

**FINANCIAL PERFORMANCE OF NEPAL BANGLADESH BANK  
AND NEPAL SBI BANK**

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***RECOMMENDATION***

This is to certify that the thesis

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**FINANCIAL PERFORMANCE OF NEPAL BANGLADESH BANK  
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has been prepared as approved by this Department in the prescribed format of  
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***VIVA-VOCE SHEET***

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

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

**Master's Degree in Business Studies (M.B.S.)**

**Viva-Voce Committee**

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## DECLARATION

I hereby, declare that the work reported in this thesis entitled “**Financial Performance of Nepal Bangladesh Bank and Nepal SBI Bank**” submitted to Central Department of Management, University Campus, T.U., Kirtipur is my original piece of work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business studies under the supervision and guidance of Dr. Dilli Raj Sharma, Central Department of Management.

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## ABBREVIATIONS

AD	Anno Domini
BS	Bikram Sambat
CDM	Central Department of Management
CV	Coefficient of Variation
EBIT	Earning Before Interest and Tax
EBT	Earning Before Tax
EPS	Earning Per Share
FY	Fiscal Year
JVBs	Joint Venture Banks
NBBL	Nepal Bangladesh Bank Limited
NCF	Net Cash Flow
NPAT	Net Profit After Tax
NRB	Nepal Rastra Bank
NSBI	Nepal State Bank of India
r	Correlation Coefficient
$r^2$	Coefficient of Determination
RBB	Rastriya Banijya Bank
SD	Standard Deviation
SDC	Shanker Dev Campus

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the study

Banking sectors plays a vital role for the country's economic development of the nations. Bank is resource mobilizing institutions that accepts deposit from various sources and invests such resources in primary, secondary and tertiary development sector of the country. Banking when properly organized aids and facilitates the growth of trade and industry. The issue of development always rests upon the growth of trade and industry. The issue of development always rest upon the mobilization of resources. Banks function of lending ensures required volume of capital to resources mobilization. In the modern economy banks are considered not as dealers in money but as leaders of development. The economic growth of a country depends on the growth and development of trade and industry. Industrial development can take place only if sufficient money is invested in industries. Nepal is an underdeveloped country with lower per capita income and most of the people are under poverty line. Many features are there for slow pace of development such as land locked position, misuse of resources, poor economy policy and institutional weakness. Economic development depends upon various factors however the major are capital formation and proper utilization of the capital. The economic development of a country, in fact depends upon the sound banking system. Capital accumulation plays an important role in accelerating the economic growth of the nation, which in terms is basically determined among others by saving and investment propensities. However, the capacity to save in developing countries is quite low with a relatively higher marginal propensity of consumption. As a result, such countries are badly entrapped in to the circle of poverty. So, the basic problem of developing countries is raising level of saving and thus investment.

Financial information plays the important role in financial planning, analysis and decision making. It is needed to predict, compare and evaluate the firm's earning ability. It is required to aid in economic decision making. The financial information of an enterprise is contained in the financial statements or accounting reports. Financial

statement analysis applies analytical tools and techniques to general purpose financial statements and related data to derive to estimate and interferences useful in business decisions. It is a screening tool in selecting investment or merger candidates and is a forecasting tool of future financial condition and consequences. It is a diagnostic tool in assessing financing, investing and operating activities and is an evaluation tool for managerial and other business decision”(Bernstein, Wild, 1999: 3).

### **1.1.1 Concept of Banking**

"Principally speaking, a commercial bank accepts deposits and provides loans primarily to business firms thereby facilitating the transfer of funds in the economy" (Khadka & Singh, 2069: 26). Commercial Banks are the intermediary between the deficit and surplus of financial institutions and non depository financial institutions.

Economically, Nepal is predominantly an agricultural based country. Ninth development plans have been already executed since 1956 A.D. for the development of country and the eight plans is operative from the fiscal year 1992/93 A.D. However, the central issue of the development in Nepal even today, continues to be the eradication of poverty. Since 65 % of the population, are dependent upon agriculture, the sector is unable full employment to the rural labor force. The economic development of the country heavily depends upon the improvement of the agricultural sector. To support this view, Sapkota had mentioned that, “here exist a great need for agricultural financial institute to provide the loans because the main problems on economic development are related to agriculture sector and lack of adequate credit facilities” (Khadka & Singh; 2069). It simply acts as a mediator between people who want to save their surplus money and those who need some money to operate their business or projects. It deal with money and attracts deposits. It acts as a mediator between the businessmen and helps transfer of funds from one location to another that might be national or international.

For achieving economic growth and prosperity of the nations, government has to formulate and implement strategies focusing overall industrialization of the nation and development of a sound banking system is necessary for the rapid industrial development. Dr. Shrestha says “Financial infrastructure of an economy consists of financial intermediation, financial institution and financial market” (Shrestha, 1990:

38). Therefore the financial institution plays a great role in the overall development of the country. Bank is also a resource for economic development which maintains the self- confidence of various segments of the society and extends credit to people.

### **1.1.2 Historical Development of Banking System in Nepal**

History of formal and commercial banking system of Nepal was younger than other neighboring nations. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual money lenders has acted as fence to institutional credit in presence of unorganized money market. Though, establishment of banking industry was very recent, some crude bank operations were in practice even in the ancient times. In Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shakhadhar, a Sudra merchant of Kantipur in 879 or 880 A.D. after having paid all the outstanding debts in the country. As like of other countries goldsmith, merchants and money lenders were the ancient bankers of Nepal. Tejrath Adda established during the tenure of the then Prime Minister Ranoddip Singh during the year 1877 A.D. (1933 B.S.) was the first step towards the institutional development of banking in Nepal. Banking in modern sense started with the inception of Nepal Bank Limited (NBL) on B.S. 1994 (1937 A.D) under Nepal Bank Act, 1937. Nepal Bank Limited had a Herculean responsibility of attracting people toward banking sector from predominant money lenders net and of expanding banking services. Being a commercial bank, it was natural that, this bank paid more attention to profit generating business and preferred opening branches at urban centers. Government however had onus of stretching banking services to the nook and corner of the country and also managing financial system in a proper way. Thus, Nepal Rastra Bank (NRB) was set up on B.S. 2013.01.14 as a Central Bank under functioning as the Government's bank and has contributed to the growth of financial sector. The major challenge before NRB today is to ensure the robust health of financial institutions. Accordingly, NRB has been trying to change them and has introduced a host of prudential measures to safeguard the interest of the public. NRB is yet to do a lot to prove them an efficient supervisor. NRB really requires strengthening their policy making, supervision and inspection mechanism. Integrated and speedy development of the country is possible only when

competitive banking service reaches nooks and corners of the country. Keeping this in mind, government set up Rastriya Baniya Bank (RBB) in B.S. 2022.10.10 as a fully government owned commercial bank.

As the name suggest, commercial banks are to carry out commercial transaction only. But commercial banks had to carry out the functions of all types of financial institutions. Hence, Industrial Development Centre (IDC) was set up in 2013 for industrial development. In 2016, IDC was converted to Nepal Industrial Development Corporation (NIDC). Similarly, Agriculture Development Bank (ADB) was established in B.S. 2024.10.07 to provide finance for agricultural product so that agricultural productivity could be enhancing by introducing modern agricultural techniques. Moreover, Security Exchange Centre was established in 1976 to enhance capital market activities. Securities Exchange Centre was renamed Nepal Stock Exchange (NEPSE) in 1993. NEPSE opened its trading floor on 13 January 1994.

### **1.1.3 Concept of Joint Venture Banks**

Altogether there are 31 commercial banks, 89 development banks. They all have their own rules and regulations and own vision but ultimately they are serving the nation to build a huge financial resource and mobilize in the best possible way. In the present scenario Nepalese banking system is evolving itself as a powerful instrument of planning and economic growth of all developed and underdeveloped sectors. “A joint venture bank is joining of forces between two or more enterprise for the purpose of carrying out a specific operation i.e. industrial and commercial investment production or trade” (*Gupta, 1984: 15*). “A joint venture business involves in equity arrangement between two or more independent enterprises which results in the creation of new organization.”(*Jauch & Glueck, 1988: 232*). This thought identifies the joint venture as a mutual understanding among two or more firms then bringing a new enterprise in existence. Basically, they are constant about the ownership of new firms. In what proportion they are going to contribute ownership is also decided mutually .The foreign joint venture banks with full fledged banking functions in Nepal are formed under Company Act 2021 B.S and operated under the Baniyaya Bank Act 2031 B.S.Joint Venture Bank have been established for trading to achieve mutual exchanges of goods and services, for sharing comparative advantages by performing

joint investment schemes between Nepalese investors, financial and non financial institutions as well as private investors and their parents banks.

#### **1.1.4 Introduction of Two Selected Joint Venture Banks**

The establishment of joint venture and commercial bank has given a new horizon to the financial sector of Nepal. The study focuses on financial performance of two commercial banks namely Nepal Bangladesh Bank and Nepal SBI Bank.

##### **1.1.4.1 Nepal Bangladesh Bank Ltd.**

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

The prime objective of this bank is to render hospitality to the valued customer. With a network of 21 branches and a corporate office, bank has been providing the extensive services to the valued customer. To facilitate the valued customer bank had successfully install 28 ATMs and holiday banking for their convenience. Bank has launched service like e-Banking, Mobile Banking, e-topup service, Branchless Banking and other e-Products.

The bank has earned the glory of making available the services for almost all the top business houses. Top exporter and importers of the country have established banking relationship with the bank with a substantial volume of foreign business which has enhanced the bank’s popularity in the international trade front. With the continuous support of our valued customers the bank has made all round progress in every sphere of its operation. This is the first bank to launch the special deposit product for women introducing “Grihini Bachat Khata”. We ensure our valued customer to deliver the innovative products and services as per requirement which will be highly beneficial to create the value.

The Share subscription of Nepal Bangladesh Bank has been as under:

IFIC Bank Ltd	50%
Local Promoters	20%
General Public	30%
Total	100%

Nepal Bangladesh Bank Capital Structure:

The capital structure of Nepal Bangladesh Bank for FY 2011/12 has been as under:

Authorized Capital	300 Crores
Issued Capital	200.93 Crores
Paid Up Capital	200.93 Crores

### **Objectives of Nepal Bangladesh Bank**

The main objectives of Nepal Bangladesh Bank can be highlighted as below:

1. Its objectives are to provide full- fledged commercial banking services to its clients.
2. Another main objective of this bank is to render banking services to the different sectors like Industries, trade, Business person, priority sector, small entrepreneur and many more as well.
3. Its objectives are to accommodate large number of client and provide appropriate service to the client.
4. Objectives are to provide meaning support to development banking in Nepal by joint effort with IFIC.
5. The objectives is to facilitate the reliable, prompt and high standard of banking services adopting the latest version banking technology incompliance with the need and demand of market.

#### **1.1.4.2 Introduction to Nepal Bangladesh Bank Ltd.**

**Nepal SBI Bank** Ltd. (NSBI) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India (SBI), Employees Provident Fund and Agricultural Development Bank of Nepal through a Memorandum of Understanding signed on 17 July 1992.

NSBI was incorporated as Public Limited Company at the Office of the Company Registrar on 28 April 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on 6 July 1993 under license No. NRB/I.Pa./7/2049/50. NSBL commenced operation with effect from 7 July 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to more than 500. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on 26 April 2006 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized and Issued Capitals have been increased to Rs. 200 Crores and Rs. 87.45 Crores, respectively. The management team and the Managing Director who is also the CEO of the Bank are deputed by SBI. SBI also provides management support as per the Technical Services Agreement. The Bank is now having 538 Nepalese employees working in 50 branches, 6 extension counters, 2 Regional Offices & the Corporate Office.

NSBI Bank Share Subscription:

The Share subscription of NSBI Bank has been as under:

State Bank of India	55%
Employee Provident Fund	15%
General Public	30%
Total	100%

The capital structure of NSBI Bank in FY 2011/12 has been as under:

Authorised Capital	300 Crores
Issued Capital	210.29 Crores
Paid Up Capital	209.39 Crores

### **Objectives of Nepal SBI Bank Ltd.**

The Indo- Nepal Joint Venture has been established with some of the objectives which can be stated below:

- This is established with an objective to provide a wide range of international banking services to facilitate Nepal Trade and Tourism.

- Its objectives are to provide meaningful support to development banking in Nepal by joint effort with Agriculture Development Bank and NIDC.
- One of the important objectives of this bank is to facilitate Indo- Nepal trade, which is growing with the support of long networks of branches of state Bank of India.

## **1.2 Statement of the Problem**

Capital formation and its proper utilization in priority sector is the major problem faced by the majority of the underdeveloped countries like Nepal. In such countries, the commercial banks have to shoulder more responsibility and act as development banks, due to the lack of the other specialization institutions. To avoid such problems and contribute to the national economy, various commercial banks have played a vital role by accepting the deposits and providing the various types of loans. The profitability rate, operating expenses and dividend distribution rate among the shareholders has been found different in the financial performance of the two joint venture banks in different periods of time in the context of Nepalese banking industries. So here the study will emphasized on the reason about difference in financial performance. This study will be highly beneficial to point out the strength and weakness. Similarly, financial companies have been emerging rapidly and the bank has to compete with them since finance companies are making investment in the same sectors where the commercial banks invest in these aspects the question here arise as follows.

1. Whose performance is better among the joint venture banks?
2. Although commercial banks are considered efficient how far are they efficient?

These questions arise in banking sector. Among the many other joint venture banks the study here mainly emphasizes on Nepal SBI and Nepal Bangladesh Bank and trying to solve following questions:

- a. Are they maintaining sufficient Liquidity?
- b. How and why do cash and bank balances change each other?
- c. What is the relationship between total deposit and total investment?
- d. Do these banks managements utilize these resources satisfactorily?
- e. Do they maintain sufficient refund in its capital employments?

The study tries to solve this question and the issues. Therefore this study attempts to evaluate the various measures of financial performance such as, profitability, turnover, efficiency in operation sources and application of funds as well as other related dimensions and they determine the overall financial strength or weakness of these two joint venture banks.

### **1.3 Objectives of the Study**

The study with a view to examine the financial strength and weaknesses of Nepal Bangladesh Bank and Nepal SBI Bank Ltd. The following objectives are taken for the study:

- 1) To evaluate liquidity position to measure the strength of financial performance of the selected two banks.
- 2) To evaluate leverage position, profitability position, activity position with reference to mobilization of collected funds.
- 3) To analyze Earning per share, Dividend payout ratio and Price earnings ratio of the selected banks.
- 4) To suggest and recommend both of the banks to improve their financial performance.

### **1.4 Significance of the Study**

Since the study unites the different financial aspect of the bank. It would be useful to the concerned organization, institutions and general public to formulate strategies to utilize the opportunities and face the increasing threats. The stockholders that are concerned to the bank include shareholders, management, outsiders (general public, government, central bank etc.) and policy makers. Thus the main importance of the study is:

- The study focuses on financial performance of selected joint venture banks, NRB act and directives for the joint venture banks.
- This study will be valuable for the shareholders, management of the banks and board of directors of the respective banks, as they hold the position where they stand in the market.
- It will provide information to the general public regarding success of these joint venture banks on the investments they have made.

## **1.5 Limitations of the Study**

The limitations of the study are given as follows:

1. The study here focuses only on the financial performance of selected banks.
2. The study fully depends upon the secondary data provided by the selected banks. So, the output of the study is entirely dependent on the data provided by the respective organisation
3. The time period of only five years has been taken for the study, so, the conclusions drawn includes only for that period.
4. Many financial and statistical tools are used to study the financial performance. But. This study has used limited tools for the analysis.

## **1.6 Organization of the Study**

The study was designed into five main chapters. They were:

### **Chapter - I: - Introduction**

It is an initial phase of the thesis that includes general introduction, a brief review of Nepal Bangladesh and Nepal SBI Bank, focus of the study, statement of the problem, significance, objectives and limitations of the study.

### **Chapter - II: - Review of Literature**

Earlier to this study the researcher have found various studies regarding the financial performance of the financial institution and banks. So in this study the researcher is trying to review the importance and relevant aspect of banking, which have been conducted by previous studies.

### **Chapter - III: - Research Methodology**

This chapter reveals the methodology adopted in carrying out the research work. It includes introduction, research design, sources and nature of data, period covered, research variables, research tools used and research questions for the study.

### **Chapter - IV: - Presentation and Analysis of Data**

It will be concerned with the presentation and analysis of data that has been collected through various sources. It will mainly consist of interpretation and analysis of data

with the help of various analytical tools and techniques and major findings regarding the study will also be included.

### **Chapter - V: - Summary, Conclusion and Recommendations**

This chapter includes summary and conclusions of the study and also recommends some suggestions for the improvements in the future.

At last, After the fifth chapter, Bibliography and Appendices were incorporated.

## CHAPTER-II

### REVIEW OF LITERATURE

Review of literature means reviewing research studies of other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies maybe known and further research can be conducted. “Literature review is basically a ‘stock taking’ work of available literature in one's field of research. So, it provides required depth of knowledge for conducting research. The purpose of literature review is thus to find out what principles are established and research studies have been conducted in the field of study, and what remains to be done” (*Wolf and Pant; 2000:30*). To make meaningful research study, the conceptual review has been done through the study of various books and articles. In addition, researches conducted by the previous researchers in the field of financial performance have also been reviewed by studying their research work, thesis, dissertation etc. This part of the study highlights available literature related to this research which makes base of knowledge for the study. So, this chapter literature review has been divided into the following two sections.

- Theoretical/Conceptual Review
- Review of related studies

#### **2.1 Theoretical / Conceptual Review**

There are two general points that an analyst should keep in mind when using financial statements to help him make a lending decision. The first is that if he asks only for the financial statements of a firm, he will probably fail to get all the financial information he should have. Financial statements are designed to give only a general summary of the financial history of the firm. The analyst must consider them as valuable guides to further questions that he must develop, not as the source of final answers to all of his questions.

The second point is that financial statements yield little information as to their own quality. They are technically the responsibility of management, regardless of who prepares them. The major sources of information as to their quality are the auditor’s report, which should accompany the financial statements (*Van Horne, 1990: 375*)

Financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statement by making comparison of various components and by examining. In the context, this can be used by financial managers as the basis to plan future financial requirements by means of forecasting and budgeting procedures (*Pandey, 1994: 356*).

“Financial performance analysis is the purposeful and systematic presentation of information in the financial statement by developing relationship between one fact with other in order to measure the profitability, solvency, liquidity, operational efficiency and the growth potential of the business” (*Sharma; 2058: 235*). “Financial performance analysis is the process of identifying the financial strengths and weaknesses of properly established relationship between the items of the balance sheet and profit and loss account. Financial analysis is the key tool for financial decision and starting point for making plan before using sophisticated forecasting and budgeting procedure. The value of this approach is that the quantitative relation can be used to diagnose strength and weaknesses of the firm’s performance” (*Pandey; 1994:500*).

### **2.1.1 Financial Statement analysis**

Financial information is needed to predict, compare and evaluate the firm’s earning ability. Financial information about the firm can be obtained from financial statement. The income statement, the balance sheet and cash flow statements are called financial statement. Financial statements are the end produced of accessing activity earned out during the accenting period. The financial statements are the historical records and relate to a past period, normally of one year duration. However, some business enterprises prepare their financial statements more frequently. In UK financial reporting has become relatively standardized and dependable. The financial statements represent fairly the financial condition of the companies preparing them, auditors focus on the choice of accounting principles and their consistent application. A financial statement is a record of the effects of management’s decisions and of management’s success in completing the assets conversion cycle. Financial statement considered followings:-

- Income statement
- Balance sheet
- Cash flow

### **2.1.1.1 Income Statement**

One of the major statements of financial information is the income statement. It is also known by several other titles such as profit and loss statement, statement of earnings and statement of operations. The income statement portrays as a flow statement of the operations over/ during a particular period of time. Since the purpose of every business firm is to earn profit, the operations of a firm in a given period of time will truly be reflected in the profit earned by it. Thus the income statement reports the results of preparation in terms of income net profit in a year. In operational terms, “The accounting report that summarizes the revenue items of the expenses items and the difference between them for an accounting period is called the income statement” (*Khan and Jain, 2002: 166*). Income statement is prepared to ascertain the net profit or loss from the business operations. It is also called profit and loss account, it contains all the items of revenue or gains, losses and pirating expenses, relating to the accounting period but the emphasis in this account are on indirect expenses” (*Bajracharya et al., 2069: 151*)

### **2.1.1.2 Balance Sheet**

Balance sheet is the statement of the firm’s assets or resources and owner’s equity and liabilities or debt. It is also called the statement of the financial position because it shows the position of the firm on a certain date. Balance sheet communicates information about the assets, liabilities and owner’s equity for a business firm as on a specific date. “A Balance Sheet is an accounting statement prepared from accounting balance at a given date. It shows the financial position of a business by dictating the source of funds. A balance sheet shows the assets and liabilities group, properly classified and arranged in specific manner” (*Bajracharya et al., 2069: 21*).

### **2.1.1.3 The Statement of Cash Flow**

Cash flow is very important for a business firm to continue business activities such as payment of daily expenses, financial liabilities, purchase of assets etc value of the firm and assets of the firm depends on the cash flow. Cash flow statement of the cash inflow and out flow, which shows the available to investors the long run, and the position of firm.

Cash flow includes the cash receipt and the cash payment. To calculate net cash, we need to add such non- cash expenses into net income statement. Similarly, non-cash incomes are deducted. So,

Net Cash Flow (NCF) = Net Income+ Non Cash Expenses- Non Cash Revenues

Or,

Net Cash Flow (NCF) = Cash from Operating activities+ Cash from Investing activities+ Cash from Financing activities.

“Financial statements analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statement” (*Jain and Narang:1989*). The first task of financial analysis is to select the information relevant to the decision under consideration from the total information contained in the financial statement. The Second step involved in financial analysis is to arrange the information in a way to highlight significant relationship. The final step is interpretation and drawing of inferences and conclusions. “Financial Analysis is the process of selection, relation and evaluation” (*Shrestha et al., 2069: 149*).

Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firms to identify problems, if any in the past or present and or likely to be in the future and to provide recommendation to solve the problems (*Pradhan; 2000:120*).

The financial statement provides a summary of the accounts of a business enterprise, the balance sheet reflecting statement of financial position or a statement of assets, liabilities and capital investment as of a certain date and the income statement showing the results of during a certain period (*Pradhan, 1990/91*). Thus, financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable condition of a business concern; therefore, financial analysis reflects the financial position of a firm which is the process of determining the operational and financial characteristics of a firm.

### **2.1.2 Objective of Financial Analysis**

The main objectives of financial analysis is explain various facts related to the past performance of business and predict the potentials for achieving desired results.

According to *Brealey, & Myers (1984: 78)*, Some of the main objective of financial analysis can be pointed out as follows:

- To understand the solvency of short term and long term of a firms.
- To know the present and future profitability of the firm.
- To compare with different firms.
- Fore cast the future & preparing budgets.
- The financial stability of business firm.
- The long term liquidity of its fund

### **2.1.3 Ratio Analysis**

“Ratio analysis is the systematic use of ratio to interpret the financial statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined”. (*Khan and Jain; 2002: 80*). “Ratio analysis is such a powerful toll of financial analysis that through this economic and financial position of a business unit can be fully X- rayed”. (*Kothari, 1989: 48*). “Financial ratios help us to find symptoms of problems. The cause of any problems may be determined only after locating symptoms. The operational and financial problems of a corporation can be ascertained by examining the behavior of these ratios” (*Pradhan; 1986: 14*)

The following are some important financial ratios to analyze the financial performance of selected banks.

#### **(i) Liquidity Ratio**

It measures the ability of the firm to meet its current obligations. In fact, analysis of liquidity need the preparation of cash budgets and cash and funds flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity a firm should ensure that it doesn't suffer from lack of liquidity and also that it doesn't have excess liquidity. The failure of company to meet its obligations due to lack of sufficient liquidity, will result in poor creditworthiness, loss of creditors' confidence or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad,

idle assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

### **(ii) Leverage Ratio**

The short term creditors like bankers and suppliers of raw materials are more concern with the firm's debt-paying ability. On the other hand, long term creditor's like debenture holders, financial institutions etc are more concerned with the firm's long-term financial strength. In fact, a firm should have a strong short as well as long term financial position. To judge the long term financial position of firm, financial leverage or capital structure ratios are calculated. These ratios indicate mix of debt and owners equity in financing the firm's assets. The process of magnifying the shareholders return through the use of debt is called financial leverage or financial gearing or trading on equity.

### **(iii) Activity Ratio**

It is concerned with the measuring of efficiency in assets management. These ratios are also called turnover ratios because they indicate the speed with which the assets are being converted or turn over into sales.

### **(iv) Profitability Ratio**

A company should earn profit to survive and grow over a long period of time. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of the company and it will have no future, if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profit. The profitability ratios are calculated to measure the operating efficiency of company.

## **2.1.4 Importance of financial ratio analysis**

Ratio analysis is an important and useful technique to check upon the efficiency of an organization. The management can arrive at important decisions by using ratio analysis. The following are the important managerial uses of ratio analysis:

**(i) Helpful in measuring financial solvency**

Ratios are useful tools for evaluating the liquidity and solvency position of business. They point out the liquidity position of an organization to meet its short and long term obligations

**ii) Helpful in future forecasting**

Ratio analysis is very helpful in financial forecasting and planning. The ratio calculation of past years works as a guide line for future.

**iii) Helpful in comparing inter-firm performance**

Due to inter-firm comparison, ratio analysis also serves as a stepping stone to remedial measures. It helps management evolving future market strategies.

**iv) Helpful in decision making**

Ratio analysis is also very helpful for decision making. The information provided by ratio analysis is very useful for making decision on any financial activity.

**v) Helpful in corrective action**

Ratio analysis can also point out the difference of the business so that corrective action can be taken accordingly.

**2.1.5 Limitations of Ratio analysis**

Ratio analysis is a widely used technique to evaluate the financial position and performance of business firm. But there are certain problems in using ratio analysis. The analysis should be aware of these problems. The following are the limitations of ratio analysis.

- a) The ratio calculated at a point of time is less informative and detected as they suffer from short term change.
- b) Different companies have different accounting periods, implying difference in the composition of the assets, particularly current assets. This may limit the comparative study of ratios' between two firms.
- c) Ignores qualitative aspects.

- d) The ratios are calculated from past data statement that are no indicators of future.

## **2.2 Review of Articles, Thesis and Journals**

### **2.2.1 Review of Articles**

*Shrestha (1990)* entitled "*Commercial Banks' Comparative Performance Evaluation*" stresses on a proper risk management with appropriate classification of loans under performing and non performing category. He further clarifies that adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income.

Regarding the risk management of the bank *Shrestha* suggests that:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservations are required in restructuring portfolio related to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

He found JVBs are new, operationally more efficient, have better performance in comparison to NBL and RBB. Better performance of JVBs is due to their sophisticated technology, modern banking methods and skills.

State owned banks are efficient at rural sector however they are facing growing constraints from social, economical, political system as well as the issues and challenges from JVBs.

*Thapa (1994)* has expressed that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and

advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing to non- traditional sectors along the traditional sector. In Nepal, Nepal Bank Ltd. and Rastriya Banijya Bank are opening with a nominal profit. The late turning towards negative form time to time because of non- recovery of accrued interest, the margin between interest income and interest expenses as declining. Because of these two local banks, in traditional off- balance sheet operations, these banks have not been able to increase their income from commission and discounts. On the contrary they have to go heavy burden of personal and administration overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

At the end of article concluded that by its very nature of public, the domestic banks could not compete with the private sector banks, so only remedy problems of these banks, as the government decided is, to hand over the ownership as well as the management of these banks to the private hands.

*Poudel (1996)* has given more emphasis on the financial performance of finance companies in the article “An Overview on Financial Companies of Nepal”. He had written that at the time 1996, the ratio of capital funds to deposits has been increasing over the time but on top of this, the ratio of capital funds to deposits has been increasing over the time but on top of this is, it is substantially below than the authorized level of deposit mobilization, which is ten times of the capital base.

Never the less, some of the finance companies have even mobilized the deposit by more than ten times of their capital base by violating the regulatory norms issued by NRB. The credit/ deposit ratio has remained quite high leaving the room for doubt about loan especially in the absence of repayment schedule. The loan diversification has been improved however, however during a short span of time. As such, the hire purchase housing and term loans are the major sectors, which all together received more than 95% of the total loans and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies, the average sources of funds for each company are natural to decline.

Since the varying factor, it is too early to evaluate the performance of financial companies in Nepal but equally important factor is that the regulatory and supervisory authority should keep close eyes to monitor their activities.

### **2.2.2 Review of thesis**

*Gurung (2001)* entitled “*A Financial Study of Joint Venture Banks in Nepal A Comparative Study of Nepal Grindleys Bank Ltd. And Nepal Indosuez Bank Ltd.*” concludes that both Joint Ventures banks includes unsatisfactory in liquidity position and interest coverage ratio. The capital structure of the banks is extremely leveraged but they have been maintaining sound capital adequacy ratio as directed by Nepal Rastra Bank. Both the joint Venture banks have registered an increasing trend during the first half but the study period has been decreased thereafter. The researcher has recommended maintaining improved capital structure by increasing equity base. Both the banks should pay due attention in liquidity and coverage position. The researcher further suggests extending their banking facilities even in rural areas by opening up branch office.

#### **Major finding of these thesis are:**

- The both bank are not use their capital properly.
- Both joint venture banks have registered an increasing trend during the first half but the study period it has decreased thereafter.
- The researcher suggests that extending their banking facilities even in rural areas.

*Joshi, S. (2003)*, in her thesis entitled “*Financial performance of Nepal Bank Limited*”, has tried to summarize the financial performance of NIBL and she has pointed out the following objectives:

- To evaluate liquidity position of NIBL
- To analyze the financial performance of this bank.
- To offer a package of suggestion to improve the financial performance
- To identify the relationship between interests earned and operating profit.

Major findings of the study are as follows:

- The result of the analysis indicates that the bank had the high debt ratio which again exhibits that the creditors have invested more in the bank than the owners.
- The result of the analysis indicated that the bank has better mobilization of saving deposit in loans and advances for income generating purpose.

*Pradhan, P.N. (2004)*, in his thesis entitled “*A comparative financial performance of HBL and SCBNL*” has pointed out the following objectives.

- To analyze comparative financial performance of both banks.
- To evaluate liquidity position of both banks.
- To identify the relationship between interests earned and operating profit.
- To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows:

- Current ratios of both banks are below the standards; this might affect the liquidity position of these banks.
- SCBNL’s loan and advances to total deposit ratio significantly lower than that of HBL.
- SCBNL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loan and advances.
- HBL is strongly recommended to increase its earning per share and dividend per share to keep investors within the bank.

*Karki, B.K.(2005)*, in his thesis entitled “*A comparative analysis of financial performance of NABIL and SCBNL*”, has pointed out the following objectives.

- To evaluate liquidity position of both banks.
- To analyze comparative financial performance of both banks.
- To study the comparative position of both banks.
- To offer a package of suggestion to improve the financial performance.
- To identify the relationship between interests earned and operating profit.

Major findings of this study are as follows:

- SCBNL has efficiently operated its long term fund, deposit and assets to generate more profits.

- Liquidity position of NABIL bank is favourable in many cases it seems excessive. The proposed recommendation for these banks is to reduce its excessive non-performing assets (cash and bank balance) and invest on the income generating current assets (Treasury Bills), while SCBNL must strengthen the liquidity position.
- Comparatively SCBNL's profit ability position is better than that of NABIL.

*Shrestha (2005)*, has conducted a study on “*Financial performance analysis of Nepal Bangladesh bank Ltd*” with the objective of:

- To analyze the functions, objectives procedure and activities of the NB bank.
- To analyze the ending practices and resources utilization of NB bank.
- To determine the impact of growth in deposit on liquidity and lending practices.
- To examine the lending efficiency and its contribution to profit.
- To make suitable suggestion based on the findings of this study. The financial and statistical tools are used.

Major findings of this study are as follows:

- NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposit of the bank has been forwarded to customers as a credit and advance.
- Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposit to the needy area to make profit for the bank.

*Maharjan (2006)*, made “*A Comparative Analysis of Financial Performance of Nepal Bangladesh Bank Ltd and Nepal Grindlays Bank Ltd.*” The main objective was to analyze and evaluate the financial position of Nepal Bangladesh Bank Ltd and Nepal Grindlays Bank Ltd in order to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, Hypothesis tests. He used the data of five years till the year 2000. At liquidity position NGBL don't meet the required standard but it is consistent. At fund utilization NBBL is better. NBBL is more aggressive at fund mobilization bearing higher risk. At profitability

NBBL has increasing trend till 1997. NGBL has higher fluctuation at profitability. Overall capital position is better at NGBL.

**Objectives of the study:**

- To evaluate the financial position of the selected banks.
- To find out better performance of capital structure, mobilization of resources and increasing trend of profitability.

Major findings of this study are:

- The fund utilization NBBL is better than NGBL.
- NBBL is more aggressive at fund mobilization bearing higher risk.
- NGBL has higher fluctuation at profitability.

*Gautam (2008)* has conducted research on “*A Comparative Study on Financial Performance of Standard Chartered Bank Limited and Nepal Bangladesh Bank Limited*” with the objectives:

- To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
- To access the debt servicing of the joint venture commercial bank.
- To examine the correlation and the significance of their relationship between different ratios related to capital structure.
- To provide suggestion and recommendation for the optimal capital structure of the joint venture commercial bank.

Major findings of the study are as follows:

- On an average, NBBL bank constitutes 16.27 time of P/E ratio, which should be reduced as quickly as possible.
- The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicate the higher degree of financial risks 3.73 times which indicate the higher degree of financial risks.
- The average ROE of joint venture banks i.e. SCBNL and NBBL are 37.6% and 21.75% respectively.

*Sadula, M. (2007)*, in his thesis “*Financial performance of commercial banks and returns to investors: with special reference to BOK, EBL, SCBNL, NIBL, NABIL*” has pointed out the following objectives:

- To evaluate liquidity position of these banks.
- To analyze comparative financial performance of these banks.
- To study comparative position of selected banks.
- To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows:

- Commercial bank except SCBNL and NABIL are not maintaining constant DP ratio, it is recommended to maintain a constant DP ratio so as to have the confidence of general shareholders.
- Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCXBNL has highest EPS and that of BOK is lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

*Deoja (2008)* entitled “*A Comparative Study of the Financial Performance Between Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd*”. His main objective was to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. And after having studied the performance of five consecutive years till 2005 he concludes a sound liquidity position in both banks. NBBL has better utilization of resources to generate income than NSBI. Profitability of NBBL is better than NSBI. Interest earned to total assets and return on net worth of NBBL is higher than NSBI. Both are highly leveraged.

Major finding of this study:

- NBBL has better utilization of resources to generate income than NSBI.
- Profitability of NBBL is better than NSBI.
- Interest earned to total assets and return on net worth of NBBL higher than NSBI.

*Kapadi (2008)* entitled made “*A Comparative Study of Financial Performance of NABIL and SCBNL*”. The main objective was to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors from his findings. He

used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, coefficient correlation, probable error, hypothesis tests in his study. He used the data from 2003 to 2008 and used most of the ratios and extensively used statistical tools. And he concluded that both have lower liquidity position, both are highly leveraged, performing assets to total assets ratio satisfactory in both, unsatisfactory profitability in both, threat of solvency being high, recommends to increase equity base, improve operational profit, and to decrease operating expenses, expand services to rural areas.

**The main objectives of this study are:**

- To find out the comparative study of financial performance of the selected banks.
- To find out how the liquidity are mobilize in every sector.
- To evaluate the deposits, fixed assets, shareholders and management system of the bank.

Major finding of this study are:

- The researcher has found out the lower liquidity position.
- The performing assets to total assets ratio satisfactory in both banks.
- The threat of solvency being high.

*Dangi (2009)*, made “*A Comparative Study of Financial Performance of SCBNL, NABIL and HBL*”. His main objective to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools excessively but did not use any statistical tools in his study. And he concludes all have unsatisfactory liquidity position, all are highly leveraged, all have low coverage ratio due to excessive use of debts, SCBNL is better at mobilizing assets, SCBNL is better at EPS suggesting effective utilization of owners’ equity. DPR higher with SCBNL, HBL is better at lending and SCBL better at service giving, SCBNL has higher expenditure at staff, HBL at interest payment, NABIL at general expenditure, all borrowed but SCBNL is continuously borrowing throughout the period, suggests to improve quality of current assets structure, to increase equity base, and EBT.

**The main objectives of this study are:**

- To find out the financial position of sampled Institutions.
- To find out the management system of selected Institutions.
- To analyze the lending and borrowing position.

The major findings of this study are:

- Both institutions liquidity position was unsatisfactory.
- Low coverage ratio due to excessive use of debts.
- SCBNL is better at mobilizing assets than HBL.
- Improve quality of current assets structure, to increase equity base.

*Pandey, R. (2009)*, in his thesis entitled “*Comparative analysis of financial performance of Nabil Bank Ltd, Investment Bank Ltd and Standard Chartered Bank*” has pointed out the following objectives:

- To evaluate liquidity position to measure the strength of financial performance of selected banks.
- To evaluate the activity and operation with reference to mobilization of collected funds.
- To analyze price earning, market value to book value per share and dividend payout.
- To evaluate the earning and profitability position of selected banks.
- To identify the relationship between total deposit and total investment.
- To identify the relationship between interest earned and operating profit.

Major findings of the study are as follows:

- Credit ratio of all sample banks i.e. Nabil and SCBNL is greater than 1, but Nabil Bank has the highest credit ratio. It means Nabil banks solvency position is better than NIBL and SCBNL.
- Cash and Bank balance of NIBL with respect to total deposit is more liquidity than other sample banks. It indicates that NIBL is more able to make immediate payments’ to its depositors.
- NIBL has lowest ratio of net profit to total assets. It means NIBL has not mobilized its assets into profit generating projects. Nabil bank has been successful in earning more net profit by the proper use of its available assets.

- Earning per share of SCBNL is higher than other selected joint venture banks whereas NIBL has the highest price earning ratio than other banks.

*Hamal, K. (2010)*, in her thesis entitled, “*Comparative financial performance of Nepal Investment Bank Ltd and Himalayan Bank Ltd*”, has pointed out the following objectives:

- To compare and analysis of various ratios between NIBL and HBL
- To examine the relative financial performance of NIBL and HBL in terms of different kinds of ratios like financial ratios and profitability.
- To perform trend analysis of these selected banks and make a projection of these banks for next five years.
- To provide meaningful suggestion and recommendation to these banks for improvement in their financial performances.

Major findings of this study are as follows:

- Liquidity position of NIBL is comparatively better than HBL. Lower liquidity position of HBL shows that the current assets have been utilized in some profit generating sectors, but at the same time bank has weak short term solvency position.
- Cash and bank balance to total deposit ratio of NIBL has higher than HBL i.e. 10.65% > 6.82%, which indicates that the bank has higher liquidity as compared to HBL.
- Loans and advance to total deposit ratio of HBL is lower than NIBL i.e. 59% < 71.82%. It indicates the better mobilization of deposits by NIBL.
- Profitability ratio shows that NIBL has earned higher profit in relation to every aspects of the bank than HBL.

### **2.3 Research Gap**

Large numbers of research are available bearing the same topic, “A comprehensive analysis of financial performance” of commercial banks. After reviewing the researches done throughout the past, the present researcher has found that comparative study of the financial performances of the banks has not been long analyzed especially between the Nepal Bangladesh Bank Ltd and NSBI Bank Ltd. The past studies have recommended some of the remedial references like to reduce

the debt, increase the liquidity, to limit the operating cost. It's been time to check how far the differences have occurred in the banks. The present study explores the comparative and financial performances of the banks: NSBI Bank and Nepal Bangladesh Bank as sample banks.

The purpose of this research is to develop some expertise in ones area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to comparative financial performance of commercial banks. Financial analysis is the major concern of every commercial bank for evaluating the financial performance. It is the major concern of stakeholders to know the financial situation of bank. Thus, 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 research studies. Here, it is clear that the new research cannot be found on that exact topic, i.e. financial performance, therefore to fulfill this gap, this research is selected. To complete this research work: many books, journals, articles and various published and unpublished dissertation are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of financial performance. Our main research problem is to analyze whether the sample bank has right level of profitability and liquidity as well as to know whether it is able to utilize resources effectively or not. To achieve this main objective, various financial and statistical tools are used. Therefore, this study is expected to be useful to the concerned banks as well as different persons; such as shareholders, investors, policy makers, stockbrokers, state of government etc.

## CHAPTER-III

### RESEARCH METHODOLOGY

“Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation, backed by collection, presentation and interpretation or relevant details or data.” (*Michael, 1985: 57*). Research refers to search of knowledge. The Webster international dictionary gives a very inclusive definition of research as, “A careful critical inquiry or examination in seeking facts and principles; diligent investigation in order to ascertain something” (*Paudyal, Basnet & Pant, 2069: 36*). According to Kothari,1994, Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view”

Research Methodology is the investigation tools of any certain area and it means clearly observation of certain objective. Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation of relevant details or data. Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well throughout activities of gathering, recording analysis and interpreting the data with the purpose of finding answers to the solution. The main objective of this study is to analyze, examine, highlight and compare the financial performance of Nepal Bangladesh Bank and Nepal SBI Bank and to recommend and suggest for better performance. It involves research design, population sampling, sampling procedure, sources of the data, data collection technique etc.

#### 3.1 Research Design

According to *Kothari (1990)*, A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Research design is plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variances to achieve of the study, descriptive and analytical research design have been used..“A research design is the arrangement of conditions, for collecting and analysis of data in a manner that aims relevance to the research purpose with economy in procedure”. *Chaire, et al. (1967: 261)*. The design may be a specific

presentation of the various steps in the problems, conceptual clarity and methodology, survey of literature and documentation and report writing. Generally, a common research design possess the five basic elements via i) selection of problem ii) methodology iii) data gathering iv) data analysis v) report writing. Here, the study aim at portraying accurately upon the financial performance and other aspects related to finance of the two Joint venture banks, namely Nepal Bangladesh Bank Ltd and Nepal SBI Bank Ltd.

### **3.2 Population and Sample**

There are 31 commercial banks operating in Nepal under the guidance of Nepal Rastra Bank. For the purpose of convenience only, two commercial banks, Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited were purposively selected for the study, and rest of the commercial banks are considered as population. Five years data were taken to conduct the study from FY 2007/08 to FY 2011/12.

### **3.3 Sources and Collection of Data**

Data collection is considered as an integral part of the research activity. The sources of information are generally classified as primary and secondary. For the purpose of study only the secondary data are used. The required data and information for analysis were directly collected from the annual reports of the respective banks. The supplementary data were collected from number of institution like Shankar Dev Campus Library and documentation section of T.U. Library, company office etc. Similarly related books magazine Journals articles reports bulletins and data from security board Nepal. Further the secondary data have been collected from reports and financial statement of the company, published and unpublished officials reword, books, articles magazine, annual report etc

### **3.4 Data collection procedure/Techniques**

The researcher used two types of data collection techniques.

- a) Primary data
- b) Secondary data

The primary data are those which are collected a fresh and for the first time and thus happen to be original in character. The secondary data, on the other hand are those which have already been by someone else and already been passed through the

statistical process (Kothari, 1990: 55). The major sources of secondary data for this study were as follows:

- a) Annual report of the bank
- b) Published and unpublished bulletins, reports of the bank
- c) Published and unpublished bulletins, reports of Nepal Stock Exchange
- d) Previous studies and reports
- e) “Banking and Financial statistics” reports of Nepal Rastra Bank magazines
- f) Journals and other published and unpublished related documents and reports from central library of T.U, library of Shanker Dev Campus, library of Nepal Commerce Campus and library of Nepal Rastra Bank.

### **3.5 Method of Data Analysis**

Financial methods and Appropriate statistical tools were used for the analysis of the data. Among them, correlation analysis is regarded as the major tools used for this research. To make the study more specific and reliable, the researcher has used two types of tools for analysis;

- a) Financial tools
- b) Statistical tools

#### **3.5.1 Financial Tools**

The measuring instrument, which can be used in financial analyses, is known as financial tool. It helps to calculate relationship between two financial variables on ratio and percentage basis. In this study the following financial tools have been used to measure the strength and weakness of samples banks.

##### **3.5.1.1 Ratio Analysis**

Ratio Analysis is the powerful tools of financial analysis, which helps in identifying the strength and weaknesses of an organization or business concern about the financial performance. The term ratio refers to an arithmetical relationship between two items/figures, to make rational decision of financial variability of the company. This relationship can be expressed in terms of percentage, fractions or proportions. To achieve an effective result, ratio must be analyzed in comparative basis “the techniques of ratio analysis are the art of the whole process of the analysis of financial

statements of the whole business or the industrial concern, especially to take output and credit decision. Ratio analysis is a widely used tool of financial analysis it is defined as the systematic use of ratio to interpret the financial analysis statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined (*Khan and Jain; 2002: 4.1*).“In financial analysis, a ratio is used as a benchmark for the evaluation of the financial position and performance of the firm”.

The following are the ratios that are going to be analyzed under the financial performance of Nepal Bangladesh Bank and Nepal SBI Bank Ltd.

#### **3.5.1.1.1 Liquidity Ratio**

Liquidity ratios are used to judge firm’s ability to meet short term obligation. It is the comparison between the short term obligation and short term resources available to meet these obligations. Liquidity ratios should neither be inadequate nor high. Inadequate liquidity can lead to unexpected cash shortfalls. A very high degree of liquidity is also not good, as ideal assets earn nothing leading to fewer assets yields and contributing to poor earnings performance. Commercial banks need liquidity to meet loan demand and deposit withdrawal. Liquidity is also needed for the purpose of meeting cash reserve ratio and statutory liquidity ratio requirements prescribed by the Central Bank. The following ratios are calculated under liquidity ratio:

##### **a) Current Ratio**

Current ratio indicates bank’s liquidity and short term debt paying ability. Current ratio is also known as working capital ratio. The ratio is to evaluate or indicate the current solvency position of the organization. The current ratio represents a margin of safety for creditors at bad situation. Financial norms say that 2:1 is the optimal position of liquidity and profitability point of view. If the current ratio of the firm is less than 2:1 the solvency position of the firm is not good. The cash may not be available to pay current liabilities. If the ratio of firm is under financial standard, the firm’s liquidity position measured as better. It shows the relationship between current assets and current liabilities. It is calculated by dividing the current assets and current liabilities. Thus;

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

Current assets are those assets which can be converted into cash within short period of time. Normally, not exceeding one year. Cash and bank balance, money at call, loans and advances, debtors, bills purchased and discounted and miscellaneous are he examples of current assets. Similarly, current liabilities are those obligations which are payable within short period. Deposit and short term loan, bills payable, tax provision, staff bonus, dividend payables are the examples of current liabilities.

#### **b) Cash and Bank to Total Deposit Ratio**

This ratio shows ability of banks fund to cover their current margin call and saving deposits. It shows the proportion of total deposits held as most liquid assets. High ratio shows strong liquidity position of the bank. But too high ratio is not favourable for the banks because it produces adverse effect in profitability due to idleness of high interest bearing fund. It is calculated in order to see the position of cash and bank balance to make the payment of deposit when demanded. This ratio is calculated by the following formula:

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

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

#### **c) Cash and bank balance to Current Assets Ratio**

This ratio is used to measure the proportion of liquid assets i.e. cash and bank balance among the total current assets of bank. Higher ratio shows the bank's ability to meet its demand for cash. This ratio is computed by dividing cash and bank balance by current assets. It is calculated by the following formula:

$$\text{Cash and bank balance to current saving deposit ratio} = \frac{\text{Cash and Bank balance}}{\text{Current Assets}} \times 100$$

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposit and vice versa.

### 3.5.1.1.2 Leverage Ratios

Leverage ratios are concerned with the long term solvency of the banks and show the proportion of debt and equity in financing. Long term creditors like debenture holders, financial institution etc are more interested to the firm's long term financial strength. The capital structure ratio mainly highlight on the long term financial health, debt servicing capacity and strength and weakness of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. These ratios measure the enterprise's ability to pay the interest regularly and to repay the principal on maturity. The following ratios are used for analyzing long term financial health debt servicing capacity and strength and weakness of joint venture banks.

#### a) **Total Debt to Total Equity Ratio**

This ratio is calculated to find out the proportion of the outsiders fund to owners fund to finance the total assets. The ratio shows the mix of debt and equity in capital. It measures creditors claim against owners. High ratio shows that the creditors' claims are greater than those of owners. Low ratio implies greater claim of owners than creditors. This ratio is computed by using the following formula

$$\text{Debt-equity ratio} = \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

This ratio helps to ascertain the measure stake in commercial bank between lenders and owners.

#### b) **Total Debt to Total Assets Ratio**

This ratio reflects that portion of outsiders fund financed in the total assets. It signifies the extent of debt financing on total assets and measure the financial securities to the outsiders. Greater proportion of the bank's assets has been financing through outsiders fund. High ratio shows that the greater portion of bank's assets has been financed through outsider's fund. The ratio should neither be too high or too low. This ratio is calculated by using the following formula:

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

### c) **Interest coverage ratio**

This ratio indicates the ability of firm to pay interest charges on its borrowed capital. The ratio is also known as times interest earned ratio is used to test debt servicing capacity of the bank. It shows the number of times the interest chargers are covered by funds that are ordinarily available for their payment. Higher ratio is desirable, but too high ratio indicates the firm is very conservative in using debt .A lower ratio indicates excessive use of debt or insufficient operation. This ratio is calculated by dividing earning before tax and interest by the amount of fixed interest charges.

$$\text{Interest coverage ratio} = \frac{\text{Earning Before Interest \& Tax}}{\text{Interest Charged}}$$

#### **3.5.1.1.3 Activity Ratio**

Activity Ratio is concerned with measuring the efficiency in its assets management. The funds of creditors and owners are invested in various assets to generate income and profit. Better the management of assets, the larger the amount of income. This ratio is also called turnover ratio because they indicate the number of times the assets are being converted or turnover into income. This ratio measures the degree of effectiveness and use of resources of a firm. It indicates how quickly certain current assets are converted into cash. Higher the ratio means more efficient in management on the utilization of its resources and vice versa. Following ratios are used under utilization ratio:

#### **a) Total Investment to Total Deposit Ratio**

This ratio is calculated to see how efficiently the banks have mobilized the deposit on investment. Higher ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds. This ratio is calculated by using the following formula:

$$\text{Investment to total deposit ratio} = \frac{\text{Investment}}{\text{Total Deposit}} \times 100$$

#### **b) Loan and Advance to Total Deposits**

This ratio is also called credit- deposit ratio (CD ratio). It is calculated to find out how successful the bank is able to utilize its total deposits on loan and advance for profit generating purpose. The ratio can be calculated as under:

$$\text{Loan \& Advance to Total Deposit Ratio} = \frac{\text{Total Loans \& Advance}}{\text{Total Deposit}}$$

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

#### c) **Loan and Advance to Total Assets Ratio**

Commercial Bank's working fund plays very active role in profit generation through mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advance for the purpose of income generation. This ratio is calculated by following formula.

$$\text{Loan and advance to Total Assets Ratio} = \frac{\text{Loan and Advance}}{\text{Total Assets}}$$

#### **3.5.1.1.4 Profitability Ratios**

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. It measures how effectively the firm is being operated and managed. Besides managers and owners, creditors are also interested to know the financial soundness of firm. Owners are eager to know their return whereas managers are interested in their operating efficiency. So they calculate profitability ratios because exceptions of both owners and managers are evaluated in terms of profit earned by the firm. For better performance the profitability ratio of firm should be higher. Profitability ratios can be calculated in the following ways:

##### a) **Return on Total Assets Ratio**

This ratio measures the overall profitability of all working fund i.e. total assets. In other words it measures the efficiency of bank in utilization of the overall assets. The firm has to earn satisfactory return on assets or working funds otherwise its survival is threatened. It reflects the sufficiency of banks in utilizing its overall resources. It is calculated as follows;

$$\text{Return on total assets ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

The numerator indicates the position of income left to the interval equities after all costs, changed, expenses have been deducted. Total assets include all those assets which appear on the asset side of balance sheet. The higher ratio implies that the available source and tools are employed efficiently.

**b) Return on Shareholder's Equity**

This ratio measures the return on owner's investment in firm. Equity capital is owned capital of banks. It helps to judge whether the company has earned satisfactory return for its shareholder's or not. This ratio can be calculated:

$$\text{Return on shareholder's equity} = \frac{\text{NPAT}}{\text{Shareholder's Equity}}$$

Where, total shareholder's equity=ordinary share capital+ preference share capital + reserve and surplus+ undistributed profit- accumulated loss- preliminary expenses – discount and commission on issue of share and debentures. Higher ratio represents sound management and efficient mobilization of owner's equity.

**c) Return on Loan and Advance Ratio**

This ratio indicates how efficiently the bank utilizes its resources in form of loan and advance. This also measures the earning capacity of its loan and advance. This ratio is computed by dividing net profit by loan and advance which can be expressed as:

$$\text{Return on loan and advance ratio} = \frac{\text{NPAT}}{\text{Loan and Advance}}$$

**d) Total interest Earned to Total Assets Ratio**

This ratio is computed to find out percentage of interest earned to total assets. Higher ratio implies better performance of bank in terms of interest earning on its working fund. This ratio is computed by dividing total interest earned by total assets.

$$\text{Total interest earned to total assets ratio} = \frac{\text{Total Interest Earned}}{\text{Total Assets}}$$

**e) Return on total deposits**

This ratio enables to evaluate what extent the management has been successful to mobilize the deposit in generating profit. It reveals the relationship between net profit

after tax and total deposit with an ability of firm to utilize maximum of deposit to earn much profit. This ratio is calculated as follows:

$$\text{Return on total deposit} = \frac{\text{Net Profit After Tax}}{\text{Total Deposit}}$$

Here, total deposit means that total amount deposited in various account i, e current, fixed, saving, call and short deposits and others. Generally higher ratio indicates better utilization of total deposit and vice versa.

#### **3.5.1.1.5 Other ratios**

Besides above stated ratios some other indicators are dealt here which provides more knowledge about their performance of bank. They are as follows:

##### **a) Earnings Per Share**

It measures the profit available to the common shareholders as per share basis i.e. the amount they get from every share. Company can decide whether to increase or reduce the number of share issued. This decision will automatically alter the earning per share. The earnings per share can be calculated by dividing the profit available after tax to the shareholders by the number of outstanding shares.

$$\text{Earning Per share} = \frac{\text{Net Profit Available to Equity Shareholders}}{\text{Number of Share Outstanding}}$$

##### **b) Dividend Per Share**

Dividend implies that portion of Net Profit, which is allocated to the shareholders as return on their investments on cash. The net profit after taxes belongs to shareholders. But the income, which they really receive, is the amount of earning distributed as cash dividends. The earnings per share implies what the owner are theoretically entitled to get form the company while dividend per share is that portion of earning which is allocated to shareholders divided by total number of share outstanding. Thus, DPS is computed by dividing the total amount of dividend paid by the number of share outstanding.

$$\text{Dividend per Share} = \frac{\text{Earning Paid to the Shareholders}}{\text{Number of Common Shares}}$$

A higher dividend per share indicates the higher profit earning of company. So, the higher dividend per share is preferable to the shareholders.

#### **c) Dividend Payout Ratio**

Dividend payout ratio indicates the percentage amount of dividend paid to the shareholders out of earning per share i.e. this reflects of what percentage is to be retained in company as retained earnings. This earning is needed for business to grow and to expand. From the Shareholders point of view, the dividends are more desirable to significant internal sources of financing for the growth of the firm. This ratio is calculated by dividing the dividend per share by earning per share. Therefore if there is no dividend paid than there is no D/P Ratio. The Shareholders always expect a higher D/P Ratio.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

#### **d) Price Earning Ratio**

This ratio is closely related to the EPS. It is calculated by dividing the market value per share by earning price per share. It indicates investor's judgements or expectation about the firm's performance. This ratio is widely used by the security analysis to value the firm's performance as accepted by the investors. Higher ratio indicates more values of the stock that is being ascribed to future earning as opposed to present earnings.

$$\text{Price Earnings Ratio} = \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

Here, total equity capital includes shareholders reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share preference share capital.

### **3.5.2 Statistical Tools**

For supporting the study, statistical tool such as Mean, Standard deviation, Coefficient of Variation, Correlation, Trend Analysis have been used.

### 3.5.2.1 Arithmetic Mean (Average)

An average is the typical values around which other items of distribution congregate. Arithmetic mean of a given set of observation is their sum divided by the number of observation (*Gupta, 1995: 31*).

Average is statistical constants which enables us to comprehend in a single effort the significance of the whole. It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

$\bar{x}$  = Arithmetic Mean

N = Number of Observations

$\sum X$  = Sum of Observations

### 3.5.2.2 Standard Deviation (S.D.)

Standard deviation is the square root of the arithmetic mean of the square of the deviations of the given observations. It enables us to determine with great deal of accuracy where the value of a frequency distribution are located in relation to the mean. It measures the absolute dispersion or variability. It is said higher value of standard deviation, higher the value of variability and vice versa. It is calculated:

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

Where,

$\sigma$  = Standard Deviation

$\frac{\sum x^2}{N}$  = Sum of Squares of Observation

$\left(\frac{\sum X}{N}\right)^2$  = Sum of Square of Mean

### 3.5.2.3 Coefficient of Variation (CV)

“Co-efficient of variance is the relative measure of dispersion comparable across distribution, which is defined as the ratio of the standard deviation to the mean express in percent” (*Paudyal, Basnet & Pant, 2069: 144*). Co-efficient of variation is the relative measure based on the standard deviation and is defined as the ratio of standard deviation to the mean expressed in percentage" (*Shrestha, 1991*)

A series with smaller CV is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa.

Co-efficient of variance denotes by C.V. is given by:

$$C.V. = \frac{S.D.}{\text{Mean}} \times 100 = \frac{\sigma}{\bar{X}} \times 100$$

### 3.5.2.4 Correlation Coefficient (r)

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. It measures the degree of relationship between the two casually related variables. Karl Pearson’s coefficient of correlation between two variables X and Y is usually denoted by r, which is the numerical measure of linear association between the variables. Karl Pearson’s coefficient of correlation is most widely used in practice. The Karl Pearson’s coefficient of correlation is denoted by symbol (r). It measures the relationship between two variables. In the present context, the coefficient of correlation is calculated in order to examine the relationship between two variables. This tool is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y, and is usually denoted by ‘r’ can be obtained as:

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

Where,

N = no of observation in series X and Y

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

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

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

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

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

Interpretation of correlation coefficient: the coefficient of correlation as obtained by the above formula shall always lie between + - 1, when r is +1, then there is perfect positive correlation between the variables.

When r is -1, there is perfect negative correlation between the variables.

When r is between 0.7 to 0.999, there is high degree of correlation between the variables.

When r is between 0.5 to 0.699 there is moderate degree of correlation between the variables.

When r is less than 0.5 there is low degree correlation between the variables. When r is zero, there is no correlation between the variables.

### **Coefficient of Determination ( $r^2$ )**

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

### **Probable Error of Correlation Coefficient**

The probable error of the co-efficient of correlation helps in interpreting its value. With the help of probable error it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

Reasons for taking 0.6745 is that in a normal distribution 50% of observation lies in the range  $\mu \pm 0.6745 \sigma$  where,  $\mu$  and  $\sigma$  denotes the population mean and standard deviation.

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

- If  $r < P.E.$ , it is insignificant. So, perhaps there is no evidence of correlation.
- If  $r > P.E.$ , it is significant.

### 3.5.2.5 Trend Analysis

Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period. The linear trend values from a series in arithmetic progression.

Mathematically,

$$Y = a + bX ,$$

Where,

Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

X = value of the independent variable i.e. e. time.

### 3.6 Limitations of Research Methodology

- Only the selected financial and statistical tools have been used in this thesis.
- Researcher mainly depends on the secondary data i.e., financial statement of respective bank
- Sample taken by the researcher was only of two banks.

## CHAPTER-IV

### DATA PRESENTATION AND ANALYSIS

The main objective of this study is to examine the financial performance of the two joint venture commercial banks NBBL and NSBI. Presentation and analysis of the data is the main body of the study. So, in this chapter, data collected from secondary sources were presented and analysed by using financial and statistical tools. The available data were tabulated, analysed and interpreted so that financial forecast of banks can be done easily. To evaluate the financial performances of selected joint venture banks, ratio analysis, correlation analysis and trend analysis were used.

#### 4.1 Ratio Analysis

Ratio analysis is an important technique of financial analysis and interpretation of financial statement through mathematical expression. It shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weakness of the banks. It is also inevitable for the qualitative judgement with which financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision. The ratios of a firm by themselves do not reveal anything. For meaningful interpretation the ratio of a firm should be compared with the ratios of similar firms. Four main categories of ratios have been taken in this study that is mainly related to financial performance of banks. Following major ratios were taken for the study;

- i. Liquidity Ratio
- ii. Leverage Ratio
- iii. Activity Ratio
- iv. Profitability Ratio

##### 4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of a firm to meet its immediate liabilities (i.e. short term liabilities) and reflects the short-term obligation of a firm. Bank must maintain its satisfactory liquidity level to satisfy the credit needs of community, to meet demands for deposit, withdrawal, pay maturity obligations in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long run profit. It is mainly used to analyze the short term strength of commercial banks. Liquidity position of NB Bank and NSBI Bank is analyzed using the following relevant liquidity ratio.

#### 4.1.1.1 Current ratio

Current ratio is also known as short term solvency ratio or working capital ratio. It measures the firm's short term solvency. It indicates the availability of current assets in rupees for each one rupee of current liabilities. A ratio of greater than one means that the firm has more current assets than current liabilities. It indicates the ability of banks to meet the current liquidity. Current ratio was shown in following Table and Figure.

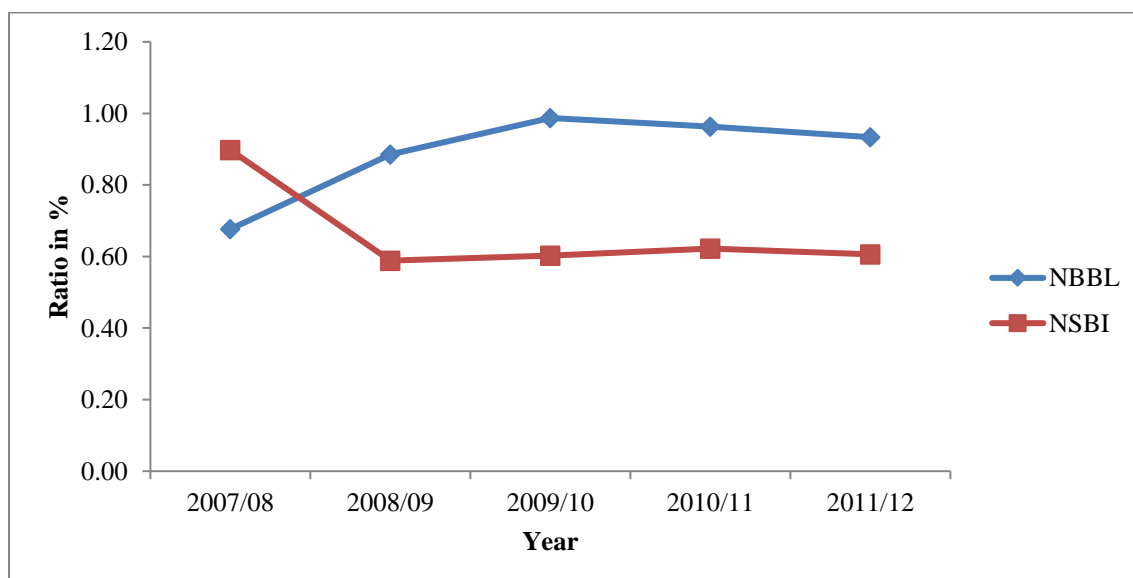
**Table 4.1**  
**Current Ratio**

(Rs in thousands)

Bank	NBBL			NSBI		
Year	Current assets	Current Liabilities	Ratio(%)	Current assets	Current Liabilities	Ratio (%)
2007/08	7816291	11552475	0.67	13978337	15572801	0.89
2008/09	9602922	10852310	0.88	16626677	28253833	0.58
2009/10	10262964	10397470	0.98	21323801	35397125	0.60
2010/11	11318987	11753586	0.96	26760208	43008940	0.62
2011/12	16072816	17215790	0.93	32880334	54262248	0.60
Mean			0.88			0.66
S.D			0.12			0.13
C.V			14.02			19.82

Source: Annual Report of NBBL and NSBI (2007/08 to 2011/12 )

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



The table and figure showed the fluctuation trend of current ratio of the both banks. NBBL has highest in FY 2009/10 (0.98) and lowest in FY 2007/08(0.677) and NSBI has highest in 2007/08(0.89) and lowest in 2008/09(0.58). Both of the banks did not maintain the commercial standard of 2:1. The ratio below the stated standard may be accepted as satisfactory but it signifies that both of the bank had the poor liquidity position

On average basis, current ratio of NBBL was 0.88, which was better than NSBI Bank,0.66. So, the liquidity position of the NBBL was better than the NSBI Bank, NBBL was sound in meeting its short term obligation.

However the S.D and C.V of NSBI bank was 0.13% and 19.82% which was greater than NBBL bank i.e. 0.12% and 14.02%. It showed that NSBI had high fluctuation with respect to current assets to current liabilities whereas NBBL had less fluctuation with current assets to current liabilities. In other words, current ratio of NBBL bank was more consistent than NSBI.

#### **4.1.1.2 Cash and bank balance to total deposit ratio**

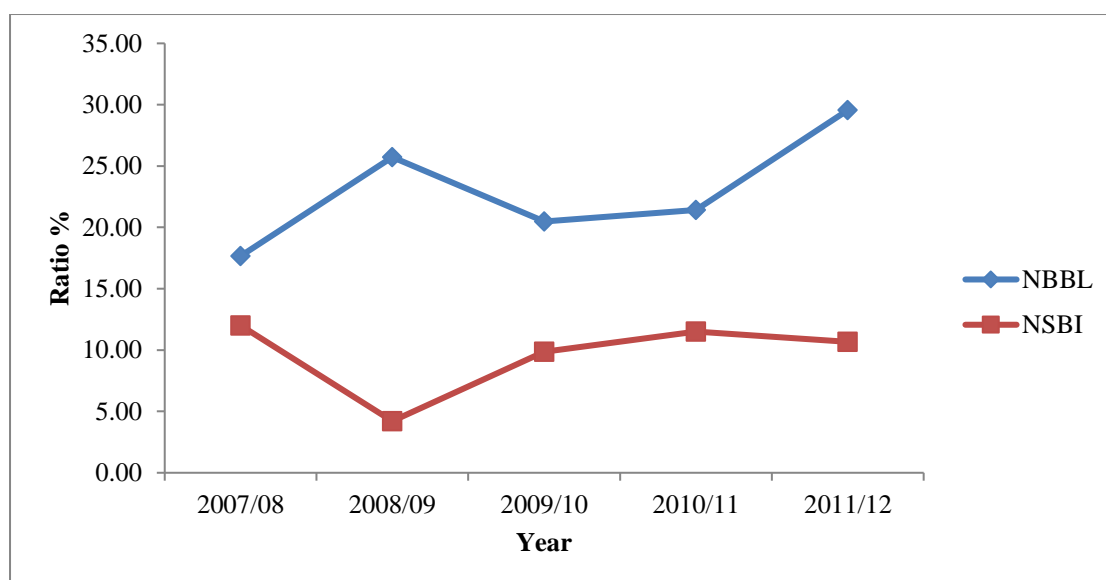
This ratio measures the ability of the bank to meet their daily requirement of depositors. The bank should have adequate cash and bank balance to meet the unexpected as well as heavy withdrawn of deposits. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. This ratio is calculated by dividing cash and bank balance by total deposit. Following table and figure showed the cash and bank balance to total deposit of NSBI and NBBL

**Table 4.2****Cash and Bank Balance to Total Deposit Ratio**

(Rs in Thousands)

Bank	NBBL			NSBI		
	Year	CBB	Total Deposits	Ratio(%)	CBB	Total Deposits
2007/08	1922848	10883653	17.66	1646974	13715395	12.00
2008/09	2571417	9997697	25.72	1176440	27957221	4.20
2009/10	2058299	10052182	20.47	3441261	34896424	9.86
2010/11	2464926	11511678	21.41	4877826	42415443	11.50
2011/12	5010192	16952703	29.55	5686682	53337264	10.66
Mean			22.96			9.64
S.D			4.68			3.14
C.V			20.38			32.64

Source: Annual Report of NBBL and NSBI (2007/08 to 2011/12 )

**Figure 4.2****Cash and Bank Balance to Total Deposit Ratio**

The above table and figure revealed the ability of the bank to cover its short term deposits. Highest ratio of NBBL was 25.72 % in FY 2008/09 and lowest was 17.67% in FY 2007/08. Similarly the highest ratio of NSBI was 12.01% in FY 2007/08 and lowest was 4.21% in FY 2008/09. The mean ratio of NBBL and NSBI was 22.96 and 9.64 respectively. It showed that NBBL had higher ratio than NSBI. So, NBBL had greater ability to pay its depositors.

From S.D. point of view, NBBL had the highest S.D of 4.68 than NSBI of 3.15, which indicates that there was high fluctuation in cash and bank balance to total deposit ratio of NBBL than NSBI. NSBI had higher C.V., i.e., 32.64 % than that of NBBL, i.e., 20.38%.

From the above analysis, cash and bank balance position of NSBI as compared to NBBL was better in order to serve its customer deposits. It implies better liquidity position of NSBI from the view point of depositors demand. In contrast, higher ratio of cash and bank balance may be undesirable, which reveals the underutilization of its fund in income generating area. Thus NBBL should invest its fund in more productive sector like short term marketable securities insuring enough liquidity which will help the bank to improve its profitability.

#### 4.1.1.3 Cash and Bank Balance to Current Assets Ratio

This ratio is used to measure the proportion of liquid assets i.e. cash and bank balance among the total current assets of bank. Higher ratio implies the bank's ability to meet its immediate demand for cash. The following table and figure showed the cash and bank balance to current assets of NSBI and NBBL.

**Table 4.3**  
**Cash and Bank Balance to Current Assets Ratio**

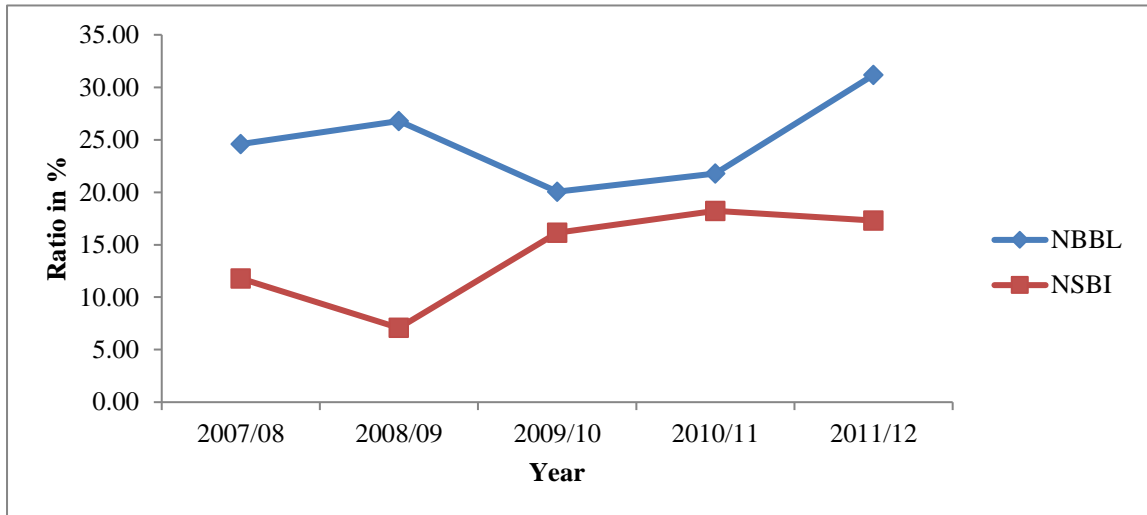
(Rs.in Thousand)

Bank	NBBL			NSBI			
	Year	CBB	Current Assets	Ratio(%)	CBB	Current Assets	Ratio(%)
	2007/08	1922848	7816291	24.60	1646974	13978337	11.78
	2008/09	2571417	9602922	26.78	1176440	16626677	7.08
	2009/10	2058299	10262964	20.06	3441261	21323801	16.14
	2010/11	2464926	11318987	21.78	4877826	26760208	18.23
	2011/12	5010192	16072816	31.17	5686682	32880334	17.30
	Mean			24.88			14.10
	S.D			4.36			4.64
	C.V			17.54			32.90

*Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)*

**Figure 4.3**

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



Cash and bank balance to current assets ratio was calculated by dividing total cash and bank balance amount by current assets amount. NBBL had highest ratio 31.17% in FY 2011/12 and lowest ratio 20.06% in FY 2009/10, similarly NSBI had highest ratio 18.23% in FY 2010/11 and lowest ratio 7.07% in FY 2008/09. The mean ratio of NBBL and NSBI were 24.87 and 14.10 respectively, thus the higher ratio showed that NBBL liquidity position was better than NSBI, which was shown in above trend line. NSBI had lower ratio, which implies that the bank has been successful in utilizing depositors saving in short term loans. Moreover the S.D. of NBBL and NSBI were 4.36 and 4.64 respectively. NSBI had higher S.D. ratio, which implies that there was high fluctuation in cash and bank balance to current assets than that of NBBL.

From the C.V. point of view, NSBI had highest C.V.i.e.; 32.89% than that of NBBL,i.e;17.54. It indicates that NSBI had high degree of variability in holding cash and bank balance.

#### **4.1.2 Leverage ratio**

Leverage ratio is used to judge the long term financial position of the firm. It is also termed as solvency or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. These ratio also measures the enterprises ability to pay the interest regularly and to repay the principal on maturity. Generally there should be an appropriate mix of debt and owners equity in financing the firm's assets. Leverage ratio of NBSI and NBBL was analysed using the following relevant financial ratio.

#### 4.1.2.1 Total Debt to Total Equity Ratio

This ratio express the relationship between debt capital and equity capital and it reflects the relative claim of them against the bank asstes. Total debt to equity ratio indicates the contribution of debt capital and equity capital fund to total investment. This ratio intends to show the long term financial composition/ strength of company. Higher ratio means high financial risk and lower ratio means lower financial risk, which means not proper utilization of leverage benefit. So, the average position between the two extreme is favourable. This ratio is computed by dividing total debt by total shareholders' equity. The following table and figure showed total debt to total shareholders' equity ratio of NSBI and NBBL.

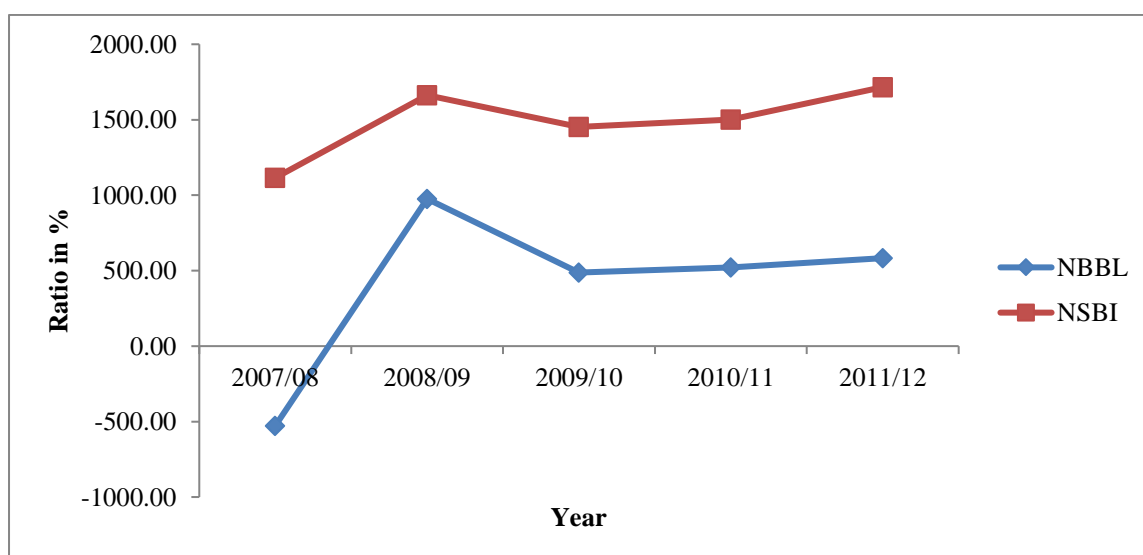
**Table 4.4**  
**Total Debt to Total Equity Ratio**

(Rs in Thousands)

Bank	NBBL			NSBI		
	Total Debt	SHE	Ratio(%)	Total Debt	SHE	Ratio(%)
2007/08	11582475	-2191448	-528.53	15772801	1414645	1114.97
2008/09	10852311	1112242	975.71	28453833	1712607	1661.43
2009/10	10397470	2133573	487.33	35597125	2450554	1452.62
2010/11	11753585	2251175	522.11	43208940	2879293	1500.68
2011/12	17215790	2953967	582.80	54862248	3197459	1715.81
Mean			407.88			1489.10
S.D			558.85			235.87
C.V			137.01			15.84

Source: Annual Report of NBBL and NSBI (2007/08 to 2011/12 )

**Figure 4.4**  
**Total Debt to Total Equity Ratio**



The trend analysis showed that total debt to shareholder's equity of NBBL was in fluctuating trend. The above calculation show's that the claim of outsiders is higher than those of the equity holders of the bank. In the FY 2007/08, the ratio was negative, that mean the bank has more debt than equity. After FY 2008/09 the bank has positive ratio which indicates that bank borrowed money from outsiders for its smooth operation. Similarly the total debt to equity ratio of NSBI was also in fluctuating trend. The highest ratio was in FY2011/12 and lowest in FY 2007/08,i.e; it was increasing from 1114.96% to 1715.8%.. From the above calculation it was clear that bank was trying to reduce its debt capital and increase its share capital for investment purpose.

On an average basis, NSBI had higher ratio of 1489.10 times which showed that it has high leverage. In other words debt capital financing is higher than 1489.10 time of its equity financing. From S.D point of view NBBL had higher ratio of 558.85% than that of NSBI, 235.88%, which showed that NBBL had high fluctuation of total debt to net worth. Similarly from C.V point of view also, NBBL had high ratio of 137.01% whereas NSBI had ratio of 15.8%. This showed that NBBL had high degree of variability in maintaining total debt to total equity during the FY 2007/8 to FY 2011/12.

#### 4.1.2.2 Total Debt to Total Assets Ratio

This ratio shows the contribution of creditors in financing the assets of the bank. The debt assets ratio also simply known as debt ratio. It is calculated by dividing total debt by total assets.

**Table 4.5**

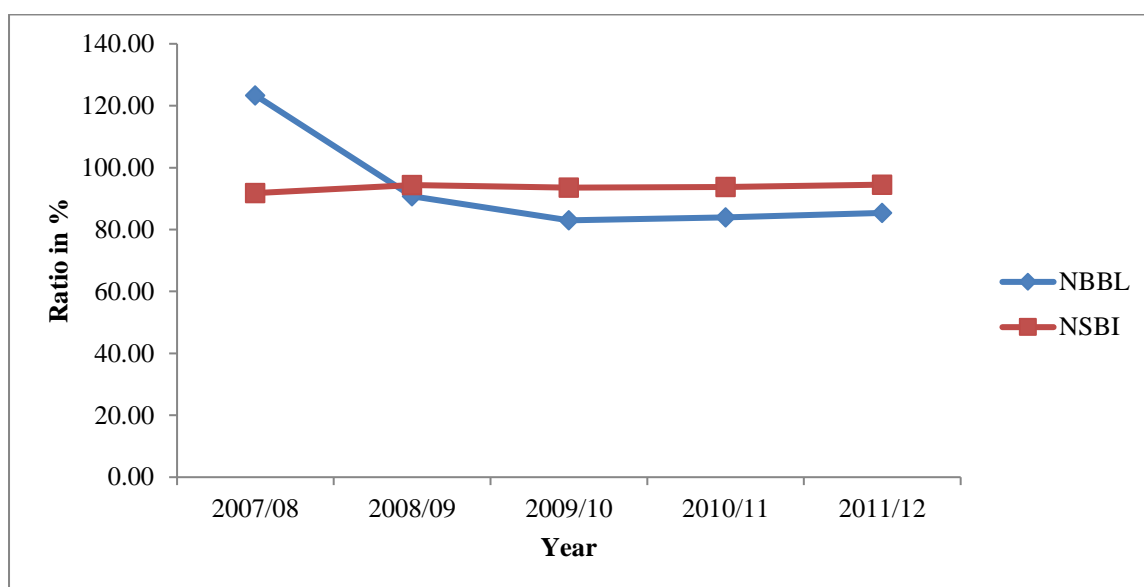
#### **Total Debt to Total Assets Ratio**

(In Rs. Thousand)

<b>Bank</b>	<b>NBBL</b>			<b>NSBI</b>			
	<b>Year</b>	<b>Total Debt</b>	<b>Total Assets</b>	<b>Ratio(%)</b>	<b>Total Debt</b>	<b>Total Assets</b>	<b>Ratio(%)</b>
	2007/08	11582475	9391027	123.34	15772801	17187446	91.77
	2008/09	10852311	11964553	90.70	28453833	30166440	94.32
	2009/10	10397470	12531043	82.97	35597125	38047679	93.56
	2010/11	11753585	14004760	83.93	43208940	46088233	93.75
	2011/12	17215790	20169757	85.35	54862248	58059707	94.49
	Mean			93.26			93.58
	S.D			17.08			1.08
	C.V			18.31			1.16

*Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)*

**Figure 4.5**  
**Total Debt to Total Assets Ratio**



The above table and figure showed the total debt to total assets relation of NSBI and NBBL. This ratio shows the outsiders fund financed in total assets. NBBL had fluctuating trend of debt assets ratio and NSBI had lower fluctuation trends. The highest ratio of NBBL was 123.33% in FY 2007/08 lowest ratio was 82.97 in FY 2009/10, similarly, NSBI had highest ratio 94.49% in FY 2011/12 and lowest ratio was 91.76 in FY 2007/08.

On average basis, NBBL had 92.26 % and NSBI had 93.58 % , this implies that NSBI follows more aggressive policy in raising the capital. Lower debt assets ratio from the debt holder point of view is considered as beneficial, that they receive a cushion of protection against possible losses at the time of liquidation. The S.D. and C.V. of NBBL and NSBI were 17.08 and 18.31 and 1.08 and 1.15 respectively. NBBL C.V. was higher, which indicates that NBBL had higher degree of variability.

#### **4.1.2.3 Interest Coverage Ratio**

This ratio also named as 'Times Interest Earned Ratio' or 'Debt Service Ratio' and is used to test the firm's debt servicing capacity. This ratio reflects the firm's ability to pay interest out of earnings. This ratio shows the number of times the interest charges are covered by funds that are ordinarily available for their payment. Higher ratio implies unused debt capacity or a firm's conservativeness in using debt to its best

advantage whereas low ratio imply danger signal that the firm is using excessive debt and does not have the ability to offer assured payment of interest to its creditors.

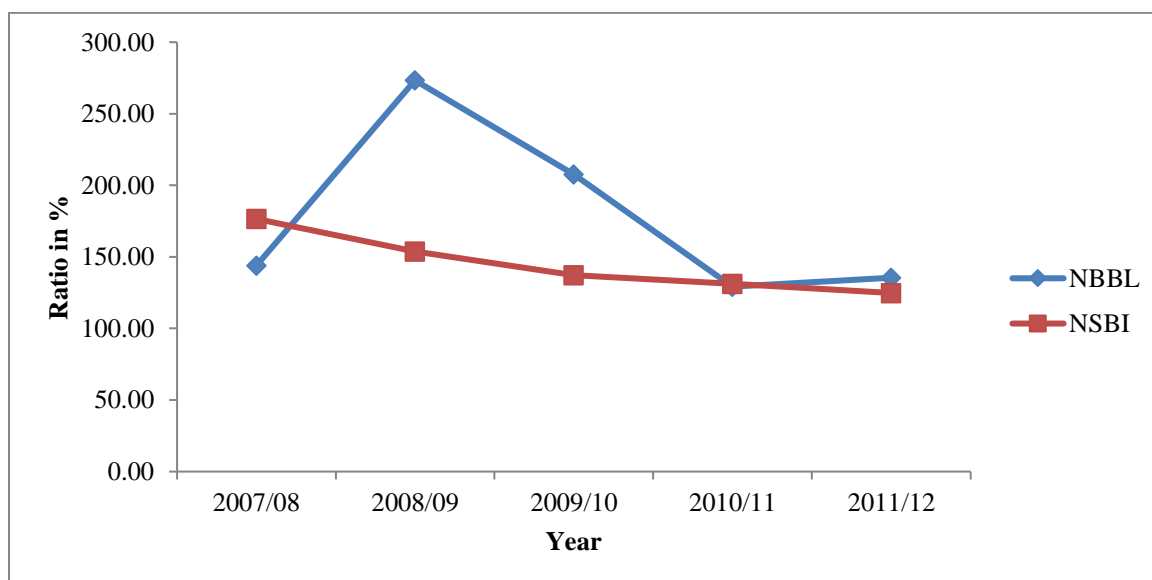
**Table 4.6**  
**Interest Coverage Ratio**

(Rs. in Thousands)

Bank	NBBL			NSBI		
Year	Interest	EBIT	Ratio(%)	Interest	EBIT	Ratio(%)
2007/08	397997	572450	143.83	454918	802952	176.50
2008/09	409776	1120077	273.34	824700	1267732	153.72
2009/10	476788	989965	207.63	1443694	1982056	137.29
2010/11	745222	962990	129.22	2096038	2749507	131.18
2011/12	1037815	1406014	135.48	2770799	3457453	124.78
Mean			177.90			144.69
S.D			61.89			20.78
C.V			34.79			14.36

Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)

**Figure 4.6**  
**Interest Coverage Ratio**



The above table and figure showed the interest coverage ration NBBL and NSBI . The interest coverage ratio of NBBL was in decreasing trend till 2010/11 and increases for FY 2011/12, while that of NSBI was declining trend for five year. The highest ratio of NBBL was 273.34% in FY 2008/09 and lowest was 129.22% in FY 2010/11. Similarly NSBI had highest ratio,176.50% in FY 2007/08 and lowest was 124.78 in FY 2011/12.

On average basis NBBL had higher ratio (177.90) than that of NSBI(144.69). The interest coverage ratio of the both bank showed how many times the interest charges were covered by fund that are ordinarily available to pay interest charges. Although it is difficult to mention an appropriate interest coverage ratio, but higher ratio is desirable. The C.V. of NBBL was greater, i.e.; 34.79 than that of NSBI, i.e.; 14.36, which implies that NBBL had high degree of variability.

#### 4.1.3 Activity ratio/Efficiency ratio or Turn Over ratio

This ratio is used to evaluate the efficiency with which the bank has managed and utilize their assets, So, it is also called efficiency ratio. This ratio measures the degree of effectiveness in use of resource or funds by firm. Turnover indicates more efficiency of firm in managing and utilizing its assets. The common activity ratios used are as follows:

##### 4.1.3.1 Total Investment to Total Deposit Ratio

Banks invest money in different forms, They are loans, overdrafts, cash credit, development bond, discounting, bills of exchange, investment in government securities, investment in share of well established industrial concerns and money at call and short notice. In this analysis investment in government securities, shares and also investment in foreign banks was included to calculate the ratio. Total deposit includes saving, current, fixed and calls deposit of respective banks. The ratio of total investment to total deposit of NSBI and NBBL were presented in the following table and figure.

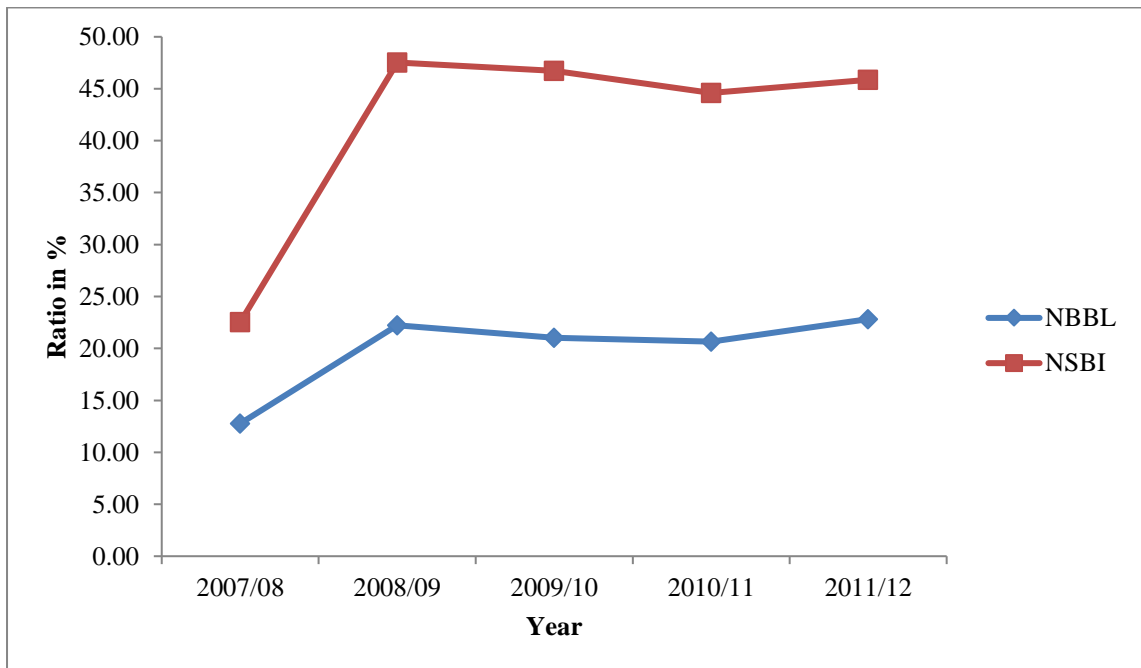
**Table 4.7**  
**Investment to Total Deposit Ratio**

(Rs. in Thousands)

Bank	NBBL			NSBI		
	Investment	Total Deposits	Ratio(%)	Investment	Total Deposits	Ratio(%)
2007/08	1389901	10883653	12.77	3088887	13715395	22.52
2008/09	2222432	9997697	22.23	13286182	27957221	47.52
2009/10	2112751	10052182	21.02	16305633	34896424	46.73
2010/11	2378269	11511678	20.66	18911022	42415443	44.59
2011/12	3868950	16952703	22.82	24463452	53337264	45.87
Mean			19.90			41.44
S.D			4.08			10.63
C.V			20.51			25.66

*Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)*

**Figure 4.7**  
**Investment to Total Deposit Ratio**



As presented in above table, highest ratio of NBBL was 22.82 in FY 2011/12 and lowest ratio was 12.77 in FY 2007/08. Similarly, the highest ratio of NSBI was 46.72 in FY 2008/09 and Lowest was 22.52 in FY 2007/08. This indicates that investment volume of NBBL was lower than NSBI. The mean ratio of NBBL and NSBI was 19.90 and 41.44 respectively, it signifies that NSBI had successfully allocates its deposits in investment portfolio to get higher investment return. It can also be stated that NSBI prefers investing its depositors fund in non risky projects like Government bond, Treasury bills, Government securities, Debenture of other firms rather than choosing the risky portfolio to its credit customers.

From S.D and C.V. point of view, NSBI had higher ratio of 10.63 and 25.68 than that of NBBL i.e; 4.08 and 20.50, which implies that there was high fluctuation of using depositors fund in non-risky portfolio. Thus, from the above study, it was found that NSBI was investing its more deposits in non-risky areas than NBBL

#### **4.1.3.2 Loan and Advance to Total Deposit Ratio**

Loan and advances are major sources of investment in generating income of Commercial banks. Commercial bank utilizes the outsider's fund for profit generation purpose. This ratio is also called credit deposit ratio. This ratio examines how

successfully the bank is able to utilize its total deposit on loans and advance. Higher ratio indicates better mobilization of collection deposit and vice versa. But, it should be noted that too high ratio might not be better from liquidity point of view.

**Table 4.8**

**Loans and Advances to Total Deposit Ratio**

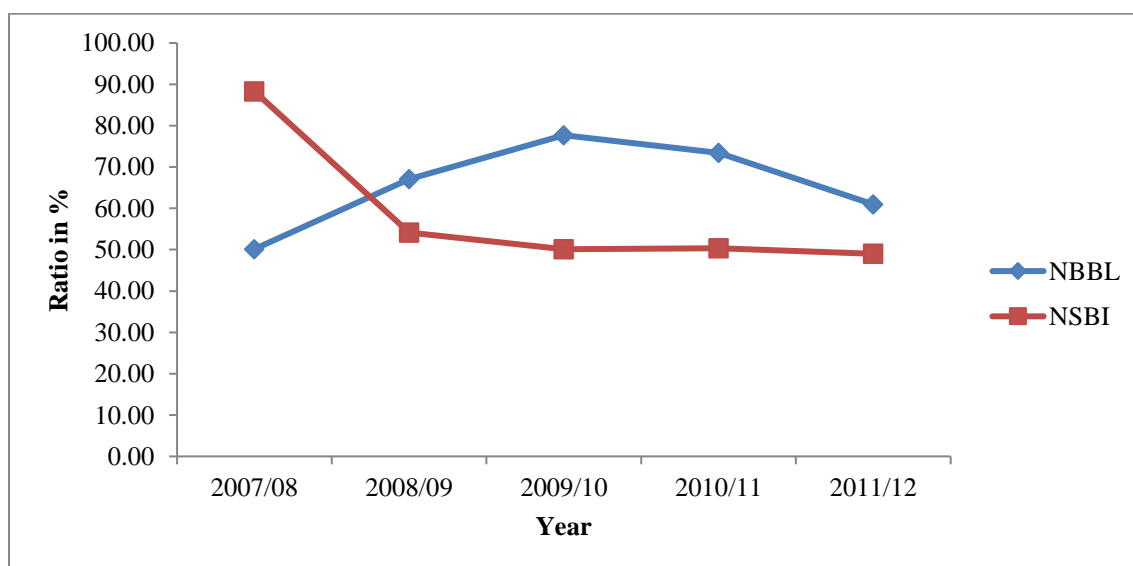
(Rs. in Thousands)

Bank	NBBL			NSBI		
	Loan and Advance	Total Deposits	Ratio(%)	Loan and Advance	Total Deposits	Ratio (%)
2007/08	5457809	10883653	50.15	12113698	13715395	88.32
2008/09	6704943	9997697	67.06	15131748	27957221	54.12
2009/10	7809544	10052182	77.69	17480545	34896424	50.09
2010/11	8452738	11511678	73.43	21365771	42415443	50.37
2011/12	10330076	16952703	60.93	26142094	53337264	49.01
Mean			65.85			58.38
S.D			10.84			16.85
C.V			16.46			28.85

Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)

**Figure 4.8**

**Loan and Advance to Total Deposit Ratio**



The above table showed the loan and advance to total deposit ratio of NBBL and NSBI . The highest ratio of NBBL was 77.69% in FY 2009/10 and lowest ratio was 15.14% in FY 2007/8, and similarly, NSBI had 88.32% in FY 2007/08 and lowest

was 49.01% in FY 2011/12. The average ratio of NBBL and NSBI were 65.85 and 58.38 respectively. It revealed that the deposits of NBBL was quickly converted to loan and advance to earn income, in other words, the bank was successful in utilizing the depositors fund in loan and advances than NSBI.

From S.D. point of view, NBBL had lower ratio of 10.83 than that of NSBI, i.e;16.84, which revealed that NSBI had high fluctuation in utilizing its depositors fund in loan and advances. The C.V of NBBL was 16.45% and NSBI had 28.83%, that means, NSBI was investing in more investment areas.

#### 4.1.3.3 Loan and Advances to Total Assets Ratio

Commercial Bank's working fund plays very active role in profit generation through effective mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advance for the purpose of income generation. A high ratio indicates better mobilization of funds and vice versa. The following table and figure showed the loan and advance to total assets ratio of the NBBL and NSBI.

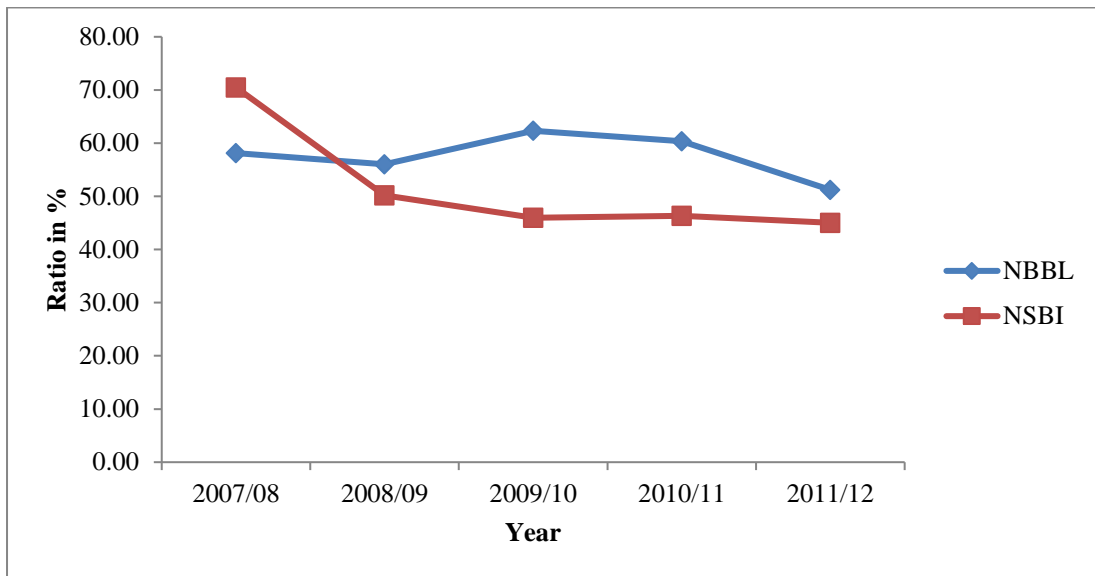
**Table 4.9**  
**Loan and Advances to Total Assets Ratio**

(Rs.in Thousands)

Bank	NBBL			NSBI		
	Loan and Advance	Total Assets	Ratio(%)	Loan and Advance	Total Assets	Ratio(%)
2007/08	5457809	9391027	58.12	12113698	17187446	70.48
2008/09	6704943	11964553	56.04	15131748	30166640	50.16
2009/10	7809544	12531043	62.32	17480545	38047679	45.94
2010/11	8452738	14004760	60.36	21365771	46088233	46.36
2011/12	10330076	20169757	51.22	26142094	58059707	45.03
Mean			57.61			51.59
S.D			4.28			10.74
C.V			7.43			20.81

Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)

**Figure 4.9**  
**Loan and Advance to Total Assets Ratio**



According to above table and figure, NBBL had fluctuating trend of loan and advance to total assets ratio. NBBL had highest ratio of 62.32% in FY 2009/10 and lowest was 51.21% in FY 2011/12. From the FY 2008/09, the ratio was increased and decreased in FY 2011/12. Similarly NSBI had higher ratio of 70.48% in FY 2007/08 and lowest ratio was 45.02% in FY 2011/12. The ratio of NSBI was in decreasing trend during the study period. The calculated mean ratio of NBBL and NSBI were 57.61 and 51.59 respectively. It revealed that NBBL was successful in mobilizing loan and advance of total working fund or it can be stated that NBBL had utilize its total assets more efficiently in loan and advance.

From S.D point of view, NSBI had higher ratio of 10.735, where as NBBL had 4.28% and the C. V. of NSBI and NBBL were 20.81% and 7.43% respectively, Which indicates that NSBI had higher variability than NBBL and NBBL had successfully utilized its total deposits as compared to NSBI over the study period.

#### **4.1.4 Profitability Ratios**

Profit is the difference between total revenue & total expense over a period of time and it is an important factor that determines the firm expansion and diversification. Maximization of the profit is the main objective of each and every firm. Profitability ratios are the measurement of effectiveness. So with the help of these ratios, one decides whether to invest in a particular firm or not. Profitability ratios are used to

indicate the overall efficiency of the firm. Profit is the essential part of business activities to meet internal obligations, overcome the future contingencies, make a good investment policy, expand the banking transaction etc. There are many measures of profitability. Higher degree of profitability ratio shows better financial position & performance to the firms and Vice-Versa.

#### 4.1.4.1 Return on Total Assets Ratio

Return on total assets ratio measures the overall profitability of the firm, that explains a firm to earn satisfactory return on all financial resources in the firm's assets; otherwise its survival is threatened. The ratio explains net income for each unit of assets. Rate of return on total assets is major tool judge the operational efficiency of a firm. A firm has to earn satisfactory return on working fund for its survival. A higher degree of ratio shows that total assets of firm have been used in profit earnings. This ratio is also known as net profit or loss to total assets or working fund ratio and denoted by ROA. The following table and figures showed the return on total assets ratio of NBBL and NSBI.

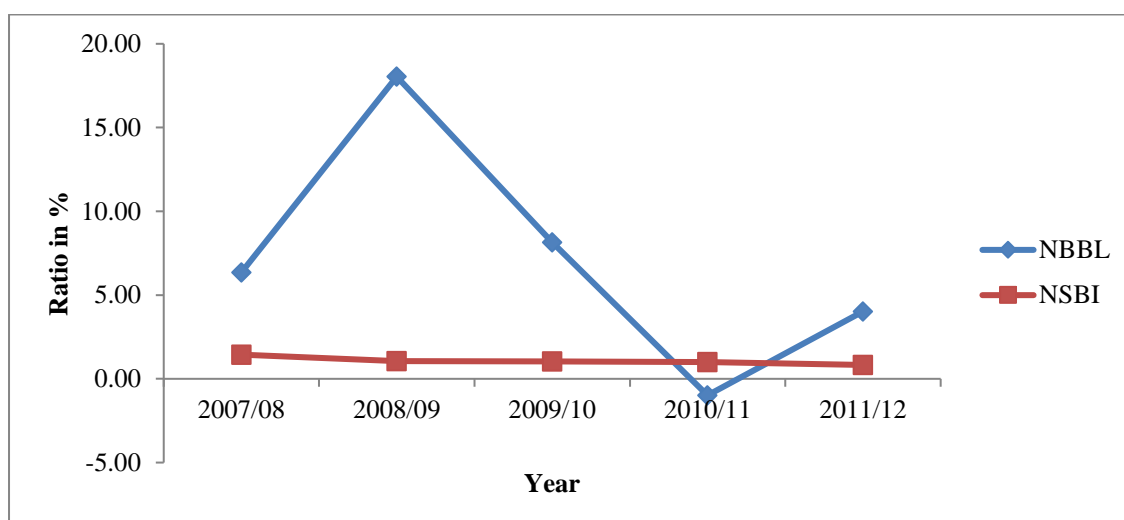
**Table 4.10**  
**Return on Total Assets Ratio**

(Rs.in Thousand)

Bank	NBBL			NSBI		
	NPAT	Total Assets	Ratio(%)	NPAT	Total Assets	Ratio(%)
2007/08	596487	9391027	6.35	247771	17187446	1.44
2008/09	2158104	11964553	18.04	316373	30166640	1.05
2009/10	1021381	12531043	8.15	391742	38047679	1.03
2010/11	-138158	14004760	-0.99	464565	46088233	1.01
2011/12	809470	20169757	4.01	480105	58059707	0.83
Mean			7.11			1.07
S.D			7.00			0.23
C.V			98.46			21.04

*Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)*

**Figure 4.10**  
**Return on Total Assets Ratio**



According to above table and figure, NBBL had higher ratio of 18.03% in FY 2008/09 and lowest was 4.01% in FY 2011/12. In FY 2010/11, the ratio was in negative figure, i.e.; -0.99, which indicates the inefficient productivity of the assets, because NBBL was at loss in this FY. Likewise, NSBI had declining trend during the study period, which means the earning capacity of the bank's assets was decreasing and its highest ratio was 1.44% in FY 2007/08 and lowest 0.82% in FY 2011/12.

The average ratio of NBBL and NSBI were 7.11 and 1.07 respectively, showed that NSBI had poorest return over the total assets. Which indicates that the bank has to be more alert in future to utilize its resources in more profitable projects. Due to higher average of NBBL, the bank has been able to utilize its resources in more profitable sectors except FY 2010/11. From the S.D. and C.V. point of view, NBBL had higher ratio, i.e.; 7 and 98.46% than that of NSBI 0.22 and 21.03% respectively. So, it implies that, NBBL had high fluctuation in generating profit from S.D. point of view and from C.V. analysis also, NBBL had high degree of variability in profit generation.

#### **4.1.4.2 Return on shareholder Equity**

Equity capital of every bank is its owner's investment. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return on its equity capital. So, that they can run smoothly and get the NAME and FAME in the market. Return on equity plays the measuring role of profitability of bank. It reflects the extent to which the bank has been successful to

mobilize or utilize its equity capital. Higher ratio is preferable as it indicates more efficient management and utilisation of shareholders fund. It is also known as return on networth or net profit to shareholder equity ratio and is denoted by ROE.

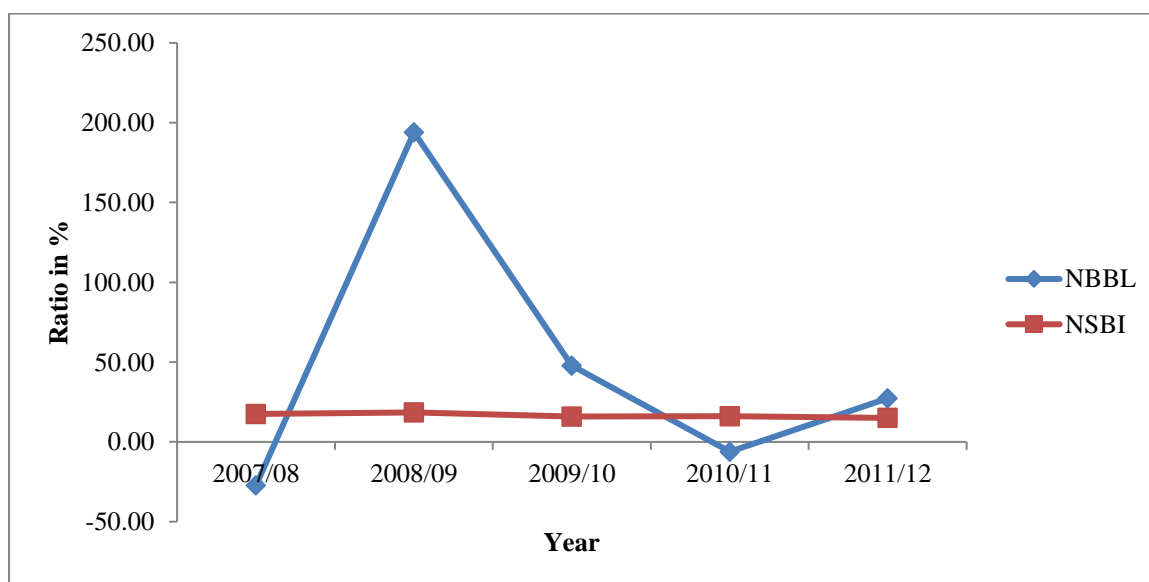
**Table 4.11**  
**Return on Shareholder's Equity**

(Rs. in Thousands)

Bank	NBBL			NSBI		
	NPAT	SHE	Ratio(%)	NPAT	SHE	Ratio(%)
2007/08	596487	-2191448	-27.22	247771	1414645	17.51
2008/09	2158104	1112242	194.03	316373	1712607	18.47
2009/10	1021381	2133573	47.87	391742	2450554	15.99
2010/11	-138158	2251175	-6.14	464565	2879293	16.13
2011/12	809470	2953967	27.40	480105	3197459	15.02
Mean			47.19			16.62
S.D			87.08			1.36
C.V			184.54			8.21

Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)

**Figure 4.11**  
**Return on Shareholder's Equity**



The above table and figure showed the return on shareholder equity ratio. NBBL showed the fluctuating trend and had highest ratio in FY 2008/09, i.e; 194.03% and lowest in FY 2011/12, i.e; 27.40. The bank had negative ratio for the two FY 2007/08 and 2010/11, i.e; -27.22% and -6.14% respectively. This was due to negative return on profit. In rest of the year NBBL had positive ratio which revealed that the bank had been improving in utilizing shareholder fund. Similarly, NSBI had maximum and

minimum return on shareholder's equity of 18.47% in FY2008/09 and 15.01% in FY 2011/12 respectively.

The mean ratio of NBBL(47.19) appeared more than that of NSBI(16.62). The S.D. of NBBL and NSBI were 87.08 and 1.36 respectively and that of C.V. were 184.54% and 8.21% respectively. This revealed that NBBL had high degree of variability as it could not get regular return. Whereas NSBI is less risky and it yields significant returns on owner capital. Lower C.V. ratio of NSBI signifies more uniformity in the ratio.

#### 4.1.4.3 Return on Total Deposit Ratio

Return on Total deposit ratio measures the ability of the bank to earn a return on deposits. This ratio shows the relation of net profit earned by the bank with the total deposits accomplished. This ratio is a mirror for bank's overall financial performance as well as its success in profit generating. This means that the deposits made by its customers are the major source of earning of the commercial banks. Higher ratio shows the higher degree of utilization of deposits in generating profit. This ratio is calculated in order to diagnosis whether the bank are well efficient or not in mobilizing its total deposit, so that corrective action could be forwarded to concerned bank. The following table and figure showed the return on total deposit ratio of NBBL and NSBI.

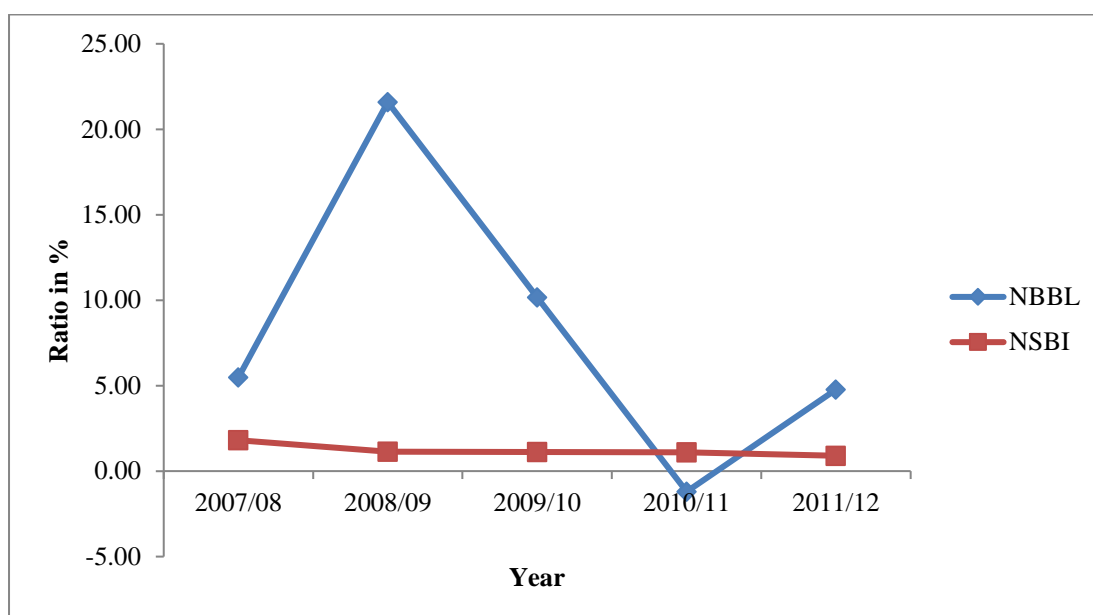
**Table 4.12**  
**Return on Total Deposit Ratio**

(Rs.inThousand)

<b>Bank</b>	<b>NBBL</b>			<b>NSBI</b>		
<b>Year</b>	<b>NPAT</b>	<b>Total Deposits</b>	<b>Ratio(%)</b>	<b>NPAT</b>	<b>Total Deposits</b>	<b>Ratio(%)</b>
2007/08	596487	10883653	5.48	247771	13715395	1.81
2008/09	2158104	9997697	21.59	316373	27957221	1.13
2009/10	1021381	10052182	10.16	391742	34896424	1.12
2010/11	-138158	11511678	-1.20	464565	42415443	1.10
2011/12	809470	16952703	4.77	480105	53337264	0.90
Mean			8.16			1.21
S.D			8.52			0.35
C.V			104.43			28.56

Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)

**Figure 4.12**  
**Return on Total Deposit**



In the above table and figure, it was clearly seen that NBBL had fluctuating trend while NSBI had decreasing trend. The NBBL return was positive for first three years and was negative for FY 2010/11, i.e; -1.20% and again in FY 2011/12, it improve its return and deposits with the positive ratio of 4.77%. Similarly NSBI had highest ratio 1.81% in FY 2007/08 and lowest was 0.90% in FY 2011/12. The return on deposit of NSBI was decreasing year by year.

On average basis, the ratio of NBBL was 8.16, higher than NSBI(1.21), which indicates that NBBL had better mobilization of deposits, In other words, NBBL was successful in mobilizing depositors fund more efficiently in generating more profits. From the S.D pointof view, NBBL had the higher ratio,i.e; 8.52 and NSBI had 0.35, which implies that NBBL had high fluctuation in generating profit by using deposits. Similarly, the C.V. of NSBI was 28.56% and that of NBBL was 104.43%. The higher value of NBBL showed the higher degree of variability in generating profit.

#### **4.1.4.4 Return on Loan and Advance Ratio**

Every financial institution tries to mobilize their deposits on loan and advance properly. So, this ratio helps to measure the earning capacity of selected banks. The following table shows return on loan and advance ratio of NBBL and NSBI.

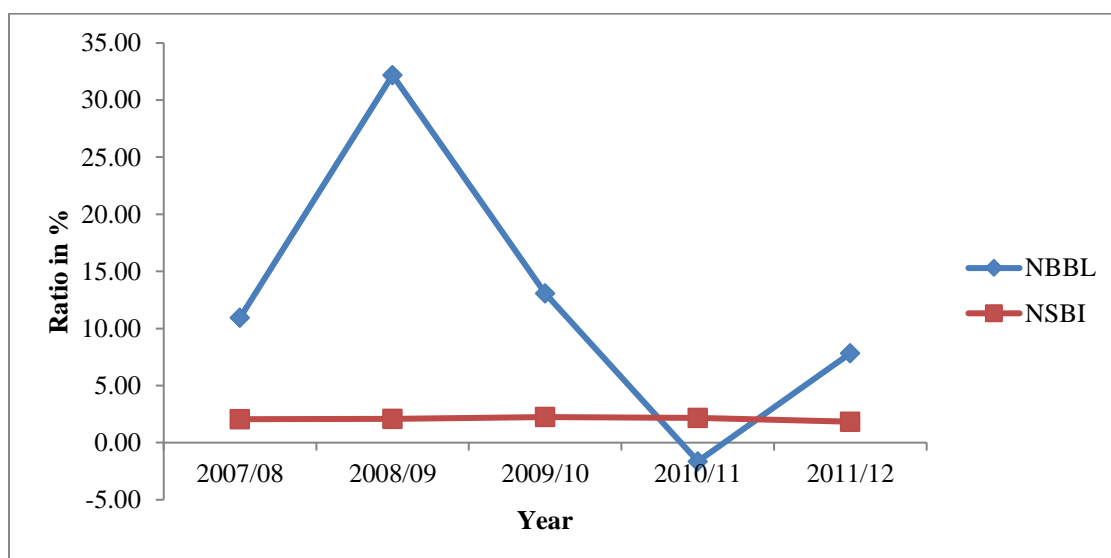
**Table 4.13**  
**Return on Loan and Advance Ratio**

(Rs.in Thousand)

Bank	NBBL			NSBI		
	NPAT	Loan and Advance	Ratio(%)	NPAT	Loan and Advance	Ratio(%)
2007/08	596487	5457809	10.93	247771	12113698	2.05
2008/09	2158104	6704943	32.19	316373	15131748	2.09
2009/10	1021381	7809544	13.08	391742	17480545	2.24
2010/11	-138158	8452738	-1.63	464565	21365771	2.17
2011/12	809470	10330076	7.84	480105	26142094	1.84
Mean			12.48			2.08
S.D			12.37			0.15
C.V			99.11			7.43

*Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)*

**Figure 4.13**  
**Return on Loan and Advance**



NBBL had negative ratio in FY 2010/11 due to its negative profit. The highest ratio of NBBL was 32.18% in FY 2008/09 and lowest was 7.84% in FY 2011/12, whereas the highest ratio of NSBI was 2.24% in FY 2009/10 and lowest was 1.84% in FY 2011/12. The mean ratio of NBBL was 12.48, which was higher than NSBI, i.e., 2.08, which showed that the bank had good earning capacity in loan and advances, however, NSBI had lower fluctuation and more uniform ratio over the study period.

From the S.D. point of view, NBBL had higher ratio of 12.37 than that of NSBI with 0.15, which indicates the higher fluctuation in generating profit by using loan and advanced of NBBL. Similarly, the C.V. of NBBL was higher,i.e; 99.11% than that of NSBI with 7.43%.

#### 4.1.4.5 Total Interest Earned to Total Assets Ratio

Total interest earned to total assets ratio shows the percentage of interest income as compared with the assets of the banks. This ratio evaluates how successful selected banks are mobilizing their total assets to achieve high amount of interest. Generally, bank generate income through loan and advance, investment, overdrafts, hire purchase finance and loan given to priority and deprived sector as well. Higher ratio represents better efficiency in mobilizing its resources for the purpose of generating interest income. The following table and figure showed the total interest earned to total assets ratio of the selected banks.

**Table 4.14**  
**Total Interest earned to Total Assets Ratio**

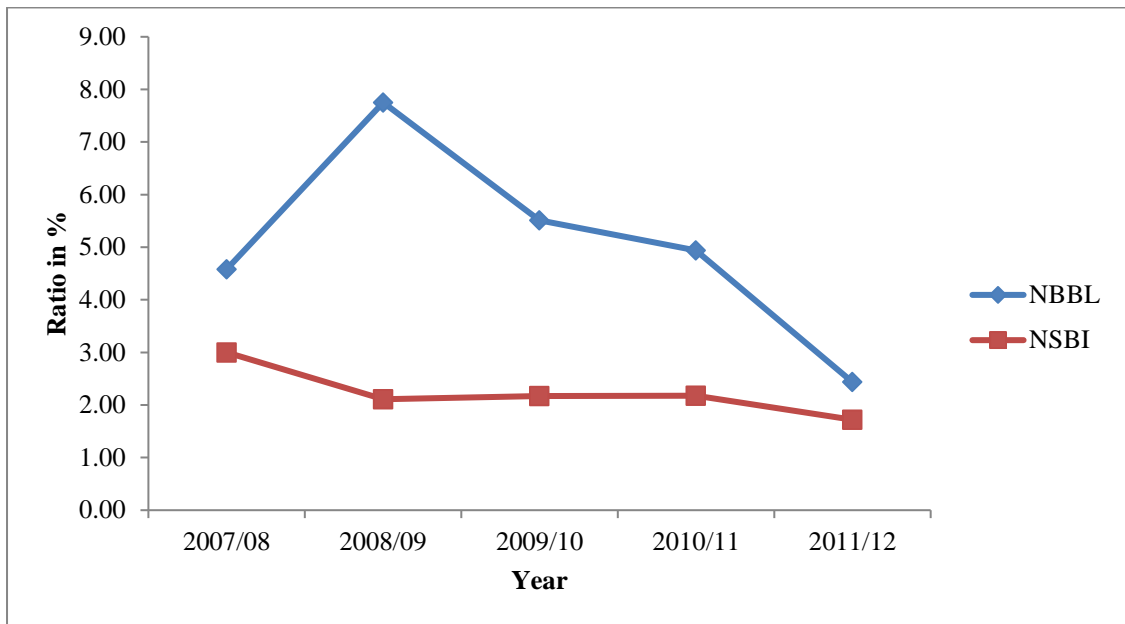
(Rs. in Thousand)

Bank	NBBL			NSBI		
	Interest Earned	Total Assets	Ratio(%)	Interest Earned	Total Assets	Ratio(%)
2007/08	430279	9391027	4.58	515595	17187446	3.00
2008/09	927336	11964553	7.75	635746	30166640	2.11
2009/10	690840	12531043	5.51	826010	38047679	2.17
2010/11	691455	14004760	4.94	1003870	46088233	2.18
2011/12	491230	20169757	2.44	998684	58059707	1.72
Mean			5.04			2.24
S.D			1.91			0.47
C.V			37.85			20.91

*Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)*

**Figure 4.14**

**Total Interest earned to Total Assets Ratio**



In the above table and figure, NBBL had fluctuating trend. The highest ratio of NBBL was 7.75% in FY 2008/09 and lowest ratio was 2.43% in FY 2011/12, Whereas the highest ratio of NSBI was 3% in FY 2007/08 and lowest was 1.72% in FY 2011/12, NSBI had decreasing trend over the study period.

On the average basis, NBBL had higher ratio of 5.04% than that of NSBI, which implies that NBBL has been managing its assets efficiently in earning more interest. From S.D. point of view NBBL had higher ratio of 1.91 than that of NSBI, i.e; 0.47, which showed that there was greater fluctuation on interest earning capacity of NBBL than NSBI over the study period. Similarly from the C.V. point of view, NBBL had higher ratio of 37.85%, which showed that there was more inconsistency in earning interest.

**4.1.5 Other Ratio**

Above stated ratio shows light on various aspect of the bank management, investment and creditors can get information regarding their investment. There are several other widely used ratios relating to financial aspects of company. Besides the analysed ratio, some of other indicators have been tested for broader knowledge for the sake of the completeness of the financial performance of the bank. For such purpose, following indicators were considered for the study. Although various ratios have been

calculated and analysed for the sake of completeness some other indicator has also been considered in this study.

#### 4.1.5.2 Earning Per Share (EPS)

EPS refers to the income available to the common shareholder as per the share basis..EPS is the ratio by which one can understand the return available for the shareholder's from their investment, because it measures the profit available to shareholders on per share basis. EPS is one of the most widely used measures of the bank's performance. It is an important index of the bank's performance and the investors rely heavily on it for their investment decision. EPS simply shows the profitability of the firm on a per share basis but does not reflect how much is paid as dividend and how much is retained in the business. The following table and figure showed EPS of NBBL and NSBI.

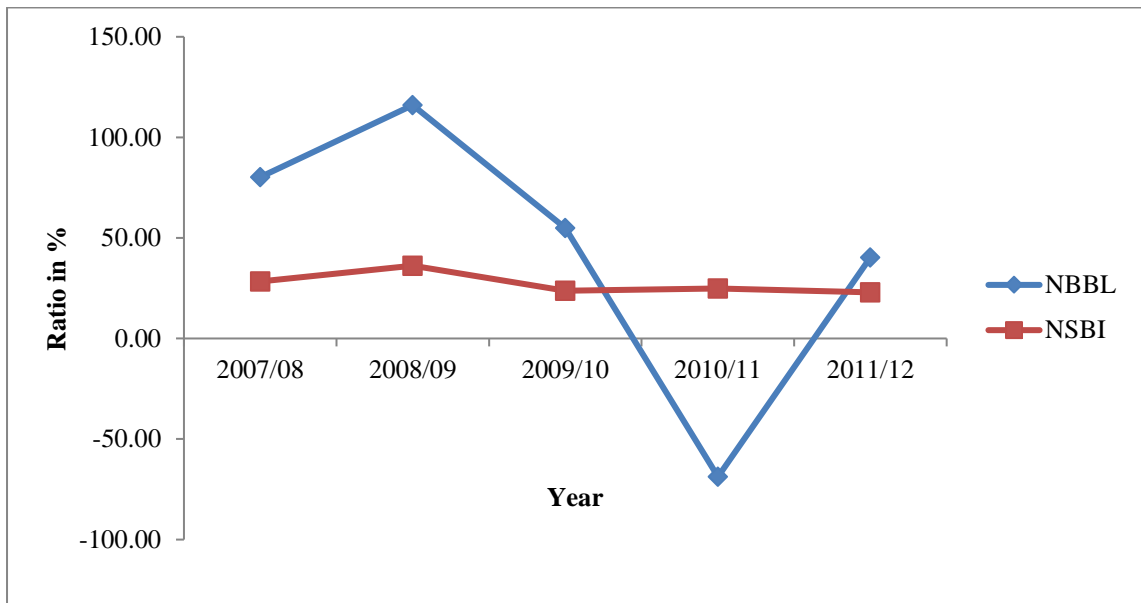
**Table 4.15**  
**Earning Per Share**

(Rs. in Thousand)

Bank	NBBL			NSBI		
	Net Profit	No. Of Shares	Ratio	Net Profit	No. Of Shares	Ratio
2007/08	596487	7441	80.16	247771	8745.278	28.33
2008/09	2158104	18603	116.01	316373	8745.278	36.18
2009/10	1021381	18603	54.90	391742	16536.239	23.69
2010/11	-1381578	20094	-68.76	464565	18693.033	24.85
2011/12	809470	20094	40.28	480105	20939.898	22.93
Mean			44.52			27.20
S.D			69.53			5.43
C.V			156.18			19.97

*Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)*

**Figure 4.15**  
**Earning Per Share**



According to the above table and figure, NBBL had negative profit and leads to negative EPS in FY 2010/11. Negative EPS means no earning was available for the shareholder in that year. In rest of the years, EPS of NBBL showed the fluctuating trend. NSBI had also fluctuating trend of EPS as shown in above figure, with highest EPS of 36.18% in FY 2008/09 and lowest ratio of 22.93% in FY 2011/12. The increasing EPS attracts shareholder to invest more money as it indicates good earning capacity of the bank as well as shareholders and Vice-versa.

The average EPS for NBBL(44.52) was greater than NSBI(27.19), which indicates that, net profit earning capacity of NBBL was higher than NSBI due to higher amount of interest and tax deductible expenses. In other words, higher average ratio of NBBL indicates that, it was able to earn more profit per share to common shareholders than that of NSBI. From S.D. point of view, NBBL had high ratio of 69.53 than that of NSBI with 5.43, which showed that NBBL had higher variation in EPS. The C.V. analysis showed that, EPS of NBBL was found to be higher,i.e; 156.18% than that of NSBI with 19.97%, this implies that NBBL had high degree of inconsistency in EPS amount during the study period.

However, EPS does not reveal how much amount out of earning is paid to the owners as dividend or how much of the earning is retained in the business.

#### 4.1.5.3 Dividend Per Share ( DPS)

The whole amount of earning may or maynot be distributed to the shareholder by any firm/company, so, how much per share the dividend is distributed to common shareholder can be known from this ratio. It implies the profit allocated to shareholders as return in terms of cash on per share basis. Greater DPS is considered to be excellent for shareholders. Companies generally prefer to pay cash dividends. They finance their expansion and growth by issuing new shares or borrowing. Companies like to follow a stable dividend policy since investors prefer such policy for certainty reason. The following table and figure showed the dividends per share given to the shareholders of NBBL and NSBI.

**Table 4.16**  
**Dividend per Share**

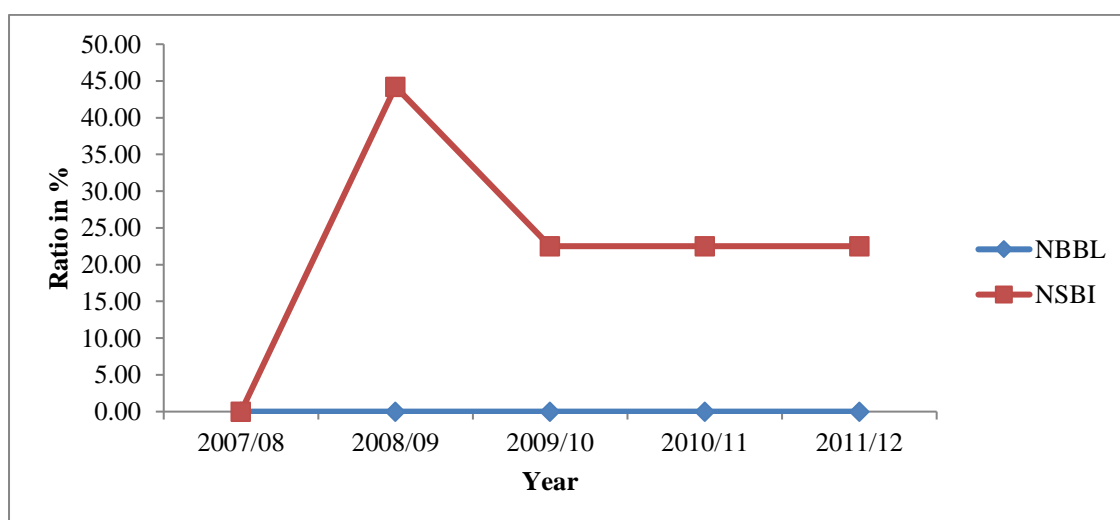
(Rs. in Thousand)

Bank	NBBL			NSBI		
	Divident Amount	No. Of Shares	Ratio	Divident Amount	No. Of Shares	Ratio
2007/08	0	7441	0.00		8745.278	0.00
2008/09	0	18603	0.00	386716.19	8745.278	44.22
2009/10	0	18603	0.00	372065.38	16536.239	22.50
2010/11	0	20094	0.00	420593.24	18693.033	22.50
2011/12	0	20094	0.00	471147.71	20939.898	22.50
Mean			0.00			22.34
S.D			0.00			15.64
C.V			0.00			69.98

Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)

**Figure 4.16**

**Dividend Per Share**



It was clear from above table and figure that NBBL did not pay any dividend and it was failed to earned profit, so, it couldnot declared any dividend. NSBI had highest DPS ratio of 44.22% in FY 2008/09 and in rest of the year, the bank allocated same ratio,i.e; 22.50%, except in FY 2007/08. NSBI issued bonus share along with cash dividend. Issuing of bonus share is advantageous in some cases and sometimes it reduce market price of the share and make it more attractive to investors. On average basis, NSBI has ratio of 22.34 and the S.D. and C.V of NSBI was 15.64 and 69.98% respectively.

#### 4.1.5.4 Dividend payout ratio

It indicates the percentage amount of dividend paid to the shareholders out of earning per share i.e. this reflects of what percentage is to be retained in company as retained earnings. This ratio represents the percentage of the profit distributed as dividend and the percentage as revenue and surplus for the growth of the bank. The shareholder's prefer usually higher ratio whereas a very high ratio may also slow down the growth rate of the firm. It helps to segregate the proportion of dividend and retained earnings. Importance of DPR lies in its ability to state the dividend policy of the concerned banks more obviously which influences the market value of the share.

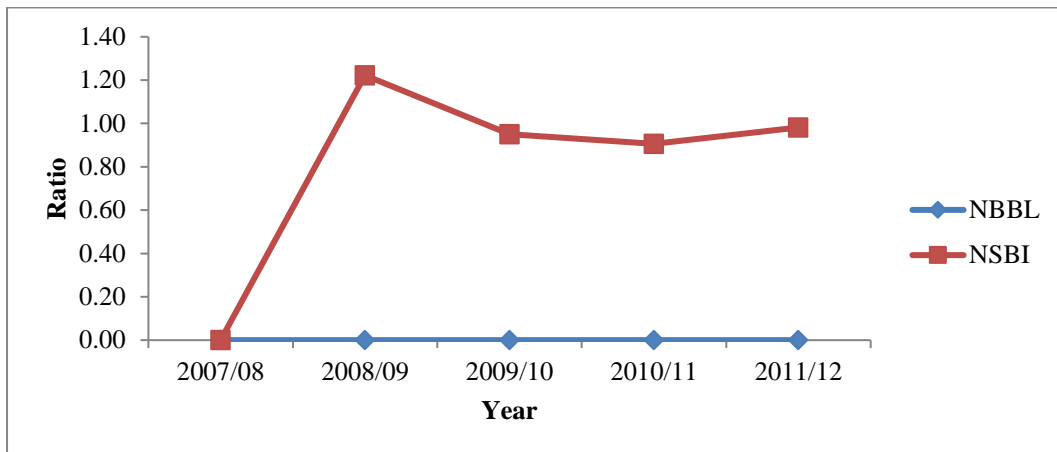
**Table 4.17**  
**Dividend Payout Ratio**

(Rs.in Thousand)

Bank	NBBL			NSBI		
	Divident per share	Earning per share	Ratio	Divident per share	Earning per share	Ratio
2007/08	0	80.16	0.00	0	28.33	0.00
2008/09	0	116.01	0.00	44.22	36.18	1.22
2009/10	0	54.9	0.00	22.5	23.69	0.95
2010/11	0	45.62	0.00	22.5	24.85	0.91
2011/12	0	40.28	0.00	22.5	22.93	0.98
Mean			0.00			0.81
S.D			0.00			0.47
C.V			0.00			57.91

*Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)*

**Figure 4.17**  
**Dividend Payout Ratio**



The above table and figure showed the dividend payout ratio of both banks. From the above table, it can be clearly known those NBBL dividend payout ratio was nil. On the other hand, the ratio of dividend payout of NSBI was in fluctuating trend. In FY 2008/09, the ratio was highest with 1.22% and in FY 2010/11; it was lowest with 0.91%. In FY 2007/08, NSBI did not pay any dividend, so dividend payout ratio was nil. On average basis the percentage of payment ratio was 0.81%. The S.D and C.V of NSBI was 0.47% and 57.91% respectively. This implies that NSBI has high fluctuation in providing dividend to its shareholder's throughout the study period.

#### **4.1.5.5 Price Earning Ratio**

Price earning ratio represents the amount which investors are willing to pay of each rupee of the firms earning. This ratio is closely related to the Earning yield. It is calculated by dividing the market value per share by earning price per share. It indicates investor's judgements or expectation about the firm's performance. This ratio is widely used by the security analysis to value the firm's performance as accepted by the investors. Higher ratio indicates more values of the stock that is being ascribed to future earning as opposed to present earnings.

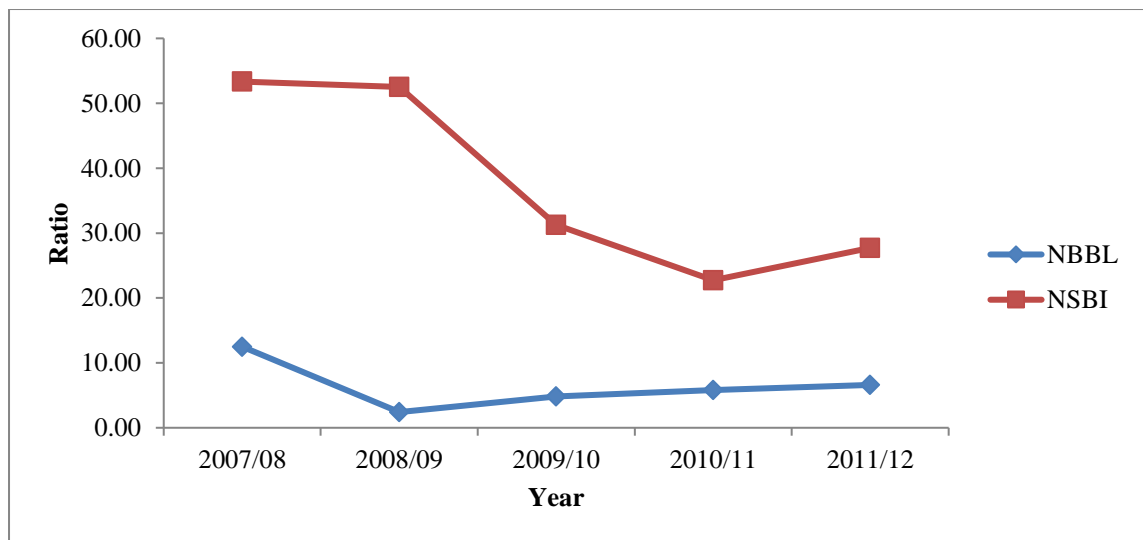
**Table 4.18**  
**Price Earning Ratio**

(Rs. in Thousand)

Bank	NBBL			NSBI		
	Year	Market Value	Earning per share Ratio	Market Value	Earning per share Ratio	Ratio
	2007/08	1001	80.16 12.49	1511	28.33	53.34
	2008/09	280	116.01 2.41	1900	36.18	52.52
	2009/10	265	54.9 4.83	741	23.69	31.28
	2010/11	266	45.62 5.83	565	24.85	22.73
	2011/12	266	40.28 6.60	635	22.93	27.69
	Mean		6.43			37.51
	S.D		3.73			14.40
	C.V		58.06			38.39

*Source: Annual Reports of NBBL & NSBI (2007/08 to 2011/12)*

**Figure 4.18**  
**Price Earning Ratio**



The above table and figure showed the P.E. ratio of the both banks in fluctuating trend. The P.E. ratio of NBBL ranged from 12.49 in FY 2007/08 to 5.83 in FY 2011/12. Similarly P.E. ratio of NSBI ranged from 53.34 in FY 2007/08 to 27.69 in FY 2011/12.

On average basis, NSBI had higher average P.E. ratio with 37.51 than that of NBBL with 6.43. The S.D of NSBI was also higher with 14.40 than that of NBBL with 3.73.

This indicate that NSBI had higher fluctuation in market price per share than NBBL. On the basis of C.V. NBBL had higher ratio of 58.06% than NSBI with 38.38%, which indicates the high degree of variability of NBBL.

#### 4.2 Correlation Analysis

Correlation coefficient is the statistical tools that can be describe to which one variable is linearly related to another. Coefficient of correlation measures the degree of relationship between two sets of variabls. Among the various methods of finding out the coefficient of correlation, Karl Pearson's method was applied in this study. The coefficient of correlation (r) between two variables X and Y can be calculated by using following formula;

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

Where,

r =Karl Pearson's coefficient of variation

N = no of observation in series X and Y

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

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

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

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

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

Correlation coefficient(r) was interpreted as follows:,

r = +1, Indicates that two variables are positively perfectly correlated.

r = -1, Indicates that two variables are negatively perfectly correlated

r = 0, Indicates that there is no linear relationship between the two variables and they may be related in other forms.

Under the correlation analysis, the intensity of linear relation between the following variables was measured;

- Total deposit and loan and advances
- Total deposit and net profit
- Interest payment and earnings before interest and tax

#### 4.2.1 Correlation analysis between Total Deposit (Independent) and Loan and Advance (Dependent) of NBBL and NSBI

The correlation coefficient between total deposit and loan and advances was computed to measure the relationship between major financial sources, i.e; total deposits and major components of income generating assets, i.e; loan and advances. In correlation analysis, total deposit was independent variable(X) and loan and advances was dependent variable(Y). The purpose of computing the correlation coefficient between these two variables was to justify whether the deposits were significantly used in loan and advance or not.

**Table 4.19**

##### **Correlation between Total Deposit and Loan and advance of NBBL and NSBI**

<b>Bank</b>	<b>r</b>	<b>r<sup>2</sup></b>	<b>P.E</b>	<b>6 P.E.</b>	<b>Relationship</b>	<b>Significance/insignificance</b>
<b>NBBL</b>	0.7951	0.6322	0.1109	0.6656	Positive	Significant
<b>NSBI</b>	0.9818	0.9640	0.0108	0.0651	Positive	Significant

From the above table, it was clearly seen that the correlation coefficient between total deposits and loan and advance of NBBL was positive with 0.7951. It refers that, with increase in deposit, loan and advances also increases and vice versa. Coefficient of determination ( $r^2$ ) of NBBL was 0.6322.i.e; 63.22%, which indicates that only 63.22% of variation in loan and advances was explained by independent variable total deposits. Considering the P.E. value, the value of (r) was more than 6 times of P.E, which means that, there was significant relationship between the variables, i.e; total deposits of NBBL was significant in generating more loan and advances. Similarly, In case of NSBI, there was positive correlation between total deposit and loan and advance with,  $r = 0.9818$  and coefficient of determination ( $r^2$ ) was 0.9640,i.e; 96.40% variation in Loan and advances was explained by the independent variable total deposits. Regarding the P.E., the value of ( r) was more than 6 times of P.E., which indicates that, there was significant relationship between the loan and advance and total deposits.

#### 4.2.2 Correlation analysis between net profit (dependent) and total deposit (independent) of NBBL and NSBI

Net profit refers to profit after deducting interest and taxes. Total deposit of bank comprises of fixed deposit, current deposit, saving deposit, margin deposit. In this analysis, correlation analysis between two variables, net profit and total deposit were calculated to measure the closeness of relationship between them, to what extent dependent variable; i.e; net profit will be changed when there is change in independent variable i.e. total deposit. Here net profit(X) is dependent variable and total deposit (Y) is independent variable.

**Table 4.20**

**Correlation between Net Profit and Total Deposit of NBBL and NSBI**

Bank	r	r <sup>2</sup>	P.E	6P.E	Relationship	Significance/insignificance
NBBL	-0.2443	0.0597	0.2836	1.7018	Negative	InSignificant
NSBI	0.9722	0.9453	0.0165	0.0990	Positive	Significant

According to above table, the correlation of coefficient between net profit and total deposit in case of NBBL was negative (-0.2443), which implies that there was negative correlation between the variables. Coefficient of determination of NBBL was 0.0597 i.e; 5.97% only. This indicates that only 5.97% of variation in net profit was explained by the independent variable total deposit. In other words it can be concluded that when there is change in total deposit it brings 5.97% change in net profit. Considering the probable error, the value of 'r' is less than six times of P.E., i.e; -0.2443. This indicates that there was no significant relationship between variables i.e. total deposit of NBBL was insignificant in generating profit. Similarly the correlation of coefficient of NSBI was 0.9722, which implies higher positive correlation between the variables. The coefficient of determination is 0.9453, which implies that 94.53% variation in net profit was explained by the independent variable total deposits change in net profit. Considering the P.E, the value of 'r' is more than six times of P.E. this implies that the value of ( r) was significant. There was significant relationship between net profit and total deposit.

### 4.2.3 Correlation Analysis between Interest Payment (Dependent) and EBIT (Independent) of NBBL and NSBI

The relationship between interest payment and EBIT was evaluated in order to measure debt servicing capacity of the banks. Here, interest payment(X) was dependent variable and EBIT(Y) was independent variable. Karl Pearson's coefficient of correlation was calculate and interpreted as follows.

**Table 4.21**

#### Correlation between Interest Payment and EBIT of NBBL and NSBI Evaluation

##### Criterion

Bank	r	r <sup>2</sup>	PE	6P.E	Relationship	Significance/insignificance
NBBL	0.7117	0.5066	0.1488	0.8930	Positive	Insignificant
NSBI	0.6181	0.3821	0.1864	1.1183	Positive	Insignificant

From the above table, the correlation between interest payment and EBIT in case of NBBL was 0.7117, which shows that there was positive correlation between the variables. It refers that increase in EBIT increases the interest payment. Coefficient of determination ( $r$ )<sup>2</sup> of NBBL was 0.5066, which indicates that only 50.66% of variation in the interest payment is explained by the independent variable EBIT. Considering P.E, the value of (r) was less than six times of P.E, which indicates that there was insignificant relationship between the variables i.e., the EBIT of NBBL was insignificant in generating interest payments. Similarly, the correlation between interest payment and EBIT of NSBI was 0.6181, which shows that, there was positive correlation between the variables. Coefficient of determination ( $r$ )<sup>2</sup> was 0.3821, which indicates that 38.21% of variation in interest payment was explained by the independent variable EBIT. Considering the P.E, the value of (r) was less than six times of P.E, this shows that there was insignificant relationship between the variables. It depicts that the banks were insignificantly able to service its debt.

### 4.3 Trend Analysis

Trend analysis is very useful to predict the future events on the basis of the past tendencies. Trend analysis is based on the assumption that past tendency continues in the coming future.

It is one of the statistical tools used for forecasting.

Trend analysis very effectively informs various personnel directly or indirectly about the performance of commercial banks. For shareholders of bank, it informs about the expected future returns which helps them to decide whether to stick in present investment or to search for alternative investment opportunities. For borrowers, it assures about the financial capability of bank to furnish their loan and advance in future provided that present trend will continue. For depositors, it provides degree of safety in form of financial credit worthiness of the bank in future. Trend analysis will highlight the previous trend of the financial performance and helps in forecasting future financial results. The future trend of any variable is forecasted by using the following trend equation;

$$Y = a + bX$$

Where, Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

X = value of the independent variable i.e. e. time

The normal equations on fitting the trend equation are,

$$Y = Na + b\sum X,$$

$$\sum XY = a \sum X + b\sum X^2$$

Since  $\sum X = 0$ ,

$$a = \frac{\sum Y}{N}, \quad b = \frac{\sum XY}{\sum X^2}$$

With the help of the trend equation, future values of the following variables for next five years have been predicted,

- Net profit
- Loan and advances

#### **4.3.1 Trend analysis of Net Profit**

The value of net profit was calculated for five years FY 2007/08 to 2011/12 and forecasting for next five years till 2016/2017.

As stated earlier, the trend equation was,

$$Y = a + bX,$$

$$\text{For, NBBL} \quad a = 8894.56 \quad b = -1870,$$

$$\text{For, NSBI} \quad a = 3801.11 \quad b = 612.8$$

**Table 4.22**

**Trend Value of Net Profit of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd , 2007/08 to 2011/12(Study Period) and (2012/13 to 2016/17) predicted period**

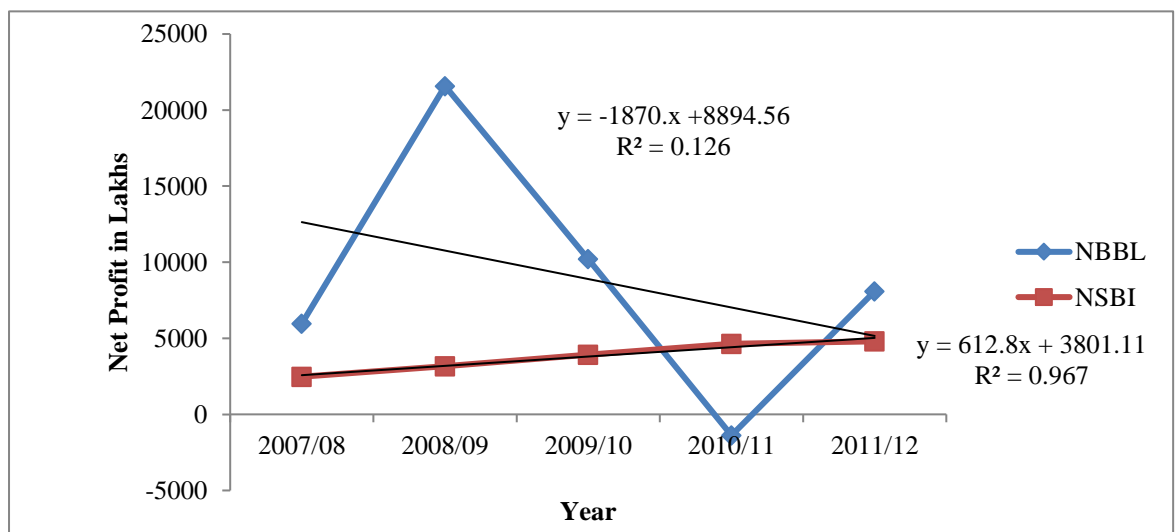
(Rs. in Lakhs)

Year	NBBL	NSBI
2007/08	5964.87	2477.71
2008/09	21581.04	3163.73
2009/10	10213.81	3917.42
2010/11	-1381.58	4645.65
2011/12	8094.7	4801.05
<b>Predicted period</b>		
20012/13	8895	5639.51
2013/14	1414.56	6252.31
2014/15	-455.44	6865.11
2015/16	-2325.44	7477.91
2016/17	-4195.44	8090.71

(Source: See appendix 2 and 3)

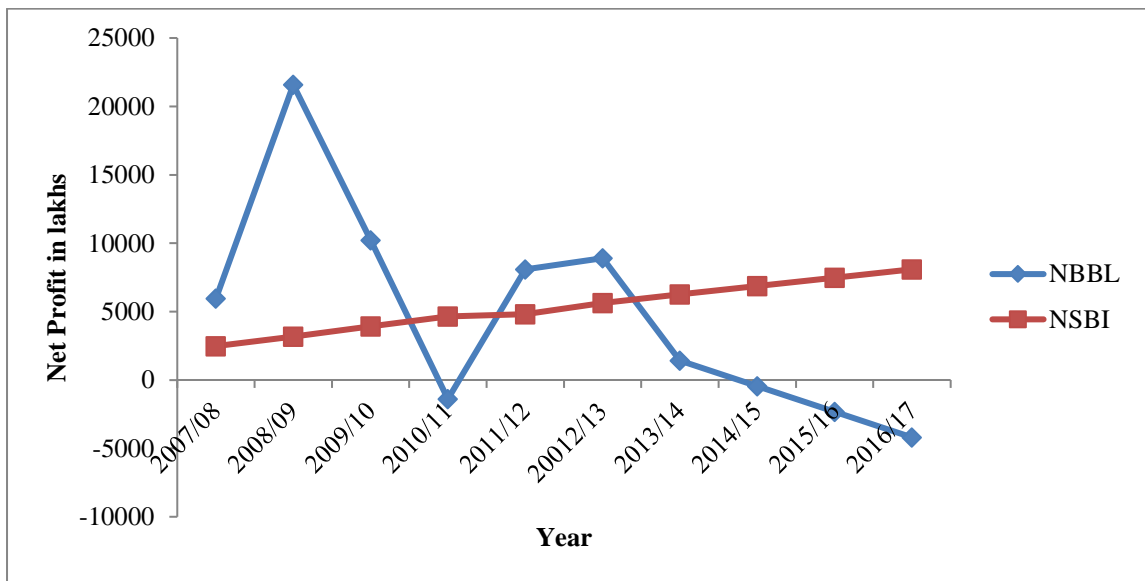
**Figure 4.19**

**Trend Value of Net Profit of NBBL and NSBI for the study period**



**Figure 4.20**

**Trend Value of Net Profit of NBBL and NSBI for 2012/13 to 2016/17(Forecasting period)**



From the above table and figure, net profit of the NBBL was in declining trend while that of NSBI was in increasing trend. The trend equation for NBBL is,  $Y = 8894.56 - 1870 * X$  ( $R^2 = 0.126$ ) and that of NSBI is  $Y = 3801.11 + 612.8 * X$  ( $R^2 = 0.967$ ). The trend equation showed that, on average, the net profit of NBBL will decreasing by 1870 lakhs per year while that of NSBI will increases by 612.8 lakhs per year if the past trend continue.

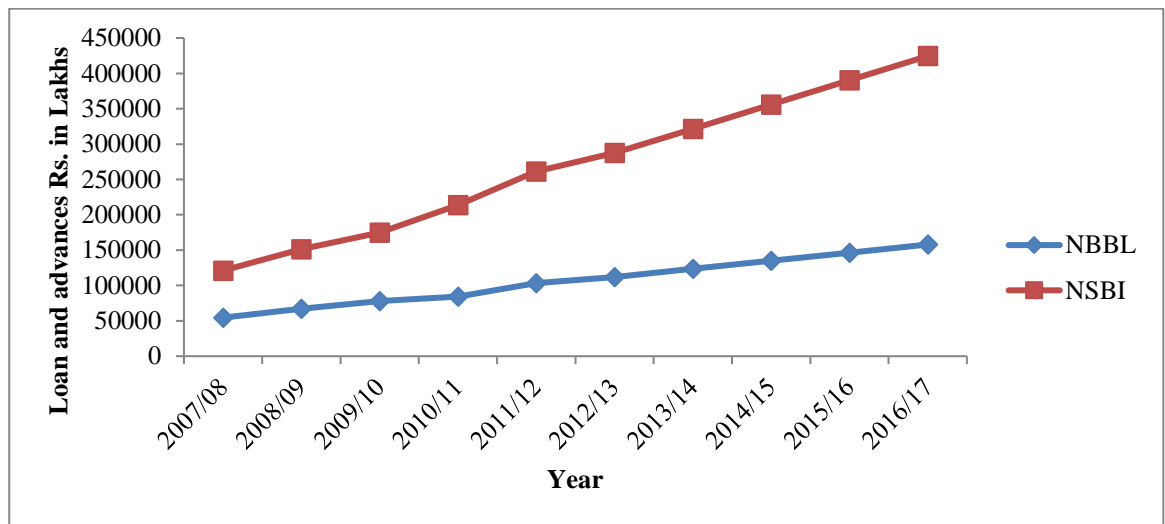
On the basis of above trend equation, for the last predicted year, i.e; by 2016/17, (after 5 years of study period), NBBL will be in loss by 4195.44 lakhs and that of NSBI will be earning profit by 8090.71 lakhs. So, that, NBBL must address such issue specifically to protect the bank from losses and for earning the profit by formulating aggressive improvement strategy.

#### **4.3.2 Trend analysis of Loan and Advance**

The value of loan and advance has been calculated for five years FY 2007/08 to 2011/12 and forecasting for next five years from 2012/2013 to 2016/17.



**Figure 4.22**  
**Trend Value of Loan and Advances of NBBL and NSBI for 2012/13 to**  
**2016/17(Forecasting period)**



From the above table and figure, loan and advances of the both of the bank is in increasing trend. The trend equation for NBBL is,  $Y = 77510.22 + 11492.32 * X$  ( $R^2 = 0.97$ ) and that of NSBI is  $Y = 184467.71 + 34291 * X$  ( $R^2 = 0.98$ ). The trend equation showed that, on average, the loan and advances of NBBL will decreasing by 11492.32 lakhs per year while that of NSBI will increases by 34291 lakhs per year if the past trend continue.

On the basis of above trend equation, by the last predicted year, i.e; by 2016/17, (after 5 years of study period), NBBL will increase its loan and advances to 157954.2 lakhs and that of NSBI will be increases to 424504.71 lakhs. From the calculated trend analysis, it is clear that NSBI's utilization of loan and advance is comparatively better than that of NBBL. This proves that NSBI is very aggressive in mobilizing its collected deposit to earn huge return out of it. It refers that success for aggressive lending policies in terms of loan and advance. On the other hand, NBBL has to increase its deposit position to keep up with growth rate in loan and advance.

#### 4.4 Major findings of the study

The major findings of the study were as follows:

##### a) Liquidity Ratio

- The mean current ratio of NBBL and NSBI were 0.89 and 0.66 respectively. It shows that current ratio of both banks were below standard ratio of 2:1. The

current ratio of NBBL was higher, which indicates better liquidity position than NSBI.

- The mean ratio of cash and bank balance to total deposit of NBBL and NSBI were 22.97 and 9.65 respectively. It indicates that on average NBBL has more liquidity to serve its customers with enough cash in hand. A high ratio of cash and bank balance may also be undesirable which indicates inability to invest in more productive sectors.
- The mean ratio of cash and bank balance to current assets of NBBL was 28.88 and NSBI had lower ratio, i.e.; 14.10, which implies that NBBL had utilized depositor's money in short term loans.

#### **b) Leverage Ratio**

- The average ratio of total debt to total equity of NBBL and NSBI were 407.88 and 1489.10. It implies that NSBI had high leverage i.e.; debt financing was more than 1489.10 times of its shareholders equity over the study period.
- The average ratio of total debt to total assets of NBBL and NSBI were 93.26 and 93.58 respectively. Both banks had high debt financing. This implies that, debt amount was comparatively high for assets financing purpose.
- Interest coverage ratio of NBBL and NSBI in an average were 1.78 and 1.45 respectively. The mean ratio of NBBL was higher, which implies that interest paying ability of NBBL was more. It indicates that the bank was able to maintain sufficient EBIT to meet interest obligations.

#### **c) Assets Management Ratio**

To earn high profit, to satisfy customers and shareholders and to exist in competitive environment, commercial banks should manage its assets in proper way. The major findings of assets management ratio of selected banks were as follows:

- The total investment to total deposit of NBBL and NSBI were 17.90 and 41.44. It signifies that NSBI had successfully allocated its deposit in investment portfolio to get higher investment return. It can also be said that NSBI prefers investing its depositors fund in non risky projects like government bond, treasury bills, government securities, debentures of other

organization etc rather than choosing the risky portfolio like loan and advance to its credit customers.

- The mean ratio of loan and advance to total deposit of NBBL and NSBI were 65.83 and 58.39 respectively. It indicates that NBBL had used 65.83% of total deposit into loan and advance. It reveals that, the deposit of NSBI was quickly converted into loan and advance to earn income. In other words, it can be said that bank has been successful in utilizing the depositors fund in loan and advance.
- Mean of loan and advance to total assets ratio of NBBL and NSBI were 57.61 and 51.59 respectively. It indicates that, NBBL had utilized its total assets more efficiently in the form of loan and advance than that of NSBI.

#### **d) Profitability Ratio**

Profitability ratios are the measurement of effectiveness. So with the help of these ratios, one decides whether to invest in a particular firm or not. The major findings of selected banks are as follows:

- The mean ratio of net profit to total assets of NBBL and NSBI were 7.11 and 1.07 respectively. NBBL had higher ratio than NSBI, which indicates that, NBBL has been successful in managing and utilizing the available assets in order to generate higher revenue. NSBI had poorest return on total assets which constitutes that the bank has to be more alert in future to utilize its resources to more profitable projects.
- Return on equity of NBBL and NSBI were 47.19 and 16.63. On an average NBBL was more successful to earn high profit through efficient utilization of equity capital. Return on equity ratio helps to know how profitably the banks have utilized available funds of shareholder's into profit generating activities. The shareholders of NBBL were getting higher return than that of NSBI.
- The average ratio of net profit to total deposit of NBBL and NSBI were 8.16 and 1.21 respectively. Return on total deposit ratio shows how effectively banks have utilized their deposits in profit generating activities. NBBL was been successful in mobilizing deposit's fund more efficiently in generating more profit.

- Return on loan advance of NBBL and NSBI were 12.48 and 2.08 respectively. The mean ratio of NBBL was higher than NSBI, this shows that, the bank had good earning capacity in loan and advance whereas NSBI had less earning capacity in form of loan and advance. NBBL had utilized the loan and advance for profit generation purpose in proper way than that of NSBI.
- Net interest earned to total assets ratio of NBBL and NSBI were 5.04 and 2.23 respectively. NBBL had efficiently used its total assets to earn higher interest income as compared to NSBI.

**e) Other Ratios**

- The average earning per share of NBBL and NSBI were 44.52 and 27.16 respectively. The calculation of average EPS of NBBL was greater than NSBI. Which implies that, net profit earning capacity of NBBL was higher than NSBI due to high amount of interest and tax deductible expenses. In other words, higher average ratio indicates that NBBL was able to earn more profit per share to common shareholders than that of NSBI.
- The average dividend per share of NSBI was 22.34; NBBL did not pay any cash dividend throughout the study period. Cash dividend attracts the attention of shareholders towards the bank and helps to increase the market value of share. So, it indicates that NSBI was performing better than NBBL.
- The average dividend payout ratio of NSBI was 0.81. This ratio represents the percentage of the profit distributed as dividend.
- The average price earning ratio of NBBL and NSBI were 6.43 and 37.51. So that investors of NSBI were getting better profitability due to higher selling price of share than NBBL.

**Correlation and regression analysis**

- The correlation coefficient between total deposit (independent variable) and loan and advances (dependent variable) of NBBL and NSBI were 0.7951 and 0.9818 respectively. Both bank had positive correlation and the value of correlation coefficient for both banks were more than six times of P.E., which implies significant relationship between the variables.
- The coefficient of correlation between net profit (dependent variable) and total deposit (independent variable) of NBBL and NSBI were (-0.2443) and 0.9722

respectively. NBBL had negative coefficient of correlation, which indicates that net profit was not affected by total deposit. Whereas NSBI has positive correlation coefficient, which implies that, net profit was affected by total deposit. The value of coefficient of correlation of NBBL was less than six times of probable error; it indicates, insignificant relationship. The value of correlation coefficient of NSBI was more than six times of probable error, which indicates significant relationship between the variables.

- The correlation coefficient between interest payment (dependent variable) and EBIT (independent variable) of NBBL and NSBI were 0.7117 and 0.6181. NBBL had positive correlation; the value of correlation coefficient was less than six times of probable error, which implies insignificant relationship between the variables. Similarly NSBI also had positive correlation and insignificant relationship between the variables as correlation coefficient was lower than six times of P.E.

### **Trend analysis**

- The trend analysis of net profit of NBBL showed the decreasing trend during the study period and showed the negative value (losses) for predicted year, if the past trend will continue. Similarly, the trend analysis of NSBI showed the increasing trend during the study period. The position of NSBI was better and will generating more profit in predicted year.
- The trend analysis of loan and advance of NBBL and NSBI showed the increasing trend during the study period and both bank had better per year increment rate of loan and advance during the study as well as predicted period.

## **CHAPTER –V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

In this chapter, summary, conclusion and recommendation were presented. In summary, revision of all four chapters was done, in conclusion the result obtained from research was summed up and in recommendation, suggestions are given for improving the financial performance of NBBL and NSBI based upon the finding of the study.

#### **5.1 Summary**

Commercial banks of course contribute a lot to the development of the economy of the country. Thus, to remain in the front line of the great contributor of the economy, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must have reasonable profitability. Being commercial institution, it has a responsibility to provide social service and contribution for the social and economic up-liftment of the country by providing loan and advance to privileged sectors.

In this study, the researcher had covered the various aspects of selected joint venture banks covering the period of five years from FY 2007/08 to FY 2011/12. The first chapter of the study explains the background and statement of the problem and objective of the study and limitation. The second chapter was review of issues related with the financial performance. During research work, review of various literature books, past thesis, journals have been studied and consulted. These works were compiled in second chapter titled 'Review of Literature'. Financial tools like ratio analysis to calculate various ratios and statistical tools like mean, standard deviation, coefficient of correlation, probable error, trend analysis etc were used for research work. These works were compiled in third chapter titled 'Research Methodology'. Data from annual reports published by joint venture banks have been collected and presented in figures and tabular form by applying financial and statistical tools and have been listed in systematic manner and compiled in fourth chapter titled 'Data Presentation and Analysis'.

Finally, in the current chapter, summary, conclusion and recommendations made by the research were presented.

## **5.2 Conclusion**

This study revealed that the liquidity position of NBBL was better than NSBI, this indicates that NBBL solvency position was better. Similarly, mean ratio of cash and bank balance to total deposit of NBBL was higher than NSBI, which implies that NBBL has better ability to make immediate payments to its depositors and also have been successful to meet daily cash requirements of their customers. In the same way, the mean ratio of cash and bank balance to current assets of NBBL was higher, which indicates that, the bank has been successful in utilising depositors money in short term loans.

In case of leverage position of selected banks, NBBL was better than NSBI. The mean ratio of total debt to total equity ratio of NBBL was higher than NSBI, this implies that debt financing capacity of NBBL was more than NSBI. Similarly, NSBI had high debt to total assets ratio, which represents greater risk to shareholders than NBBL shareholders. Debt amount was higher for assets financing in NSBI. Interest coverage ratio of NBBL was higher than NSBI, this implies that, interest paying ability of NBBL was better.

The mean ratio of total investment to total deposit of NSBI was higher than NBBL, this signifies that NSBI had successfully allocate its deposit in investment portfolio to get higher investment return. In terms of loans and advance to total deposits, NBBL had higher percentage of total deposit used in the form of loan and advances. Similarly, In loan and advance to total assets ratio also, NBBL has been able to use more amount of assets in the form of loan and advance. For assets management ratio, both banks has been able to utilise total assets more efficiently but, in comparison, NBBL had better utilisation for the study period.

In case of overall findings of profitability ratio, NBBL had been able to earn higher profit than NSBI on average basis. But, the NSBI had more uniform and consistent return every year on its total assets, equity, total deposits and loan and advances.

The earnings per share of NBBL was higher than NSBI, which implies the earning capacity of NBBL was more than NSBI due to high amount of interest and tax deductible expenses. Similarly, dividend payout ratio of NSBI was better, so that it provides maximum amount of dividend to its shareholder. NSBI had higher profit earnings ratio, it means, investors of NSBI were selling their share with higher price.

Correlation analysis showed that, NBBL had negative relation with net profit and total deposits and positive relationship with interest payment and EBIT and total deposits and loan and advances. Similarly, NSBI had positive relationship with net profit and total deposits, Interest payment and EBIT and Total deposits and loan and advances. Trend analysis of loan and advances of both of the banks were in increasing trend and in case of net profit, NSBI had increasing trend and NBBL had fluctuating trend leading to the loss for predicted year.

### **5.3 Recommendations**

Based upon the above analysis, interpretation and conclusions, some of the recommendations are mentioned for both banks as follows;

- Both of the bank couldnot maintain the conventional standard of liquidity of 2:1. Liquidity position affects both internal and external factors, such as, central bank requirement. It may create the problem of working capital if they need to pay the short term obligation at demand. With the delay in payment of liabilities, banks may lose their goodwill and confidence of current depositors and short term lenders. So, it is recommended to maintain the adequate net working capital.
- Deposits must be utilized properly as loan and advance. NSBI has not properly used its existing fund as loan and advance, so, bank should follow liberal lending policy and emphasis in issuing loan and advances.
- Increasing bottleneck competition and worsening economic condition has made the environment very risky and sensitive. Therefore, it is suggested both banks to make investment in non risky alternatives i.e. government securities like treasury bills, development bonds, saving certificates etc which can be easily sold in market.

- NBBL should formulate and implement sound and effective investment portfolio to increase volume of investment, which will help to meet required level of profitability. It should also consider rural areas in making investment policy.
- NBBL has excessively used debt financing to total assets. Extensive use of debt capital with failure in advancing loans can jeopardize the solvency position of banks. Therefore it is suggested to assess risk assets portfolio cautiously before accepting higher volume of deposit.
- Earnings per share and dividend per share play a vital role to determine market price of share and also indicate the financial performance of banks. Nepalese shareholders are very much concerned about the payment of cash dividend than financial statement. So, banks are suggested to pay cash dividend consistently. NBBL should pay attention on paying dividends to attract more investors.
- Low market price per share and less earning per share of commercial banks indicates poor performance in market. Therefore it is suggested to the management team of NBBL to improve their performance.
- To maintain the confidence of shareholders, depositors and all customers' banks should be able to increase its profit by properly utilizing its funds. On average basis, NBBL had higher profit, but in some year it bear loss and very low level of profit. So, NBBL should increase its profitability in uniform and consistent manner in future.
- It is recommended to both banks to expand its services and branches covering rural areas. The savings from rural communities were neglected. This will help the people of rural areas to enjoy the benefits of banks and on the other hand saving from them will be beneficial to banks.
- NRB has given directives to financial institution to invest their certain percentage of investment to deprived and priority sectors. So, both banks are recommended to strictly follow the directives issued by NRB and should make investments on public utilities sector like health, sanitation, education etc.

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**Appendix-1. Five years' financial highlights of the NBBL (FY 2007/08 to 2011/12)**

		(Rs. in Thousands)				
S.N.	Particulars	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12
<b>1</b>	<b>Total capitals and liabilities</b>	<b>9391027</b>	<b>11964553</b>	<b>12531043</b>	<b>14004760</b>	<b>20169757</b>
1.1	Paid up capital	744126	1860315	1860315	2009396	2009396
1.2	Reserves and surplus	(2935574)	(748073)	273258	241779	944571
1.3	Debenture and bonds	-	-	-	-	-
1.4	Borrowings	30000	-	-	-	-
1.5	Total deposits	10883653	9997697	10052182	11511678	16952703
1.6	Income tax liability	-	6729	-	-	-
1.7	Other liabilities	668822	847884	345288	241908	263087
<b>2</b>	<b>Total assets</b>	<b>9391027</b>	<b>11964553</b>	<b>12531043</b>	<b>14004760</b>	<b>20169757</b>
2.1	Cash and bank balance	1922848	2571417	2058299	2464926	5010192
2.2	Money at call and short notice	1000	1000	-	-	-
2.3	Investments	1389901	2222432	2112751	2378269	3868950
2.4	Total loan and advance	9469632	9130506	9119093	10237455	10943161
2.5	Total loan loss provision	(4011823)	(2425563)	(1309549)	(1784717)	(613085)
2.6	Fixed assets	147748	139199	155328	307504	227990
2.7	Non banking assets	37087	-	-	-	-
2.8	Other assets	434634	325562	395121	401323	732548
<b>3</b>	<b>Profit and loss account</b>					
3.1	Interest income	828276	1337112	1167628	1436676	1529045
3.2	Interest expenses	397997	409776	476788	745222	1037815
<b>A</b>	<b>Net interest income</b>	<b>430279</b>	<b>927336</b>	<b>690840</b>	<b>691455</b>	<b>491230</b>
3.3	Fees, commission and discount	105300	122393	145797	159036	198340
3.4	Other operating income	190768	125074	50496	52865	53564
3.5	Foreign exchange gain/loss(Net)	90111	80548	49840	59726	63717
<b>B</b>	<b>Total operating income</b>	<b>816458</b>	<b>1255352</b>	<b>936973</b>	<b>963081</b>	<b>806851</b>
3.6	Staff expense	140838	138424	146642	181098	201430
3.7	Other operating expenses	121863	123307	128766	140403	165457
<b>C</b>	<b>Operating profit before provision</b>	<b>553757</b>	<b>993621</b>	<b>661566</b>	<b>641580</b>	<b>439964</b>
3.8	Provision for possible losses/NBA	379304	283319	148390	217768	70965
<b>D</b>	<b>Operating profit</b>	<b>174453</b>	<b>710301</b>	<b>513177</b>	<b>423812</b>	<b>368999</b>

3.9	Non operating income/expense(net)	18239	22934	18385	24444	74580
3.10	Write back of provision for possible losses	1343374	1905860	1318049	323614	1364306
<b>E</b>	<b>Profit from regular activities</b>	<b>1536066</b>	<b>2639095</b>	<b>1849610</b>	<b>771870</b>	<b>1807885</b>
3.11	Extraordinary income/expenses(net)	(697887)	(14990)	(523482)	(714889)	(775179)
<b>F</b>	<b>Profit before bonus and taxes</b>	<b>838179</b>	<b>2624106</b>	<b>1326128</b>	<b>56981</b>	<b>1032706</b>
3.12	Provision for staff bonus	(76198)	(238555)	(120557)	(5180)	(93882)
3.13	Provision for tax	(165494)	(227446)	(184190)	(189959)	(129354)
<b>G</b>	<b>Net profit/loss</b>	<b>596487</b>	<b>2158104</b>	<b>1021381</b>	<b>(138158)</b>	<b>809470</b>

**Appendix-2. Five years' financial highlights of the NSBI (FY 2007/08 to 2011/12)**

Indicators	(Rs. in Lakh)				
	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12
<b>Profitability</b>					
Interest income	9705.13	14604.46	22697.04	30999.08	37694.83
Interest expenditure	4549.18	8247.00	14436.94	20960.38	27707.99
Fee, commission and exchange income	1029.07	1401.31	2020.20	3066.92	3565
Other operating income	195.57	527.9	787.97	951.73	1417.62
Other operating expenses	1523.80	2239.66	3438.50	4297.43	4561.26
Operating profit	3533.25	4423.66	5702.90	6742.52	6736.45
Profit before tax	3480.34	4430.32	5383.62	6534.69	6866.54
Profit after tax	2477.71	3163.73	3917.42	4645.65	4801.05
<b>Total capital and liabilities</b>	<b>171874.46</b>	<b>301664.40</b>	<b>380476.79</b>	<b>460882.33</b>	<b>580597.07</b>
Share capital	8745.28	12243.39	18613.24	21029.66	23557.39
Reserves	5401.17	4882.68	5892.30	7763.27	8417.20
Liabilities					
Deposits accounts	137153.95	279572.21	348964.24	424154.43	533372.64
Debenture	2000.00	2000.00	2000.00	2000.00	6000.00
Bills payable	751.15	629.47	723.68	806.85	786.16
Other liabilities	17882.91	2336.65	4283.33	5128.12	8463.68
<b>Total Assets</b>	<b>171874.46</b>	<b>301664.40</b>	<b>380476.79</b>	<b>460882.33</b>	<b>580597.07</b>
Advances(net)	121136.98	151317.48	174805.45	213657.71	261420.94
Investments	30888.87	132861.82	163056.33	189110.22	244634.52
Liquid assets	16469.74	11764.40	34412.61	48778.26	56866.32
Net fixed assets	1202.22	2535.81	4182.45	4170.03	7159.21
Other assets	2176.65	3184.89	4019.95	5166.11	10516.08

**Appendix – 3. Calculation of Correlation analysis between Total Deposit (Independent) and Loan and Advance (Dependent) of NBBL**

Year	Total Deposits(X)	X <sup>2</sup>	Loan and Advances(Y)	Y <sup>2</sup>	XY
2007/8	108836.53	11845390262	54578.09	2978767908	5940089930
2008/9	99976.97	9995394530	67049.43	4495626063	6703398852
2009/10	100521.82	10104636296	78095.44	6098897749	7850295763
2010/11	115116.78	13251873038	84527.38	7144877970	9730519807
2011/12	169527.03	28739413901	103300.76	10671047017	17512271040
	<b>∑ X =5939 79.13</b>	<b>(∑ X)<sup>2</sup> =73936 708027</b>	<b>∑ Y =387551.1</b>	<b>(∑ Y)<sup>2</sup> = 31389216706</b>	<b>∑ XY = 47736575391</b>

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

$$r = 0.7951$$

Coefficient of determination ( $r^2$ ) =  $(0.7951)^2 = 0.6322$

Probable error of correlation coefficient PE(r)

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

$$P.E.(r) = 0.1109$$

$$6P.E.(r) = 6 * 0.1109$$

$$= 0.6656$$

**Appendix – 4. Calculation of Correlation analysis between Total Deposit (Independent) and Loan and Advance (Dependent) of NSBI**

Year	Total Deposits(X)	X <sup>2</sup>	Loan and Advances(Y)	Y <sup>2</sup>	XY
2007/8	137153.95	18811206001	121136.98	14674167923.52	16614415298.07
2008/9	279572.21	78160620604	151317.48	22896979753.55	42304162295.23
2009/10	348964.24	121776040798.78	174805.45	30556945349.70	61000851007.11
2010/11	424154.43	179906980488.63	213657.71	45649617042.44	90623864200.16
2011/12	533372.64	284486373100.57	261420.94	68340907870.48	107432418519.00
	$\sum X = 17232$ 17.47	$(\sum X)^2 = 683141220$ 992.86	$\sum Y = 922338.56$	$(\sum Y)^2 =$ 182118617939.70	$\sum XY =$ 317975711319.57

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

$$r = 0.9818$$

Coefficient of determination ( $r^2$ ) =  $(0.9818)^2 = 0.9640$

Probable error of correlation coefficient PE(r)

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

$$P.E.(r) = 0.0108$$

$$6P.E.(r) = 6 * 0.0108$$

$$= 0.0651$$

**Appendix – 5. Calculation of Correlation analysis between Net profit (Dependent) and Total Deposit (Independent) of NBBL**

Year	Total Deposits(X)	X <sup>2</sup>	Net Profit(Y)	Y <sup>2</sup>	XY
2007/8	108836.53	11845390262	5964.87	35579674.12	649195752.7
2008/9	99976.97	9995394530	21581.04	465741287.5	2157606989
2009/10	100521.82	10104636296	10213.81	104321914.7	1026710770
2010/11	115116.78	13251873038	-1381.58	1908763.296	-159043040.9
2011/12	169527.03	28739413901	8094.7	65524168.09	1372270450
	<b>∑ X =593979.13</b>	<b>(∑ X)<sup>2</sup> = 73936708027</b>	<b>∑ Y =44472.84</b>	<b>(∑ Y)<sup>2</sup> = 673075807.7</b>	<b>∑ XY = 5046740921</b>

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

$$r = 0.2443$$

Coefficient of determination ( $r^2$ ) =  $(-0.2443)^2 = 0.0597$

Probable error of correlation coefficient PE(r)

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

$$P.E.(r) = 0.2836$$

$$6P.E.(r) = 6 * 0.2836$$

$$= 1.7018$$

**Appendix – 6. Calculation of Correlation analysis between Net profit (Dependent) and Total Deposit (Independent) of NSBI**

Year	Total Deposits(X)	X <sup>2</sup>	Net Profit(Y)	Y <sup>2</sup>	XY
2007/8	137153.95	18811206000.60	2477.71	6139046.844	339827713.5
2008/9	279572.21	78160620604.28	3163.73	10009187.51	884490987.9
2009/10	348964.24	121776040798.78	3917.42	15346179.46	1367039493
2010/11	424154.43	179906980488.63	4645.65	21582063.92	1970473028
2011/12	533372.64	284486373100.57	4801.05	23050081.1	2560748713
	$\sum X = 1723217.47$	$(\sum X)^2 = 683141220992.86$	$\sum Y = 19005.56$	$(\sum Y)^2 = 76126558.84$	7122579935

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

$$r = 0.9722$$

Coefficient of determination ( $r^2$ ) =  $(0.9722)^2 = 0.9453$

Probable error of correlation coefficient PE(r)

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

$$P.E.(r) = 0.0165$$

$$6P.E.(r) = 6 * 0.0165$$

$$= 0.0990$$

**Appendix – 7. Calculation of Correlation analysis between Interest payment (Dependent) and EBIT (Independent) of NBBL**

Year	EBIT(X)	X <sup>2</sup>	Interest payment (Y)	Y <sup>2</sup>	XY
2007/8	5724.5	32769900.25	3979.97	15840161.2	22783338.27
2008/9	11200.77	125457248.6	4097.76	16791637.02	45898067.28
2009/10	9899.65	98003070.12	4767.88	22732679.69	47200343.24
2010/11	9629.9	92734974.01	7452.22	55535582.93	71764133.38
2011/12	14060.14	197687536.8	10378.15	107705997.4	145918241.9
	$\Sigma X = 50514.96$	$(\Sigma X)^2 = 546652729.8$	$\Sigma Y = 30675.98$	$(\Sigma Y)^2 = 218606058.3$	333564124.1

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

$$r = 0.7117$$

Coefficient of determination ( $r^2$ ) =  $(0.7117)^2 = 0.5066$

Probable error of correlation coefficient PE(r)

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

$$P.E.(r) = 0.1488$$

$$\begin{aligned} 6P.E.(r) &= 6 * 0.1488 \\ &= 0.8930 \end{aligned}$$

**Appendix – 8. Calculation of Correlation analysis between Interest payment (Dependent) and EBIT (Independent) of NSBI**

Year	EBIT(X)	X <sup>2</sup>	Interest payment (Y)	Y <sup>2</sup>	XY
2007/8	8029.52	64473191.43	4549.18	20695038.67	36527731.79
2008/9	12677.32	160714442.4	8247	68013009	104549858
2009/10	19820.56	392854598.7	14436.94	208425236.6	286148235.5
2010/11	27495.07	755978874.3	2096.38	4394809.104	57640114.85
2011/12	34574.53	1195398125	27707.99	767732709.8	957990731.5
	$\sum X = 102597$	$(\sum X)^2 = 2569419232$	$\sum Y = 57037.49$	$(\sum Y)^2 = 1069260803$	1442856672

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

$$r = 0.6181$$

Coefficient of determination ( $r^2$ ) =  $(0.6181)^2 = 0.3821$

Probable error of correlation coefficient PE(r)

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

$$P.E.(r) = 0.1863$$

$$6P.E.(r) = 6 * 0.1863$$

$$= 0.1183$$

**Appendix – 9. Calculation of least square trend value of Net Profit**

Year	X(Year 09/10)	X <sup>2</sup>	NBBL		NSBI	
			Y <sub>1</sub>	X Y <sub>1</sub>	Y <sub>2</sub>	XY <sub>2</sub>
2007/08	-2	4	5964.87	-11929.74	2477.71	-4955.42
2008/09	-1	1	21581.04	-21581.04	3163.73	-3163.73
2009/10	0	0	10213.81	0	3917.42	0
2010/11	1	1	-1381.58	-1381.58	4645.65	4645.65
2011/12	2	4	8094.7	16189.4	4801.05	9602.1
$\Sigma =$	0	10	44472.84	-18702.96	19005.56	6128.6

The model fitting to,  $Y = a + bX$

Where, Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

X = value of the independent variable i.e. e. time

The normal equations on fitting the trend equation are,

$$Y = Na + b \sum X,$$

$$\sum XY = a \sum X + b \sum X^2$$

Since  $\sum X = 0$ ,

$$a = \frac{\sum Y}{N}, \quad b = \frac{\sum XY}{\sum X^2}$$

For, NBBL  $a = 8894.56$   $b = -1870$ ,

$$Y = 8894.56 - 1870 * X$$

For, NSBI  $a = 3801.11$   $b = 612.8$

$$Y = 3801.11 + 612.8 * X$$

**Appendix – 10. Calculation of least square trend value of loan and advance**

Year	X (Year 2009/10)	X <sup>2</sup>	NBBL		NSBI	
			Y <sub>1</sub>	XY <sub>1</sub>	Y <sub>2</sub>	XY <sub>2</sub>
2007/08	-2	4	54578.09	-109156.18	121136.98	-242274
2008/09	-1	1	67049.43	-67049.43	151317.48	-151317.5
2009/10	0	0	78095.44	0	174805.45	0
2010/11	1	1	84527.38	84527.38	213657.71	213657.7
2011/12	2	4	103300.76	206601.52	261420.94	522841.9
$\Sigma =$	0	10	387551.1	114923.29	922338.56	342908.2

The model fitting to,  $Y = a + bX$

Where, Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

X = value of the independent variable i.e. e. time

The normal equations on fitting the trend equation are,

$$Y = Na + b \sum X,$$

$$\sum XY = a \sum X + b \sum X^2$$

Since  $\sum X = 0$ ,

$$a = \frac{\sum Y}{N}, \quad b = \frac{\sum XY}{\sum X^2}$$

NBBL      a = 77510.22                      b = 11492.32

$$Y = 77510.22 + 11492.32 * X$$

NSBI      a = 184467.71                      b = 34291

$$Y = 184467.71 + 34291 * X$$

**Appendix-1. Five years' financial highlights of the NBBL (FY 2007/08 to 2011/12)**

(Rs. in Thousands)

S.N.	Particulars	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12
<b>1</b>	<b>Total capitals and liabilities</b>	<b>9391027</b>	<b>11964553</b>	<b>12531043</b>	<b>14004760</b>	<b>20169757</b>
1.1	Paid up capital	744126	1860315	1860315	2009396	2009396
1.2	Reserves and surplus	(2935574)	(748073)	273258	241779	944571
1.3	Debenture and bonds	-	-	-	-	-
1.4	Borrowings	30000	-	-	-	-
1.5	Total deposits	10883653	9997697	10052182	11511678	16952703
1.6	Income tax liability	-	6729	-	-	-
1.7	Other liabilities	668822	847884	345288	241908	263087
<b>2</b>	<b>Total assets</b>	<b>9391027</b>	<b>11964553</b>	<b>12531043</b>	<b>14004760</b>	<b>20169757</b>
2.1	Cash and bank balance	1922848	2571417	2058299	2464926	5010192
2.2	Money at call and short notice	1000	1000	-	-	-
2.3	Investments	1389901	2222432	2112751	2378269	3868950
2.4	Total loan and advance	9469632	9130506	9119093	10237455	10943161
2.5	Total loan loss provision	(4011823)	(2425563)	(1309549)	(1784717)	(613085)
2.6	Fixed assets	147748	139199	155328	307504	227990
2.7	Non banking assets	37087	-	-	-	-
2.8	Other assets	434634	325562	395121	401323	732548
<b>3</b>	<b>Profit and loss account</b>					
3.1	Interest income	828276	1337112	1167628	1436676	1529045
3.2	Interest expenses	397997	409776	476788	745222	1037815
<b>A</b>	<b>Net interest income</b>	<b>430279</b>	<b>927336</b>	<b>690840</b>	<b>691455</b>	<b>491230</b>
3.3	Fees, commission and discount	105300	122393	145797	159036	198340
3.4	Other operating income	190768	125074	50496	52865	53564
3.5	Foreign exchange gain/loss(Net)	90111	80548	49840	59726	63717
<b>B</b>	<b>Total operating income</b>	<b>816458</b>	<b>1255352</b>	<b>936973</b>	<b>963081</b>	<b>806851</b>
3.6	Staff expense	140838	138424	146642	181098	201430
3.7	Other operating expenses	121863	123307	128766	140403	165457
<b>C</b>	<b>Operating profit before provision</b>	<b>553757</b>	<b>993621</b>	<b>661566</b>	<b>641580</b>	<b>439964</b>
3.8	Provision for possible losses/NBA	379304	283319	148390	217768	70965

<b>D</b>	<b>Operating profit</b>	<b>174453</b>	<b>710301</b>	<b>513177</b>	<b>423812</b>	<b>368999</b>
3.9	Non operating income/expense(net)	18239	22934	18385	24444	74580
3.10	Write back of provision for possible losses	1343374	1905860	1318049	323614	1364306
<b>E</b>	<b>Profit from regular activities</b>	<b>1536066</b>	<b>2639095</b>	<b>1849610</b>	<b>771870</b>	<b>1807885</b>
3.11	Extraordinary income/expenses(net)	(697887)	(14990)	(523482)	(714889)	(775179)
<b>F</b>	<b>Profit before bonus and taxes</b>	<b>838179</b>	<b>2624106</b>	<b>1326128</b>	<b>56981</b>	<b>1032706</b>
3.12	Provision for staff bonus	(76198)	(238555)	(120557)	(5180)	(93882)
3.13	Provision for tax	(165494)	(227446)	(184190)	(189959)	(129354)
<b>G</b>	<b>Net profit/loss</b>	<b>596487</b>	<b>2158104</b>	<b>1021381</b>	<b>(138158)</b>	<b>809470</b>

**Appendix-2. Five years' financial highlights of the NSBI (FY 2007/08 to 2011/12)**

<b>Indicators</b>	<b>(Rs. in Lakh)</b>				
	<b>FY 2007/08</b>	<b>FY 2008/09</b>	<b>FY 2009/10</b>	<b>FY 2010/11</b>	<b>FY 2011/12</b>
<b>Profitability</b>					
Interest income	9705.13	14604.46	22697.04	30999.08	37694.83
Interest expenditure	4549.18	8247.00	14436.94	20960.38	27707.99
Fee, commission and exchange income	1029.07	1401.31	2020.20	3066.92	3565
Other operating income	195.57	527.9	787.97	951.73	1417.62
Other operating expenses	1523.80	2239.66	3438.50	4297.43	4561.26
Operating profit	3533.25	4423.66	5702.90	6742.52	6736.45
Profit before tax	3480.34	4430.32	5383.62	6534.69	6866.54
Profit after tax	2477.71	3163.73	3917.42	4645.65	4801.05
<b>Total capital and liabilities</b>	<b>171874.46</b>	<b>301664.40</b>	<b>380476.79</b>	<b>460882.33</b>	<b>580597.07</b>
Share capital	8745.28	12243.39	18613.24	21029.66	23557.39
Reserves	5401.17	4882.68	5892.30	7763.27	8417.20
<b>Liabilities</b>					
Deposits accounts	137153.95	279572.21	348964.24	424154.43	533372.64
Debenture	2000.00	2000.00	2000.00	2000.00	6000.00
Bills payable	751.15	629.47	723.68	806.85	786.16
Other liabilities	17882.91	2336.65	4283.33	5128.12	8463.68
<b>Total Assets</b>	<b>171874.46</b>	<b>301664.40</b>	<b>380476.79</b>	<b>460882.33</b>	<b>580597.07</b>
Advances(net)	121136.98	151317.48	174805.45	213657.71	261420.94
Investments	30888.87	132861.82	163056.33	189110.22	244634.52
Liquid assets	16469.74	11764.40	34412.61	48778.26	56866.32
Net fixed assets	1202.22	2535.81	4182.45	4170.03	7159.21
Other assets	2176.65	3184.89	4019.95	5166.11	10516.08

**Appendix – 3. Calculation of Correlation analysis between Total Deposit (Independent) and Loan and Advance (Dependent) of NBBL**

Year	Total Deposits(X)	X <sup>2</sup>	Loan and Advances(Y)	Y <sup>2</sup>	XY
2007/8	108836.53	11845390262	54578.09	2978767908	5940089930
2008/9	99976.97	9995394530	67049.43	4495626063	6703398852
2009/10	100521.82	10104636296	78095.44	6098897749	7850295763
2010/11	115116.78	13251873038	84527.38	7144877970	9730519807
2011/12	169527.03	28739413901	103300.76	10671047017	17512271040
	<b>Σ X =5939 79.13</b>	<b>(Σ X)<sup>2</sup> =73936 708027</b>	<b>Σ Y =387551.1</b>	<b>(Σ Y)<sup>2</sup> = 31389216706</b>	<b>Σ XY = 47736575391</b>

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

$$r = 0.7951$$

Coefficient of determination ( $r^2$ ) =  $(0.7951)^2 = 0.6322$

Probable error of correlation coefficient PE(r)

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

$$P.E.(r) = 0.1109$$

$$6P.E.(r) = 6 * 0.1109$$

$$= 0.6656$$

**Appendix – 4. Calculation of Correlation analysis between Total Deposit (Independent) and Loan and Advance (Dependent) of NSBI**

Year	Total Deposits(X)	X <sup>2</sup>	Loan and Advances(Y)	Y <sup>2</sup>	XY
2007/8	137153.95	18811206001	121136.98	14674167923.52	16614415298.07
2008/9	279572.21	78160620604	151317.48	22896979753.55	42304162295.23
2009/10	348964.24	121776040798.78	174805.45	30556945349.70	61000851007.11
2010/11	424154.43	179906980488.63	213657.71	45649617042.44	90623864200.16
2011/12	533372.64	284486373100.57	261420.94	68340907870.48	107432418519.00
	$\sum X = 1723217.47$	$(\sum X)^2 = 683141220992.86$	$\sum Y = 922338.56$	$(\sum Y)^2 = 182118617939.70$	$\sum XY = 317975711319.57$

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

$$r = 0.9818$$

Coefficient of determination ( $r^2$ ) =  $(0.9818)^2 = 0.9640$

Probable error of correlation coefficient PE(r)

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

$$P.E.(r) = 0.0108$$

$$6P.E.(r) = 6 * 0.0108$$

$$= 0.0651$$

**Appendix – 5. Calculation of Correlation analysis between Net profit (Dependent) and Total Deposit (Independent) of NBBL**

Year	Total Deposits(X)	X <sup>2</sup>	Net Profit(Y)	Y <sup>2</sup>	XY
2007/8	108836.53	11845390262	5964.87	35579674.12	649195752.7
2008/9	99976.97	9995394530	21581.04	465741287.5	2157606989
2009/10	100521.82	10104636296	10213.81	104321914.7	1026710770
2010/11	115116.78	13251873038	-1381.58	1908763.296	-159043040.9
2011/12	169527.03	28739413901	8094.7	65524168.09	1372270450
	<b>Σ X =593979.13</b>	<b>(Σ X)<sup>2</sup> = 73936708027</b>	<b>Σ Y =44472.84</b>	<b>(Σ Y)<sup>2</sup> = 673075807.7</b>	<b>Σ XY = 5046740921</b>

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

$$r = 0.2443$$

Coefficient of determination ( $r^2$ ) =  $(-0.2443)^2 = 0.0597$

Probable error of correlation coefficient PE(r)

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

$$P.E.(r) = 0.2836$$

$$6P.E.(r) = 6 * 0.2836$$

$$= 1.7018$$

**Appendix – 6. Calculation of Correlation analysis between Net profit (Dependent) and Total Deposit (Independent) of NSBI**

Year	Total Deposits(X)	X <sup>2</sup>	Net Profit(Y)	Y <sup>2</sup>	XY
2007/8	137153.95	18811206000.60	2477.71	6139046.844	339827713.5
2008/9	279572.21	78160620604.28	3163.73	10009187.51	884490987.9
2009/10	348964.24	121776040798.78	3917.42	15346179.46	1367039493
2010/11	424154.43	179906980488.63	4645.65	21582063.92	1970473028
2011/12	533372.64	284486373100.57	4801.05	23050081.1	2560748713
	$\sum X = 1723217.47$	$(\sum X)^2 = 683141220992.86$	$\sum Y = 19005.56$	$(\sum Y)^2 = 76126558.84$	7122579935

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

$$r = 0.9722$$

Coefficient of determination ( $r^2$ ) =  $(0.9722)^2 = 0.9453$

Probable error of correlation coefficient PE(r)

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

$$P.E.(r) = 0.0165$$

$$6P.E.(r) = 6 * 0.0165$$

$$= 0.0990$$

**Appendix – 7. Calculation of Correlation analysis between Interest payment (Dependent) and EBIT (Independent) of NBBL**

Year	EBIT(X)	X <sup>2</sup>	Interest payment (Y)	Y <sup>2</sup>	XY
2007/8	5724.5	32769900.25	3979.97	15840161.2	22783338.27
2008/9	11200.77	125457248.6	4097.76	16791637.02	45898067.28
2009/10	9899.65	98003070.12	4767.88	22732679.69	47200343.24
2010/11	9629.9	92734974.01	7452.22	55535582.93	71764133.38
2011/12	14060.14	197687536.8	10378.15	107705997.4	145918241.9
	$\sum X = 50514.96$	$(\sum X)^2 = 546652729.8$	$\sum Y = 30675.98$	$(\sum Y)^2 = 218606058.3$	333564124.1

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

$$r = 0.7117$$

Coefficient of determination ( $r^2$ ) =  $(0.7117)^2 = 0.5066$

Probable error of correlation coefficient PE(r)

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

$$P.E.(r) = 0.1488$$

$$\begin{aligned} 6P.E.(r) &= 6 * 0.1488 \\ &= 0.8930 \end{aligned}$$

**Appendix – 8. Calculation of Correlation analysis between Interest payment (Dependent) and EBIT (Independent) of NSBI**

Year	EBIT(X)	X <sup>2</sup>	Interest payment (Y)	Y <sup>2</sup>	XY
2007/8	8029.52	64473191.43	4549.18	20695038.67	36527731.79
2008/9	12677.32	160714442.4	8247	68013009	104549858
2009/10	19820.56	392854598.7	14436.94	208425236.6	286148235.5
2010/11	27495.07	755978874.3	2096.38	4394809.104	57640114.85
2011/12	34574.53	1195398125	27707.99	767732709.8	957990731.5
	$\sum X = 102597$	$(\sum X)^2 = 2569419232$	$\sum Y = 57037.49$	$(\sum Y)^2 = 1069260803$	1442856672

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

$$r = 0.6181$$

Coefficient of determination ( $r^2$ ) =  $(0.6181)^2 = 0.3821$

Probable error of correlation coefficient PE(r)

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

Where,

$$\frac{1 - r^2}{\sqrt{n}} = \text{Standard Error}$$

$$P.E.(r) = 0.1863$$

$$6P.E.(r) = 6 * 0.1863$$

$$= 0.1183$$



**Appendix – 10. Calculation of least square trend value of loan and advance**

Year	X (Year 2009/10)	X <sup>2</sup>	NBBL		NSBI	
			Y <sub>1</sub>	XY <sub>1</sub>	Y <sub>2</sub>	XY <sub>2</sub>
2007/08	-2	4	54578.09	-109156.18	121136.98	-242274
2008/09	-1	1	67049.43	-67049.43	151317.48	-151317.5
2009/10	0	0	78095.44	0	174805.45	0
2010/11	1	1	84527.38	84527.38	213657.71	213657.7
2011/12	2	4	103300.76	206601.52	261420.94	522841.9
$\sum =$	0	10	387551.1	114923.29	922338.56	342908.2

The model fitting to,  $Y = a + bX$

Where, Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

X = value of the independent variable i.e. e. time

The normal equations on fitting the trend equation are,

$$Y = Na + b\sum X,$$

$$\sum XY = a \sum X + b\sum X^2$$

Since  $\sum X = 0$ ,

$$a = \frac{\sum Y}{N}, \quad b = \frac{\sum XY}{\sum X^2}$$

NBBL      a = 77510.22                      b = 11492.32

$$Y = 77510.22 + 11492.32 * X$$

NSBI      a = 184467.71                      b = 34291

$$Y = 184467.71 + 34291 * X$$