL is 2.99% and 1.3% for NIB. Whereas the highest and lowest soundness for NIBL is in the first year with a value of 1.46% and in the fourth year with a value of 1.11%.

Table 4.26 Comparison of management soundness for MBL and NIBL



Source: Annual report of MBL and NIBL

The graph clearly shows that soundness of MBL was quite impressive than that of NIBL and has increasing trends throughout the years but it was slightly dropped to 3.05 in the fourth year. Whereas initially also soundness of NIBL is quite low than that of MBL and has downward trends throughout the years.

4.2.4 Earnings

It can be measured as the ratio of net profit after tax to total assets.

Table 4.27 Comparison of earnings for MBL and NIBL

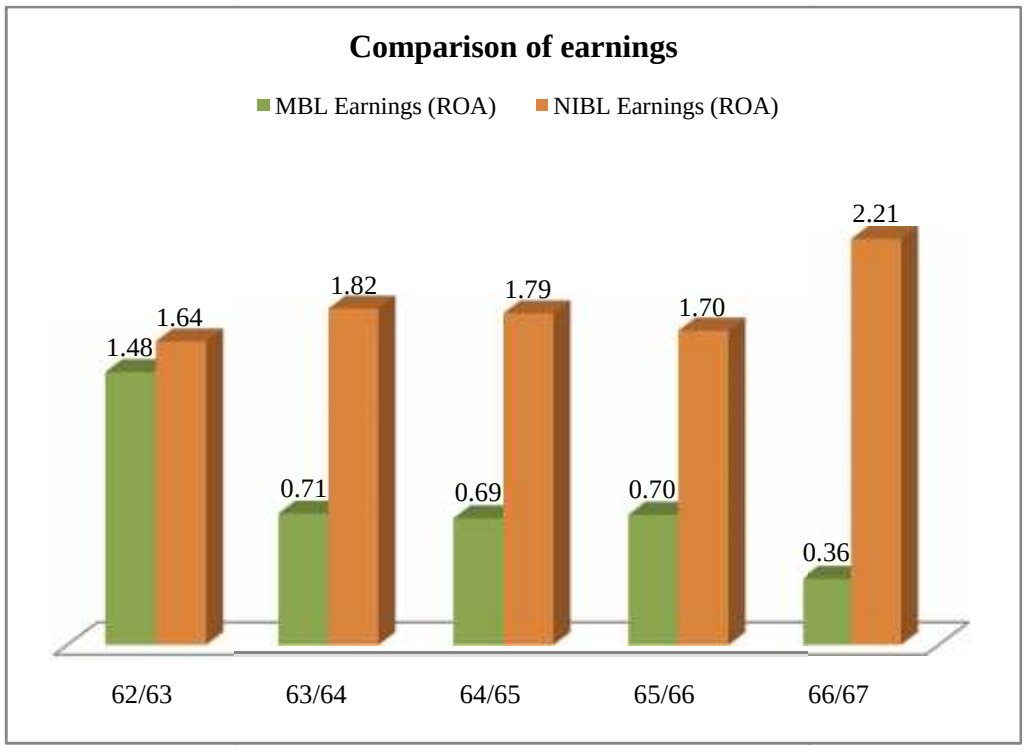
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	NPAT (Rs)	134	77	85	123	73	
	Total Assets (Rs)	9070	10810	12410	17491	20399	
	Earnings (ROA)(%)	1.48	0.71	0.69	0.70	0.36	0.79
NIBL	NPAT (Rs)	351	501	697	901	1266	
	Total Assets (Rs)	21330	27591	38873	53011	57305	
	Earnings (ROA)(%)	1.64	1.82	1.79	1.70	2.21	1.83

Source: Annual report of MBL and NIBL

Through analyzing the data it can be said that earnings of NIBL is higher than that of MBL. The earnings of MBL for the five year ranges from 0.36(%) to 1.48(%). Highest profit achieved in terms of percentage of total assets is in 62/63 and lowest in 66/67 and its average earnings obtained is 0.79(%). The range of earnings for NIBL is 1.64(%) to 2.21(%).the highest earnings is in the year 66/67 and lowest is in the year 62/63. Its average for the five year is 1.83 percentages of the total assets.

Graph 4.27 Comparison of earnings for MBL and NIBL



Source: Annual report of MBL and NIBL

The graph clearly shows that the earnings remains almost similar in the first year, while the earnings remains considerable identical for four years for NIBL but in case of MBL it shows a downward trend for a year and remains same for the next two years from the dropped value.

4.2.5 Liquidity

Cash maintained by the banks and balances with central bank, to total asset ratio is an indicator of bank's liquidity. In general, banks with a larger volume of liquid

assets are perceived safe, since these assets would allow banks to meet unexpected withdrawals.

Table 4.28 Comparison of liquidity for MBL and NIBL

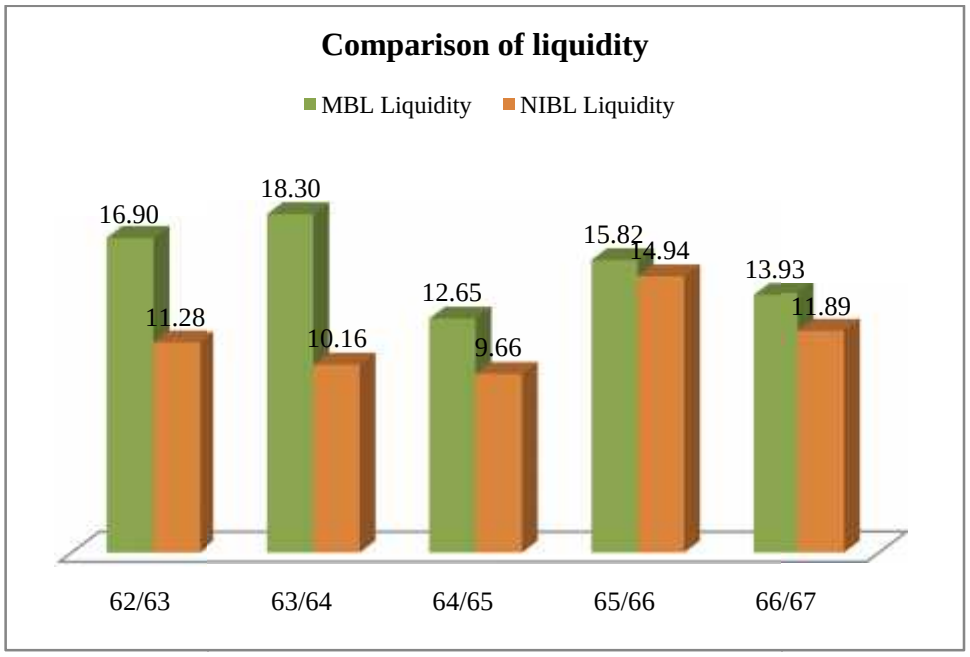
In millions (000,000)

Bank	Year	62/63	63/64	64/65	65/66	66/67	Average
MBL	Cash and bank balance (Rs)	1532	1978	1570	2766	2841	
	Total Assets (Rs)	9069	10810	12410	17490	20398	
	Liquidity (%)	16.90	18.30	12.65	15.82	13.93	15.52
NIBL	Cash and bank balance (Rs)	2406	2804	3754	7918	6815	
	Total Assets (Rs)	21330	27590	38873	53010	57305	
	Liquidity (%)	11.28	10.16	9.66	14.94	11.89	11.59

Source: Annual report of MBL and NIBL

The highest and lowest liquidity for MBL is 18.3% in the year 63/64 and lowest in the year 64/65 with a value of 12.65% and the average value is 15.52% whereas average value for NIBL is 11.59%. The highest and lowest liquidity for NIBL is in the fourth year with a value of 14.94% and in the second year with a value of 10.16% respectively.

Graph 4.28 Comparison of liquidity for MBL and NIBL



Source: Annual report of MBL and NIBL

The graph clearly shows that the liquidity of MBL is always higher than that of NIBL. MBL liquidity was abruptly dropped in the third year after then it was increased. Whereas in case of NIBL the initial value was dropped for two succeeding years and then increased to 14.94% and then it again drop to 11.89%.

4.3 Major findings

4.3.1 Major findings on liquidity ratios

Table 4.29 Summarized average ratios of liquidity for MBL and NIBL

SN	Particulars	Banks		Remarks
		MBL	NIBL	
1	Current ratio(%)	1.89	1.51	Both OK but MBL has higher liquidity
2	CRR(%)	17.31	12.78	MBL has high liquidty
3	Net working capital (million)	4 772.89	5 857.00	NIBL has high working capital but here it doesn't corresponds to liquidity

- Analyzing the data of current ratio it is observed that the MBL has the ratio in upper limit of the standard ratio while NIBL has in lower limits. Current ratio is consistent is seen in the NIBL, its ratio is quite near to range in each year while MBL has quietly more to range in comparison with NIBL.
- CRR is more consistent for MBL, its ratio is quite near to range in each year while NIBL has quietly more to range in comparison with MBL.
- NIBL has higher amount of net working capital.

4.3.2 Major findings on profitability ratios

Table 4.30 Summarized average ratios of profitability for MBL and NIBL

SN	Particulars	Banks		Remarks
		MBL	NIBL	
1	NP Margin(%)	12.34	24.27	High for NIBL.
2	EPS (Rs)	10.25	53.95	High for NIBL.
3	P/E (Rs)	64.12	28.34	Low for NIBL.
4	Book value (Rs)	120.22	209.98	High for NIBL.
5	Book net worth (Rs)	1 259.09	2 894.72	High for NIBL.
6	Interest income/loan and advances (%)	9.67	9.41	High for NIBL.
7	Interest expenses to total deposit (%)	4.24	3.31	Low for NIBL.
8	Net Profit/Loan and advances (%)	1.15	2.77	High for NIBL.
9	Net profit/Total assets (%)	0.79	1.83	High for NIBL.
10	Interest income to total assets (%)	6.66	6.23	High for MBL
11	Return on capital	0.37	15.76	High for NIBL.
12	Exchange gain/Total income (%)	4.79	6.08	High for NIBL.

- The data of five years showing the net profit margin of two banks clearly states that NIBL has well enough profit margins and is highly profitable at an average value of around one fourth of the total sales while MBL net profit margin is not consistent and has its average value of 12.34 only. Earnings per share of NIBL are very high in comparison to that of MBL. The average earnings of a share for NIBL is 53.95 rupees while MBL is only 10.25.
- Data shows dramatic effects of earnings per share and market value of share. As we had observed that the NIBL earnings per share and net profit margin is twice of MBL but the price earnings ratio of NIBL is extremely lower than that of MBL. It means that the market price per share of NIBL is extremely

higher may be due to positive goodwill and faith of customer than that of MBL.

- The data clearly shows that the foreign money exchange activity is quite higher in NIBL than that of MBL. The total income and exchange profit of NIBL is very high in comparison to that of MBL and it concludes that the exchange activity as well as the weightage of foreign income in total income is also very high.
- Through analyzing the data it can be said that return on assets ratio of NIBL is higher than that of MBL.
- Through analyzing the data it can be said that return on assets ratio of NIBL is higher than that of MBL. The MBL did not give any share dividend in the year 63/64 and 66/67.
- The average book value for NIBL is Rs 209.98 while MBL is only Rs 120.22.
- The total asset as well as total liabilities of NIBL is very high in comparison to that of MBL. The average book net worth for NIBL is 2894.72 million while MBL is only 1259.09 million.
- Interest expenses to total deposit of MBL is better than NIBL that is average interest rate for MBL is 4.24% and for NIBL is only 3.31%
- NPAT to total assets is higher for NIBL whereas interest income to total assets is high for MBL.

4.3.3 Major findings on efficiency ratios

Table 4.31 Summarized average ratios of efficiency for MBL and NIBL

SN	Particulars	Banks		Remarks
		MBL	NIBL	
1	Staff expenses to total operating expenses (%)	35.72	38.26	High for NIBL.
2	Staff bonus to total expenses (%)	22.75	53.65	High for NIBL.
3	Loan/deposit	0.77	0.75	Low for NIBL.
4	Non performing credit/total credit (%)	1.43	1.35	Low for NIBL.
5	Deposit status per employee (million)	38.28	55.39	High for NIBL.
6	Lending status per employee (million)	35.72	38.26	High for NIBL.
7	Net profit/Employee (million)	0.34	1.12	High for NIBL.
8	Sales/Employee (million)	3.22	3.84	High for NIBL.

- The average staff bonus to total expenses ratio for MBL is 22.75 and for NIBL is 53.65. This means MBL is continuously decreasing its ratio while NIBL is increasing and it shows that NIBL is continuously improving the profit generating activity than MBL.
- The average loan to deposit ratio for MBL is 0.77 and for NIBL is 0.75. of NIBL is increasing and it shows that NIBL is continuously investing the deposit in profit generating activity.
- The average non performing to total loan ratio for MBL is 1.43 and for NIBL is only 1.35. This means MBL is continuously increasing its ratio while NIBL is decreasing and it shows that NIBL is continuously improving the loan issuance activity than MBL.
- The average deposit per employee for MBL is 38.28 million and for NIBL is 55.39 million. This shows the efficiency of NIBL staff is better than that of MBL and is in increasing trend.
- The average net profit to employee ratio for MBL is 0.34 million and for NIBL is 1.12 million. This shows the efficiency of NIBL staff is better than that of MBL and is in increasing trend.

- Through analyzing the sales/employee ratio it can be said that return on assets ratio NIBL is higher than that of MBL. The ratio of MBL for the five year ranges from 2.73 to 3.74.

4.3.4 Major findings on CAMELS analysis

Table 4.32Summarized average ratios of CAMELS for MBL and NIBL

SN	Particulars	Banks		Remarks
		MBL	NIBL	
1	Capital adequacy (%)	9.02	4.22	Good for MBL and worse in case of NIBL
2	Asset quality (%)	1.43	1.35	Ok
3	Management soundness (%)	2.99	1.33	NIBL has high
4	Earnings (%)	0.79	1.83	NIBL has high
5	Liquidity	15.52	11.59	MBL has high
6	Strength	ok	ok	Ok

- The capital adequacy for MBL in each year is almost greater than 8 percentage it means it is well enough for long run survival but the value is too less for NIBL so it is unhealthy figure for smooth run. The adequacy of MBL for the five year ranges from 7.88 to 9.67. The range of adequacy for NIBL is 1.77 to 5.31. Management soundness of MBL is quite good than that of NIBL whereas other factors doesn't show so much significant difference.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMENDATION

5.1 Summary

The banking and financial organizations are growing day by day. As banking and financing organizations as well as their activity are financial frauding and risk of collapsing of institutions is also observed.

In this situation working capital, liquidity, loan transactions, cash collection, investment and their institutional turnover rate of financial institution is always questioned marked and people are eagerly concerned in this matter to know that how the organization are sustaining. Which organization is really in profit and who is trustier in this scenario?

Now there are 31 commercial banks in Nepal. Among them, some banks have been opened by private sector in joint venture with foreign banks. Other commercial banks later established in the country. These commercial banks have played a very significant role in creating banking habit among the people, widening area and serving business communities and the government in various ways.

This study focus on the financial performance of commercial banks specially on Nepal investment bank and Machhapuchhre bank limited about analysis on liquidity and profitability of their own and in comparison with them. This thesis gives the general description of these two banks and analyses the data obtained from their annual reports and analyses their past data with their annual performance and with these two banks.

A company that cannot pay its creditors on time and continues not to honor its obligations to the suppliers of credit, services and goods could result in losses on account of non-availability of supplies and lead to possible sickness or insolvency. Also, the inability to meet the short term liabilities could affect the company's operations and in many cases it may affect its reputation as well. Lack of cash or liquid assets on hand may force a company to miss the incentives given by the

suppliers of credit, services, and goods as well. Loss of such incentives may result in higher cost of goods which in turn affects the profitability of the business.

A profit ratio indicates how effectively management can wring profits from sales. It also indicates how much room a company has to withstand a downturn, fend off competition and make mistakes. Potential investors are interested in dividends and appreciation in market price of stock, so they focus on profitability ratios. Managers, on the other hand, are interested in measuring the operating performance in terms of profitability. Hence, a low profit margin would suggest ineffective management and investors would be hesitant to invest in the company.

Thus, a financial manager has to ensure on one hand that the firm has adequate cash to pay for its bills, has sufficient cash to make unexpected large purchases and cash reserve to meet emergencies, while on the other hand, he has to ensure that the funds of the firm are used so as to yield the highest return. That's why for a smooth financial growth and to maintain the investment in organizations, employment growth and to maintain financial crisis and frauding financial experts and the regulating bodies of financial organizations develop various models and process to determine the exact status and the future status of banks and financial institutions developed. Some of the latest best appropriate, common and reliable practicing methods of analysis are ratio analysis, Basel accord II, CAMELS, peer comparison, EAGLES and multi discriminant analysis.

During ratio analysis it is found that both the banks are financially stable has sufficient liquidity for smooth run and are generating profit and has a future. Their market share price is within their real financial value of institution, NIBL price earnings ratio is quite low in comparison to that of MBL. The amount of nonperforming loan for MBL is increasing but in case of NIBL, it is decreasing. Increasing of nonperforming loan is sign of failure of organizations. The dividends to share holder is very attractive in NIBL and it is found that the interest expenses is increasing in the latest years it means that the institutions are offering the customer to deposit in their banks by luring them through high interest rate. Through CAMEL analysis capital adequacy of NIBL is not good. It is assumed that this ratio should be

at least 8 but it is around 4. Others are ok; however is the database both the financial ratios in overall both the banks are in good financial position.

5.2 Conclusion

In conclusion it is found that both the banks (MBL & NIBL) are financially in good position, as their ratios are good and balanced to make profit and have sufficient funds to tackle liquidity. Net working capital only doesn't correspond to liquidity although it is higher for NIBL it can be said that MBL has maintained higher liquidity and is almost consistent. But NIBL liquidity ratio is fluctuating in each and seems that they aim to maintain it in a range of 1 to 2 with high use of deposits for lending. There is no significant change in ratios throughout the years.

Analyzing the profitability ratios it is found that NIBL has higher profits than MBL. Deposits collection as well as lending, NPAT, net profit margin, EPS, interest income to loan and advances, net profit to loan and advances, exchange gain and ROA are higher for NIBL. Wherever P/E and interest expenses to total deposit is low for NIBL.

Analyzing these findings it can be concluded that NIBL has higher profitability ratios. The difference in lending interest rate to deposit interest rate is very high for NIBL than that of MBL and it is the main reason behind higher profitability. Other reasons are high deposits; lower liquidity and low share capital play a vital role in utilizing the deposits and earnings profitability. However very high P/E ratio for MBL means market value of its share is very high in comparison with its actual. This is a positive feedback for the shareholders as their key interest is in wealth maximization.

While observing current ratio and loan advances of two banks it is observed that MBL has increased the current ratio in the year 64/65, 65/66 and 66/67 which reduces its loan advances amount. This is also observed in the data and is found to be very less amount with comparison to NIBL amount. On the other hand in the same years NIBL reduces its current ratio which results excess amounts for lending resulting large amounts of net profit after tax. This is the main reason behind their profitability ratios.

The loan to deposit ratio is high for MBL but its nonperforming loan is also high so its efficiency of high deposit to loan ratio with higher liquidity doesn't have a positive results. High capital employed ratios, staff expenses and high net profit to employee ratios gives a very positive result in efficiency of NIBL.

As a significant changes in financial ratios is observed in the last two years is that the interest rate is increased in both of the two banks. It means the interest expenses to total deposit ratio is increased in fiscal year 65/66 and 66/67. It shows that the banks are attracting the customers through high interest rate for the customer's deposits which directly impacts the profitability ratios. These may be the reason of high competence of financial institution or scarcity of liquidity in the market.

The average deposit and lending rate for MBL is 4.24% and 9.67 % whereas for NIBL is 3.31% and 9.41%. This shows that for deposit MBL and lending NIBL is found to be appropriate.

NPAT to total assets is higher for NIBL whereas interest income to total asset is higher for MBL. It clears that the interest earned from the total assets used is very high for MBL but the net profit is low in comparison with the total asset than that of NIBL. It concludes that the operating cost for MBL is very high in comparison to NIBL.

Through CAMELS analysis it is found that the capital adequacy of NIBL is very poor. It may results in failure to maintain the current capital in long term as its share capital to risk weighted ratio is low. The ratio analysis shows that the management is doing well having high capital employed ratios however its management soundness is quietly low than that of MBL.

In conclusion, financial condition of MBL and NIBL is good enough and positive response in market due to high P/E ratios. Overall, the financial position is able to provide the general public and firm their amounts that have deposited their amount and can sustain with high profit and is able for long run survival.

5.3 Recommendations

These two banks have already established them self as a leading private bank in the country and the financial indicators shows that banks performance in the past is more than satisfactory and the future is positive and financially secured. The following further recommendations are made from the study about the bank in this chapter.

- It is recommended that MBL should minimize its current ratio and CRR ratio as compared to NIBL to improve its profitability. It should try to maintain CRR as prescribed by the NRB.
- High profitability for NIBL might be low deposit interest rate and high lending interest rate that's why it is recommended for MBL to maintain low deposit and high lending interest rate.
- Both the banks should focus to maintain a minimum interest expenses to total deposit ratio as it was observed that the ratio was increased in the last years for both banks.
- As compared to NIBL it is recommended for MBL to minimize its non performing loan as it gradually decays the liquidity as well as profitability.
- Foreign exchange gain and other non operating profits is also a source of earnings profits. For as well established bank like MBL it doesn't cost in expansion of such activity. So that it is highly recommended to increase foreign exchange and other non operating profits.
- To defend from bankruptcy or any failure in organization it is advised for NIBL to meet the standard capital adequacy ratio, either through increasing its share capital or through minimum risk weighted assets.
- It is recommended that the MBL should minimize its total operating expenses and staff expenses to get more profitability as that NIBL.

REFERENCES

a) Books

Crowther, G., (1945). **An Outline of Money.** London: Thomas Nelson and Sons Ltd.

Gupta L.C. (1981). **Rates of Return on Equities: The Indian Experience.** New Delhi: Oxford University Press.

Kothari, C.R. (1994). **Quantitative Techniques.** New Delhi: Vikas Publish House Pvt.Ltd. Lawrance,

J.G. (1994). **Principles of Managerial Finance**. San Diego University: Haper Colling Publishers.

Munakarmi, S.P (2003). **Management Accounting**. Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.

Pandey, I. M. (1995). **Financial Management.** New Delhi: Vikas Publish House Pvt.Ltd.

Sayers, R.S. (1972). **Modern Banking Principal.** Delhi: Oxford Cearendon Press.

Sharma, P.R (2064). **Research Methodology with SPSS**. Kathmandu: Resunga Computer, Kirtipur.

Vaidya, S.(2001). **Banking Management.** Kathmandu: Monitor Nepal.

Wolf, G. and Pant, A. (2000), **A Handbook for Social Science Research and Thesis Writing**. New Delhi: Oxford University Press.

b) Journals and Research Papers

Athanasoglou, P., Delis, M. et. all (2006). "**Determinants of Bank Profitability in the South Eastern European Region"** Online at http://mpra.ub.uni-muenchen.de/10274/ MPRA Paper No. 10274, posted 03. September 2008.

Basel Committee on Banking Supervision (BCBS).2010a. "**An Assessment of the Long-Term Economic Impact of Stronger Capital and Liquidity Requirements.**

Bank for International Settlements (BIS). Committee on the Global Financial System. 1999a. ***Market Liquidity: Research Findings and Selected Policy Implications*.** BIS–CGFS Study No. 11 (May). 1999b.

Bordeleau, E. and Graham, C. "**The Impact of Liquidity on Bank Profitability."** Bank of Canada Working Paper No. 2010-38. 2010.

Chen, D. and I. Christensen. 2010. " **The Countercyclical Bank Capital Buffer: Insights for Canada."** Bank of Canada *Financial System Review* (December): 29–34.

Elijelly,M.A., **"liquidity – Profitability Tradeoff: an Empirical Investigation in an Emerging Market"** The academy of management journal vol.39, no. 6 December 1996.

Gauthier, C. and M. Souissi. 2010**."Understanding Systemic Risk: The Trade-Offs between Capital, Short-Term Funding and Liquid Asset Holdings."** Bank of Canada Working Paper No. 2010-29.

Huizinga, H. and Kunt, D. (1999). D**eterminants of Commercial Bank Interest Margins and Profitability: Some International Evidence**, *World Bank Economic Review* 13, 379-408.

Jacobson, C.K**., "Effects of Profitability and Liquidity on R&D Intensity: Japanese and US Companies Compared"**, International journal of commerce and management, Vol.14, Issue:2,1996

Kunt, D. and Levine, R. (1999). **Bank-based and Market-based Financial Systems: Cross-country Comparison**, mimeo, World Bank.

Saunders, A. and Schumacher, L. (2000). **The Determinants of Bank Interest Margins: An International Study**. Journal of International Money and Finance, 19, 813-832.

Wong, K. P. (1997). **The Determinants of Bank Interest Margins Under Credit and Interest Rate Risks.** Journal of Banking and Finance, 21, 251-271.

Zarruck, E. (1989). **Bank Margin with Uncertain Deposit Level and Risk Aversion**. Journal of Banking and Finance, 13, 797-810.

c) **Unpublished Thesis**

Awasthi, G.P.(2003) A comparative on financial performance between Himalayan bank and Bank of Kathmandu Limited An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U. Kathmandu.

Buyinza, F. (2010),"Determinants of Profitability of Commercial Banks in Sub Saharan Africa Countries" an unpublished thesis submitted to Department of Economics. Johanssen Keppler University ,Linz Austria.

Ghimire, K. (2003) Financial Performance of Commercial Bank : A Comparative case study of NBB, HBL and EBL, Kathmandu, An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U. Kathmandu.

Ghimire, K. (2005). *Financial Performance of Commercial Banks: A Comparative Case Study of NB Bank HBL and EBL* Kathmandu: An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U.

Gupta, B.P (2004) *"Financial Performance Analysis of Everest Bank Ltd."* An Unpublished Master Degree Thesis, Submitted to Commerce Campus, T.U, Minbhawan.

Gupta, K. (2005) Financial Performance Analysis of Everest Bank Limited Kathmandu, An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U. Kathmandu.

KC. N. (2000) comparative study of working capital management of NBL and NIBL Limited, Kathmandu, An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U. Kathmandu.

Khadka, S. (2009), A Study on Financial Analysis of NABIL Bank Limited, An Unpublished Master Degree Thesis, Submitted to Shanker Dev Campus, T.U, Putalisadak.

Maharjan, R.M., (2009) An Analysis on deposit Mobilization of Commercial Banking of Nepal An Unpublished Master Degree Thesis, Submitted to Shanker Dev Campus, T.U, Putalisadak.

Ojha, K.P. (2000). *Financial Performance and Common Stock Pricing: A Case Study of Nepalese Stock Market.* An Unpublished Master Degree Thesis Submitted to Faculty of Management, Tribhuvan University.

Poudel, A.(2009) Working Capital Management of Bhirkuti Pulp and Paper Industries, Nawalparasi, An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U. Kathmandu.

Rani, P. (2010),"To study the strength of using CAMELS framework as a tool of performance evaluation for banking institutions" An unpublished master of business administration thesis, submitted to Punjab Technical University, Jalandar, India.

Shrestha, B. (2003) A comparative analysis of Financial performance of the joint venture Banks ." An Unpublished Master Degree Thesis, Submitted to Shanker Dev Campus, T.U, Putalisadak.

Shrestha, K. (2008) a Study on management of Deposit and Liquidity and its Impact on Profitability, An Unpublished Master Degree Thesis, Submitted to Shanker Dev Campus, T.U, Putalisadak.

Singh, Nitendra (2004), "*Analysis of Financial Performance of NABIL Bank & Himalayan Bank Ltd.*" An Unpublished Master Degree Thesis, Submitted to Shanker Dev Campus, T.U, Putalisadak.

Tuladhar, R.(2007) A comparative study of working capital Management of NABIL & SCBNL Kathmandu, An Unpublished Master Degree Thesis, Submitted to Faculty of Management, T.U. Kathmandu.

d) Related websites

http://www.accounting-ebook.com/15/1.pdf;

http://www.bized.co.uk/compfact/ratios/profit3.htm

http://campus.murraystate.edu/academic/faculty/larry.guin/fin330/

http://www.citefin.com/298-camel-model.html

http://www.credfinrisk.com/bank.html

http://en.wikipedia.org/wiki/Recession

http://www.exinfm.com/board/profitability_ratios.htm

http://www.investopedia.com/articles/fundamental/

http://www.investopedia.com/articles/stocks/07/peer-comparison.asp

http://leadershipcorp.com/2009/4/15/why-camel-failed-recognize-weakness-banks

http://www.mbl.com.np

http://moneycentral.msn.com/investor/invsub/

http://money.rediff.com/companies/

http://www.my-quickloans.com/LIQUIDITY-vs-PROFITABILITY.html

http://www.msrit.edu/dept/mba/iitpowai.pdf

http://www.nibl.com.np

http://www.nrb.com.np

http://social.eyeforpharma.com/story/

e) **Encyclopaedia**

Encyclopedia America (1985) vol.3 1985

Encyclopedia America (1985) vol.3 1984