

CHAPTER–ONE

INTRODUCTION

1.1. Background

The level of overall development of a country; be it social, cultural or political or whatsoever; is characterized by the level of economic growth in it and the crux of the economic growth lies in the development of a well-managed banking system. As such, banks can be considered as the backbone of a country's overall development. In short, banks are extremely necessary for the healthy and prompt progress of a country, its citizens and the societies it has. By creating and mobilizing the capital and rendering various financial services, banks are contributing to the establishment and development of so many small and large-scale industries and domestic as well as international trade and commerce. Banks provide an effective payment and credit system, which facilitates the channeling of funds from the surplus spending units (savers) to the deficit spending units (investors) in the economy¹. By accepting deposits, the banks promote the habit of thrift and savings among the people. These savings of the people later result in capital formation, which is the basis of economic progress in the country. Moreover, banks also encourage industrial innovations and business expansions through the funds provided by them to the entrepreneurs. Banks exercise considerable influence on the level of economic activity through their ability to create money in the economy. Banks perform an indispensable task of intermediating between the deficit spending individuals or institutions and the surplus spending individuals or institutions in order to raise funds and then loaning those funds to deficit spending individuals or institutions.

In addition, another contribution banks make is their willingness to accept risky ventures such as loans from borrowers, while issuing low risk securities to their depositors. The various utility functions performed by banks are of great economic significance for the economy, which can influence the course and direction of economic activity within the economy. They pool together the savings of the community and arrange for their productive use by providing short

¹ Garhal, S., "Commercial Banking & Economic Development", Pointer Publishers, Jaipur, 2007

as well as long term loans in different forms necessary for the trade and commerce. They discharge various functions on behalf of their customers and in turn they are paid for their services². Commercial banks undertake the payment of subscriptions, insurance premium, rent, etc., and collection of cheques, bills, salaries, pensions, dividends, interest, etc. on behalf of their customers and in turn charge a small amount of commission for these services. In addition, they purchase and discount bills of exchange, promissory notes and exchange foreign currency. Furthermore, commercial banks also arrange to remit money from a place to another at very low prices by means of cheques, drafts, SWIFT, etc. They buy and sell shares and securities on behalf of customers, act as the custodian of the valuables such as jewelry, documents of title to goods, securities etc belonging to the customers. In fact the economic development of a country is not possible without a sound banking system.

1.2. Origin and Historical Growth of Banking

Banking is of ancient origin, though little is known about it before the middle Ages. The origin of commercial banking can be traceable in the ancient era of Greeks and Mesopotamians as well as Romans, when the practice of storing precious metals and coins at safe places and loaning out money to the people on interest was prevalent. The traces of rudimentary banking are found in the Chaldean Egyptian and Phoenician history³. According to Alfred Marshall, "In Greece, the temples of Delphi and other safer places acted as store houses for the precious metals before the days of coinage, and private purposes at interest, though they paid none themselves. Private money changers began with the task of reducing many metallic currencies, more or less exactly, to a common unit of value, and went on to accept money on deposit at interest and to lend it out at higher interest permitting meanwhile drafts to be drawn on them".

Modern banking made its first appearance in medieval Italy, despite strong Christian prohibitions against Usury (the charging of interest) according to the Canon Law. Florence, Genoa, and Lucca became

² Commercial Bank Act, 2031 B.S.

³Vaidya, S., Banking Management, Monitor Nepal, 2008, Pg. 18

the centres of finance and trade in Twelfth and Thirteenth Centuries⁴. The first bank called the 'Bank of Venice' was established in Venice, Italy in 1157 AD to finance the monarch in his wars. Following its establishment, the banks established were the Bank of Barcelona and the Bank of Genoa in 1401 and 1407 respectively. Banking slowly spread to the rest of Europe, and by the late Thirteenth Century, in Barcelona, even the clergy was engaged in banking. The Germans and Swiss rose to pre-eminence in the 1480s. The Bank of Amsterdam was the great bank of the 17th Century and it enjoyed a prestigious position, no less important than is held currently by the Bank of England, for a long time in the sphere of international commerce.

While banking arose far early and rapidly in some countries than in other, it was only in the 19th century that the modern joint stock commercial banking system developed in the leading countries of the world. When colonies were established in North and South America old banking services were transferred to the New World.

In England, banking had its origin with the London goldsmiths who, in the 17th Century, began to accept deposits from merchants and others for safe keeping of money and other valuables. Crude money lending and money changing were present during the reign of Elizabeth I (1533 AD -1603 AD), and the practice developed whereby merchants would deposit money (coins) in the Tower of London, which served as the British mint. In 1640, Charles I expropriated the sum then on deposit (approximately £ 200,000). Having learned from this loss, the merchants decided to seek a depository free from the danger of royal confiscation. A natural place was the strong boxes owned by goldsmiths, and these businesses soon commenced the practice of accepting deposits for which they gave a receipt payable to the specific order of the depositor or the bearer. As these receipts (or goldsmith notes) (i.e. claims against deposits) were negotiable, they passed from hand to hand in exchange for goods and services, and became a medium of exchange and a means of payment. From time to time they would be presented for conversion into coin. This first innovation was the forerunner of the bank note or banker's currency⁵.

⁴ Ibid

⁵ Makinen, G. E., "Money Banking and Economic Activity", Academic Press, 1991, Pg.101

Shortly thereafter, as early as 1680, the practice developed whereby the depositor could write a note requesting that a sum of money be paid to a third party or to the bearer. This innovation was the forerunner of the modern check, which is merely an order to a bank requesting that a deposit be transferred to a third person or bearer. The next stage in the development of banking arises when the goldsmith becomes a money-lender⁶. This development was based on discovery or realization of the goldsmiths that it was not necessary to maintain 100 percent reserve against deposit liabilities held with them as it was unlikely that all depositors would ask for their deposits on the same day. The goldsmiths soon realized that, on average, daily withdrawals were equal to daily deposits and only a contingency reserve was required for the periods when withdrawals exceeded deposits. After keeping the contingency reserve, the goldsmiths found it feasible to loan out the remaining deposits by charging interest. Fractional reserve banking must have developed shortly after the goldsmiths entered the banking business, because periodically, they computed balance sheets, or as they called it "casting up ye shop". In this way, the goldsmith-money lender became a banker who started performing the two major functions of a bank, i.e. receiving deposits and advancing loans.

The concept of modern commercial bank came into existence by the emergence of Bank of England in 1694 with a capital of £ 1.2 million by a group of wealthy London merchants and financiers. Since, at that time, there was no concept of joint stock company it was necessary to obtain a special charter from the crown to pool their money in common venture. King William III was too pleased to grant a royal charter to Bank of England, because in return a capital subscribed of £ 1.2 million was lent to him to finance his war against France. The charter also gave the new bank the right to issue notes, payable on demand, upto the amount of the loan to the King.

In spite of the establishment of Bank of England in 1694, the development of modern commercial banking institutions had to wait for another century and four decades until the passage of Banking Act of 1833 which provided freedom for the establishment of joint stock banks. While banking arose far early and rapidly in some

⁶ Paul, R. R., "Money Banking and International Trade", Kalyani Publishers, 2006, Pg 5-B

countries than in other, it was only in the 19th century that the modern joint stock commercial banking system developed in the leading countries of the world. When colonies were established in North and South America old banking services were transferred to the New World.

1.3. Evolution of Banking in Nepal

The development of modern banks in Nepal does not have as old history as the developed countries have got. Even though there are mentions of lending and other banking activities in the ancient books "Manusmriti" and "Kautilya's Economics". Found evidences have proved that in the Seventh century King Guna Kamdeva had collected loans from the people to rehabilitate the Kathmandu valley. According to ancient "Vanshawali", during the last decade of Eighth century, Shankhadhar, a local merchant from Kathmandu started the Nepal Era after freeing the people by paying off their loans and liabilities. By this instance, it can be understood that there might have the transaction of money depositing and lending. In Fourteenth century, the ruler of the then Kathmandu - Jaisthiti Malla segregated the local domiciles into 64 different classes according to professions they had undertaken. Tankadhari was one of those classes who used to deal in coins and precious metals such as gold. These Tankadharis were said to have carried out the borrowings and lending on money (coins). Hence, Tankadharis can be regarded as the traditional bankers of Nepal. During the Rana Regime, the Rana Prime Minister Ranoddip Singh Rana established a state-owned lending institution called 'Tejarath Adda', which would provide financial assistance in the form of loans to the government employees against their personal guarantee (Dhan Jamani) and deduction of a certain amount of their salary as instalment charging 5% interest. Later, this institute started providing loans to the general people against pledge of precious and valuable materials like gold, silver etc. In the overall development of the banking system in Nepal, the Tejarath Adda may be regarded as the father of modern banking institution and for a quite long time it tendered a good service to government employees as well as to the general public. After the establishment of Tejarath Adda, its popularity grew up which resulted in increase of its branches in several parts of the country in later years. In addition to that, there were money-

lenders, scattered in different parts of the country who also carried out the transaction of lending of money and usury (i.e. practice of lending of money at excessively high rates of interest).

Though Nepal had rudimentary forms of banking as early as Seventh century, the history of modern banks in Nepal began only after when the first organized and modern bank - Nepal Bank Ltd. established in 1937 as a semi-government organization with an authorized capital, issued capital and paid up capital of Rs. 1 crore, Rs. 25 lacs and Rs. 8.45 lacs respectively. Before that in-organized money market was the only source of financing for investors in Nepal. Lack of economic development programs in those days confined the services of Nepal Bank Ltd., in accepting deposits from the public and financing them trade transactions. Later, the Nepal Rastra Bank was established in 1955, which has helped to make banking system more systematic and dynamic during that time. As the time passed, the Rastriya Banijya Bank established in 1966 in order to play a major role not only in domestic banking but also in the foreign trade.

To encourage healthy competition in the Nepalese financial sector government introduced financial sector reforms policy in 1980, which allowed the entry of foreign banks in the form of joint venture bank in Nepal. There are several joint venture banks operating in Nepal that aim at contributing to trade and commercial sector of the nation. The commercial banks including joint venture banks operating in Nepal are altogether 30 in number. Today Nepal can take legitimate pride in the remarkable growth and progress in the banking industry.

1.4. Concept of Bank

Banks are among the most important financial institutions in the economy. Banks are those institutions, which perform the indispensable task of intermediating between two individuals and institutions in order to raise funds and then loaning those funds to deficit spending individuals and institutions.

There is no unanimity among the economists about the origin of word 'banking'. Some of them insist that the term 'bank' derives from the Latin 'bancus', which refers to the bench on which the

banker would keep his money and his records. Some people trace the origin to the French word 'banque' and the Italian word 'banca' which means a bench for keeping, lending and exchanging of money or coins in the market place by moneylenders and moneychangers.

The bank operates in the modern and competitive business environment. So it is very difficult to illustrate any absolute definition of bank. Different economists have offered different definitions, such as:

According to Crowther, "The banker's business is to take the debts of other people to offer his own in exchange, and thereby create money."

Kent defines, "A bank is an organization whose principal operations and concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure."

Prof. Sayers has described, "Ordinary banking business consists of changing cash for bank deposits and bank deposits for cash; transferring bank deposits from one person or corporation to another; giving bank deposits in exchange for bills of exchange, government bonds, the secured or unsecured promises of businessmen to repay and so forth".

Therefore a bank is an institution, which accepts deposits from the public and in turn advances loans by creating credit. Therefore, it should be differentiated from other financial institutions, as they cannot create credit though they accept deposits. According to US Law, "any institution offering deposits subject to withdrawal on demand and making loans of a commercial or business nature is a bank".

Therefore summarizing the above, banks are those financial institutions that offer the widest range of financial services - especially credit, savings and payment services - and perform the widest range of financial functions of any business firm in the economy. The multiplicity of bank services and functions has led to banks being labeled "financial supermarkets" and to such familiar advertising slogans as Your Bank - a Full service Financial Institution.

1.5. Concept of Commercial Bank

More often than not, banks and commercial banks are interpreted as being synonym of each other but in reality they are two different areas of study. Commercial bank is one of the various types of bank and would need a separate identity before one should go any further on study of performance of commercial banks.

There are several types of banks like commercial bank, central bank, industrial bank, agricultural bank, rural development bank, savings bank, exchange bank, universal bank, co-operative bank, mutual fund, housing bank, equipment bank etc. Commercial banks contribute significantly in the financial system of a country. They pool together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand or on short notice. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash credits and overdrafts. Apart from financing, the role of commercial banks, in modern time, is more vital in (a) agency services, and (b) general utility services. Under agency services, a commercial bank performs a number of activities on behalf of its customers. A commercial bank undertakes the payment of subscriptions, insurance premium, rent etc. and collection of cheques, bills, salaries, pensions, dividends, interest etc. on behalf of the customers. In addition, it undertakes to buy and sell securities on behalf of its customers. It also arranges to remit money from one place to another by means of cheques, drafts, T.T., SWIFT, etc. Apart from agency services, the commercial bank also renders some useful services known as general utility services which include safekeeping of valuables, providing assistance in foreign trade, issuing credit instruments like letters of credit and travelers' cheques, acceptance bill of exchange, financial advising, offering security brokerage services, etc.

Commercial Bank Act, 2031 BS of Nepal has defined commercial bank as, "An organization which exchanges money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose".

The name commercial bank was first used to indicate that the loans extended were short-term loans to business, though loans later were extended to consumers, governments and other non-business institutions as well. In general, the assets of commercial banks tend to be more liquid and carry less risk than the assets held by other financial intermediaries.

1.6. Joint Venture Banks

By nature, Nepalese commercial banks can be classified into two categories viz. domestic commercial banks and commercial banks with foreign collaboration. The commercial banks with foreign collaboration are also called Joint Venture Banks. Joint venture is a general model for foreign direct investment. Joint venture means joining of forces between two and more enterprises for the purpose of carrying out a specific operation. Joint venture is the mode of trading through partnership among the nations and is also a form of negotiations between various groups of industries and traders. If one talks about joint venture, there must be at least two parties and concepts of complementary and synergy. The joint venture concept has become more acceptable and popular than other concepts these days. Hence banks operating in the form of joint venture are known as Joint Venture Banks (JVBs). In common parlance, JVB in Nepal refer to foreign joint venture banks in which foreign parent banks purchase certain percentage of share (not exceeding to 50%), apply their international management and network.

In Nepal, to encourage joint venture in banking sector three major reforms were carried out in 1980. The reforms include allowing the foreign banks to operate as joint venture, lifting of control on interest rate and introduction of the auctioning of government securities. The government's policy of allowing foreign JVB to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their banking capacity through competition, efficiency, modernization, mechanization via computerization and prompt customer services.

Joint Venture Banks are registered in Nepal under Company Act 2021BS and operated under the Commercial Bank Act 2031. They have joint venture between Nepalese investors and their parent

banks. Financial and non-financial institutions as well as private investors have shared the domestic portion of investment.

At present, there are various JVBs in Nepal and the researcher has attempted to take only two i.e. Nepal SBI Bank Ltd. and Everest Bank Ltd. for the purpose of the research study.

1.6.1. Nepal SBI Bank Ltd.

Nepal SBI Bank Ltd. (NSBL) is the first Nepal-Indo joint venture bank in the country. Sponsored by three institutional promoters, namely, State Bank of India, Karmachari Sanchaya Kosh (Employees Provident Fund) and Agricultural Development Bank through a Memorandum of Undertaking signed on the 17th July, 1992, NSBL became operational on the 8th July, 1993. The Bank was registered on 2050/1/16 (28.04.1993) by the Department of Industry, HMG/N under the Company Act 2021 and Commercial Bank Act 2031. The Bank, thereafter, received Certificate of Commencement of business on the 30th June, 1993 and the License from Nepal Rastra Bank on the 6th July, 1993. NSBL, having its formal inauguration on 7th July, 1993, commenced its operations on 2050/3/24 (8th July, 1993). As per Articles and Memorandum of Association of the Bank, the capital structure of the Bank (before issue of bonus shares and right issues) is as under:

(i)	Authorised Capital	2,400,000 shares of Rs. 100/- each	Rs. 240,000,000/-
	Issued Capital	1,200,000 shares of Rs. 100/- each	Rs. 120,000,000/-
	Paid-up Capital		Rs. 119,946,000/-
(ii)	Shareholding Pattern:		
a.	State Bank of India & its 4 Nominees	50%	600,000 shares
b.	Karmachari Sanchaya Kosh (EPF)	15%	180,000 shares
c.	Agricultural Development Bank	5%	60,000 shares
d.	General Public of Nepal	30%	360,000 shares

1.6.2. Everest Bank Ltd.

Everest Bank Ltd. (EBL), a joint venture with Punjab National Bank, is the second Nepal-Indo tie-up in the banking sector of the country. With a view to encourage efficient banking service, which

is a pre-condition for the economic development, industrialization and growth of the country, EBL started its operation in October 1994. It entered into joint venture with Punjab National Bank of India in January 1997 only. Having an authorised capital of Rs. 240,000,000/- and Issued Capital of Rs.120,000,000/- EBL has a paid-up capital of Rs.118,422,000/- (before issue of bonus and right shares) and Punjab National Bank holds 20% equity stake in the Bank.

The Bank echoes about the quality of the advances it has. According to the Bank, the bank has maintained an international standard in lending the money and as reported, there is not a single account with high risk and all the due interest has been practically realised by the Bank. The Bank is endeavoring for mass banking with class services. It has targets for each manager to have certain number of additional accounts to its fold every month. The management is very much proactive at ground level.

1.7. Functions of Commercial Banks

A modern commercial bank performs a variety of functions and services. In this study, functions of commercial banks are grouped under five sub-headings like acceptance of deposits, advancing of loans, agency functions, purchase and sale of foreign exchange, and creation of credit. The fundamental functions, performed by modern commercial banks are discussed below:

i. Acceptance of Deposits

The bank accepts different types of deposits from the public:

- * Fixed Deposit - Money in this account is accepted for a fixed period and can not be withdrawn before the expiry of that period.
- * Current Deposit - The depositor can withdraw money from this account whenever he requires it, so it is also known as demand deposit. Generally the bank grants no interest on this account. On the contrary it can charge a small amount on the customer for the services by it.

- * Saving Deposit - Some restrictions are imposed on the depositor under this account. For example, he can withdraw only a specified sum of money in a day or week.
- * Recurring Deposit- The purpose of this account is to encourage regular savings by the public, particularly by the fixed income group. Generally money in these accounts is deposited in monthly installments for a fixed period and is repaid to the depositors along with interest on maturity.
- * Call Deposit - Call deposit incorporates the characteristics of current and saving deposit. Current in the sense, deposit is withdrawn at call and savings in a sense the deposit earns interest. Interest rate on call deposit is negotiable between the bank and the depositor and hence it is normally not announced in public.

ii. **Advancing of Loans:**

The various types of loans and advances are as follows:

- * Cash Credit - It is running loan account, normally granted against stock and receivables and is regulated by stock statements and drawing power wherein Credit/Debit transactions are permitted within the sanctioned limit. The level to which debit balance can be permitted is decided by Drawing Power or Limit whichever is lower. Cash credit is always granted against security of certain commodities, products or book debts/receivables.
- * Overdraft - The bank allows its respectable and reliable customers to overdraw their accounts through cheques. The

customers, however, pays interest to the bank on the amount overdrawn by them. An overdraft is granted against security of certain investments like Bonds/Fixed Deposits or is given without any security.

- * Demand/Term Loan- Demand Loan is a loan on repayment basis and is not a running account. Demand loan once granted will have a debit for the quantum sanctioned and thereafter only credits for repayment, normally personal in nature, are permitted. It is given with or without security. If given against security, the security will be in the form of fixed assets or fixed deposits and it will never be given against stocks.
- * Trust Receipt Loan- Trust Receipts Loans are sanctioned as a limit to be utilised against hypothecation of stocks imported under own letters of credit, normally for a period of 90 days. It is in the nature of demand loan, which is liquidated by 2-3 installments and the limit is not cancelled with liquidation but is reinstated. Hence this loan is more in the form of working capital loan.
- * Bill/Cheque Purchase
/Discounting - This is the best form of advance in terms of credit discipline as it is self-liquidating in nature. Any trader/industrialist receives payments by cheques or draws Hundis/Documents on the buyer. These cheques/bills of exchange are discounted by the banks and in turn the banks receive commission.

* Money at call &

Short Notice - These loans are generally made to other banks and financial institutions. Such loans are very short period loans and can be called back by the bank at a very short notice of one day to 14 days.

iii. Agency Functions of Banks:

The various agency services rendered by the banks are as follows:

- Transfer of funds - The banks help their customers in transferring funds from one place to another through an instrument known as bank draft.
- Collecting customers' funds - The bank collects the funds of its customers from other banks and credits them to their accounts.
- Purchase and sale of shares and securities for the customers - The bank buys and sells stocks and shares of private companies as well as government securities on behalf of its customers.
- Collecting dividends on the shares of the customers - The bank collects dividends as well as interest on the shares and debentures of the customers and credits them to their account.
- Payment of insurance premium - The bank pays premium to the insurance company on behalf of its customers.
- Trustee and Executor - The bank preserves the wills of the customers and executes them after their deaths.
- Acts as correspondent - The bank may also act as a correspondent, agent or a representative of its customers.

iv. Purchase and sale of Foreign Exchange:

The bank also carries on the business of buying and selling foreign currencies. Generally Exchange Bank does exchange

of foreign currencies in developed countries but due to lack of exchange banks in our country this function is done by commercial banks.

v. Creation of Credit:

Creation of credit is one of the most important functions of commercial banks. In order to earn profits, they accept deposits and advance loans by keeping a small cash in reserve for day-to-day transactions. When a bank advances a loan, it opens an account to draw money by cheque according to his needs. By granting a loan, the bank creates credit or deposit.

vi. General Utility Services:

Apart from agency services, the bank also renders some useful services known as general utility services. They can be explained as follows:

(a) Safekeeping of Valuables:

During the middle Ages, banks began the practice of holding gold, securities and other valuables owned by their customers in secure vaults. A modern bank also receives from its customers, valuables such as securities, jewelry, documents of title to goods, etc. for safe custody. The bank acts as the custodian of the valuables belonging to the customers. The bank receives them and returns back when demanded.

(b) Giving information about its customers:

Since the bank is closely acquainted with its customers, it can pass on reliable information in respect of their creditworthiness to their parties at other places.

(c) Assist in Foreign Trade:

The bank assists the traders engaged in foreign trade of the country. It discounts the bills of exchange drawn by Nepalese exporters on the foreign importers and enables the exporters to receive money in the home currency. Similarly it also accepts the bills drawn by the foreign exporters.

(d) Making venture capital loans:

Increasingly, banks have become active in financing the start-up costs of new companies, particularly in high-tech industries. Because of the added risk involved in such loans, this is generally through a venture capital firm that is a subsidiary of a bank holding company, and other investors are often brought in to share the risk.

(e) Financial Advising:

Their customers have long asked bankers for financial advice, particularly when it comes to the use of credit and the saving or investing of funds. Many banks offer a wide range of financial advisory services, from helping financial planning to consulting to business managers and checking on the credit standing of firms.

(f) Automated Teller Machine (ATM):

Nowadays, banks allow customers to deposit and draw money from their accounts through Automated Teller Machine.

(g) Anywhere Branch Banking Service (ABBS):

Banks offer account holder of a branch to avail some banking services from other branches, which is called Anywhere Branch Banking Service.

(h) Tele-banking:

Customers may acquire information like, account balance, exchange rate and may instruct banks to do various jobs over the phone/fax.

(i) Credit / Debit Card:

Banks issue credit cards to highly creditworthy customers. Banks also issue debit cards as well. This relieves the customers from carrying cash.

Beside these functions, a commercial bank also finance internal and foreign trade, collects statistics about money, banking, trade and commerce, and underwrite shares and debentures issued by private companies, offer some of the

banking services at the door of highly valued customers. It also guarantees to other parties on behalf of its customers to make payment up-to a specified sum of money to the beneficiary on demand in case of default by its customer. Further, a commercial bank also facilitates the trading between two parties who live in different countries through letters of credit and guarantees the seller of payment in case the buyer defaults to pay.

1.8. Importance of Commercial Bank:

Commercial banks play an important role to the development of the economy. Their operations stabilize the economic pulse of the economy. The size of their transactions mirrors the economic happenings in the country. For example, the mass failures of commercial banks during the 1930's reflected the phenomenon of severe global depression in the world. They are as indispensable component of accelerated growth in developing economy. In fact banks are the nerve center of economy and the barometer of economic prosperity.

Today, in developing economies, regional balance or reduction in regional disparities with regard to the levels and the rate of development amongst the different regions has all along been one of the principal objectives of planned economic development. In this objective commercial banks can play a very vital role. Firstly, by accepting deposits the banks promote the habit of thrift and saving among the people. These savings of the people later result in capital formation in the economy. Thus, by encouraging savings among the people, the banks promote capital formation, which is the basis of economic progress.

Secondly, business innovations, which are essential prerequisite for economic progress, can only take place when the banks provide adequate and cheap credit to the entrepreneurs.

Thirdly, the banks exercise considerable influence on the level of economic activity through their ability to create money in the economy. An underdeveloped economy is characterized by the

existence of a large non-monetized sector, particularly in the backward and inaccessible areas of the country. The existence of this non-monetized sector is a hindrance in the economic development of the country. The banks by opening branches in rural and backward areas can promote the process of monetization in the economy.

Fourthly, in a planned economy, banks make the entire planned productive process possible by providing funds for all types of production incorporated in the plan, regardless of whether the production is in public sector or in private sector, or whether the production is undertaken by one type of organisation or another.

Fifthly, through their lending policy, the banks can influence the course and direction of economic activity within the economy.

Sixthly, creating and developing entrepreneurship in developing and underdeveloped economies is highly recognised aspect of commercial banks.

Lastly, various utility functions performed by banks are of great economic significance for the economy. Such functions as cheap remittance of funds, accepting and discounting of bills of exchange, agency functions such as collection of dividends and interest on behalf of customers are very important for the working of the modern economy.

History tells that though the extent may vary from country to country, requirement of economic development of any country heavily relies upon its banking system. During its industrial development period, United Kingdom used bank credit to fulfil its working capital need. In 19th century, during the industrial revolution period of France and Germany, banks played an important role in industrial finance and hence the growth of the nation. Thus removal of banks from a modern economy is beyond imagination in the current context. Without them, the economy will drag behind to the age of barter system, where no intermediary, no financial assets, no liabilities of any kind, and hence no financial institutions existed. With the establishment of commercial banks, the flood-gates of development promising great hopes for people in life have been opened. In fact the development of a country is not possible without a sound commercial banking system.

1.9. Focus of the Study

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

The financial system in Nepal has evolved from a narrow, repressed regime till the eighties to a dynamic, expanding sector in the nineties. Indicators of the last decade show that the sector has grown both quantitatively and qualitatively. It could be observed that, at the same time, the financial market has become more competitive, dynamic and also complex.

The adoption of market economy has given birth to many new private commercial banks in the country as said earlier. So far all these banks are doing very well on the bourses. With the slow down in the economy, interest rates are falling down. All the banks are flushed with funds and looking for safe and profitable avenues to invest into.

The researcher has attempted to analyze the comparative performance of NSBL and EBL and their individual strength on the basis of their internal reports and published annual reports. For the purpose, different tools and techniques have been applied to judge the performance of these organizations, draw out the strength and weakness of the firms and try to prescribe remedial measures to improve the performance of these two banks.

1.10. Statement of the Problem

It has been said that Joint Venture Banks (JVBs) are now operationally more efficient, having superior performance while comparing with other commercial banks. In Nepal, JVB's have contributed significantly to the overall economic development of the country, yet they are not free from problems that need to be resolved for improving their performance. The real evaluations and

comparative evaluations do not seem to have been made to judge the performance of JVBs. Their profitability position and stock prices are generally considered to be yardsticks of their better performance but one can raise the question whether these are enough to reflect the overall performance of JVBs.

A comparative study of financial performance is a basic process which provides information about the profitability, liquidity position, earning capacity, efficiency in operation, credit worthiness, sources and uses of capital, financial achievement and status of the company. The information obtained can be used to measure the efficiency and effectiveness of the company in respect of deploying financial resources in the profitable manner.

The main problematic of the study is to inquire into the financial performance of the two banks, namely, Nepal SBI Bank Ltd. (NSBL) and Everest Bank Ltd. (EBL). This study has aimed to find out the answers to the following questions:

- (a) JVB's are considered to be operationally more efficient. But how far they are efficient?
- (b) Comparatively between NSBL and EBL, whose financial performance is better? Whether these two banks are able to meet their obligations or not?
- (c) Do they manage and utilize their assets efficiently?
- (d) Does the overall financial statement analysis and financial position indicate any special strength and weakness of these two banks?
- (e) Do they receive sufficient refund in their employed resources?
- (f) Are they maintaining sufficient liquidity position?

In this context, the main purpose of the study is analyzing comparatively the overall financial performance of NSBL and EBL in terms of profitability, liquidity, turnover, efficiency in operation as well as other related dimensions.

1.11. Objective of the Study

The core objective of this study is to analyze the financial performance of two Joint Venture Commercial Banks *viz.* Nepal SBI Bank Ltd. (NSBL) and Everest Bank Ltd. (EBL). The specific objectives of this research study are as follows:

- A. To evaluate the financial performance of NSBL and EBL in terms of
 - a. Profitability position
 - b. Liquidity position
 - c. Activity position
 - d. Debt and Equity ratio
 - e. Earning Per Share, Dividend Pay-out Ratio, Return on Equity, Price Earning Ratio etc.
- B. To compare the performance of two banks
- C. To provide meaningful suggestions and recommendations to these two banks for the improvement of their future performance.

1.12. Significance of the Study

The changes and challenges being witnessed in the financial sector have transformed the traditional business priorities and made it inevitable to redefine objectives, strategies and role of banks. The banking sector is gearing up to operate in a more competitive and market oriented system. It is modernising its operations and moving towards providing a range of financial products and services in an innovative and competitive way. In this context no bank can be regarded as competent and well managed unless they manage their resources well, generate adequate profits and provide a decent return to the shareholders.

Thus, at the core of pegging, the performance of a bank lies the twin parameters of profitability and productivity. Both productivity and profitability of banks have suffered because of directed lending, statutory preemption, existence of unviable bank branches, pattern of investment, human resource management policies, ever-rising operational costs, bank debts, inadequate automations, frauds, etc. Since there is no room for soft options to survive in the changed environment with status, goodwill, command and respectability, banks have to enhance their competitive capabilities and evolve independent strategic plans for increased profitability after carefully considering their strengths and weaknesses and advantages of opportunities available in order to facilitate the socio-economic upliftment of the country. For this regard, the banks should deliberately think as to how best they can tap the available potential, garner resources, deploy them judiciously and monitor them prudently to maximize income and reduce expenses to

achieve an optimum level of profit for the benefit of the stakeholders of the banks *viz.* Customers, shareholders and staffs.

Hence, the present study will be useful for both the insiders and outsiders of NSBL and EBL, that is, for managers, functionaries, shareholders, customers, public and students who would ever conduct research studies on performance of NSBL and EBL.

1.13 Assumptions and Limitations of the Study

This study has been carried out within certain assumptions and limitations which are as follows:

- (i) This study is based especially on secondary data like annual reports of the banks under review, journals, unpublished as well as published thesis works and other published articles and reports.
- (ii) The balance sheet, profit and loss account and accompanying notes have been basically considered as the subject matters of the study and they are assumed to be correct and true.
- (iii) The study is covering a seven-year period, i.e. from FY 2003/04 to FY 2009/10.
- (iv) The study is related to only two Joint Venture Banks, namely, Nepal SBI Bank Ltd. (NSBL) and Everest Bank Ltd. (EBL).
- (v) The study will be focusing on comparative financial performance of NSBL and EBL.

1.14. Organization of the Study

The study on comparative financial performance of NSBL and EBL has been divided into five chapters *viz.* Introduction, Literature Review, Research Methodology, Presentation, Analysis and Interpretation of Data, and Summary, Research Findings, Conclusion and Recommendation.

Chapter - 1: Introduction

The 'Introduction' chapter briefly explains about the commercial banks. It describes the introduction of research study, which explains the focus of the study, statement of problem, objective of the study, significance of the study and assumptions and limitations of the study.

Chapter - 2: Literature Review

In this second chapter, the relevant and pertinent literature and various studies have been reviewed. The review has been made in respect of theoretical background of the rules, regulations and principles of banking which are relevant to this research work.

Chapter - 3: Research Methodology

The third chapter briefly explains about the research methodology which has been used to evaluate the financial performance of the banks under consideration. This chapter consists of research design, sample and population, sources of data, and statistical and financial tools and techniques to measure the financial performance of NSBL and EBL.

Chapter - 4: Presentation, Analysis and Interpretation of Data

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

Chapter - 5: Summary, Research Findings, Conclusion and Recommendation

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

Finally bibliography and appendix are presented at the end of the study.

CHAPTER II

LITERATURE REVIEW

In this chapter, review of books and definitions of various logical terms pertinent to the area of study are presented. Similarly, a brief presentation of the related studies and findings as well as review of various articles which are relevant to this research study has been made in this chapter.

2.1. Financial Statement Analysis

A business enterprise communicates financial information to the users through financial statements and reports. The financial statements contain summarized information of the enterprise's financial affairs, organized systematically. They are means to present the firm's financial situation to users. As these statements are used by investors and financial analysts to examine the firm's performance in order to make investment decisions, they should be prepared very carefully and contain as much information as possible.

Financial Accounting is the "art of recording, classifying and summarizing, in a significant manner and in terms of money, transactions and events, which are, in part at least, of a financial character and interpreting the results thereof". Financial Accounting, therefore, produces a significant summary of all recorded financial operations for the purpose of interpreting the end result of such operations. Such a summary is called the Financial Statements which comprise the Balance Sheet and the Profit and Loss Statement.

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

The definition of Financial Statements by American Institute of Public Accounts will be worthwhile to quote here:

" Financial Statements are prepared for the purpose of presenting a periodical review or report on the progress by the management.

They deal with the status of investment in the business as also with the results achieved during the period. They reflect a combination of recorded facts, accounting conventions and personal judgments. And the judgments and conventions applied affect them materially. The soundness of judgment necessarily depends upon the competence and integrity of those who make them and on their adherence to generally accepted accounting principles and conventions”.

This definition succinctly but nonetheless effectively brings out the characteristic features of the Financial Statements, their strengths and weaknesses and their reliability and limitations. Some of the features are enumerated below:

- (i) They are periodical review of the status of investment and progress made by the Management.
- (ii) They contain facts recorded on the basis of accounting conventions and exercise of personal judgments.
- (iii) Integrity and competence of accountants who prepare them have a vital bearing on the ultimate results furnished by them.

A major weakness of Financial Statement is its lack of objectivity, being influenced largely by subjective exercise of judgments. For instance, in the hands of unscrupulous management with fraudulent intentions, manipulations are possible, which could distort, to a large extent, the ultimate results, thus camouflaging the real picture. Nevertheless, if the accountant compiles the statements diligently and without personal bias and on the basis of established and generally accepted accounting conventions, the Financial Statements do reflect the financial conditions of the limited companies to examine, among others, the accounting practices, and procedures and comment on whether the Financial Statements give a true and fair view of the state of affairs and the net result. The Auditor’s Report is, therefore, an independent professional guarantee for compliance with the generally accepted accounting principles and to that extent, takes care of lack of objectivity and an intelligent scrutiny of the Annual Report is bound to bring out Auditor’s reservations on this subject.

2.1.1 Balance Sheet

Balance Sheet is one of the most significant financial statements. Balance Sheet, as the name indicates, is a statement of balances, depicting the state of affairs or financial condition of a business enterprise at a particular moment of time. As on the date of reckoning, it discloses to the user of the statement of the investment of funds made by the enterprise on various classes or categories of assets and the various sources from which funds have been drawn to enable such investment. More specifically, balance sheet contains information about resources and obligations of a business entity and about its owners' interests in the business at a particular point of time. It provides a snapshot of the financial position of the firm at the close of the firm's accounting period.

The Balance Sheet can be presented either, in a T form or in a vertical order, beginning with assets. Assets and liabilities are the two constituents of Balance Sheet. Assets represent economic resources possessed by the firm. Normally assets and liabilities are detailed in their order of permanence. For instance assets start from fixed assets - the near permanent assets - and go down to "current assets, loans and advances" which are regarded as being closest to cash in terms of their convertibility to cash within a short period, while fixed assets are used in business for more than an accounting period of one year. Similarly liabilities represent claims against enterprise, requiring payment at a point in future by converting the assets into cash. In other words, the liabilities are the sources from which funds were drawn by the enterprise to acquire the various assets. Liabilities payable within an accounting period are called current liabilities and those payable after a year or so on are called long-term liabilities. There are three major sources (liabilities) from which funds are drawn. They are (i) Proprietor or owners or shareholders who contribute the risk capital; (ii) The lenders - banks and others who grant the debt capital; and (iii) The outsiders (creditors) who defer payments due to them for materials delivered or services rendered to the enterprise. Thus, balance sheet gives a concise summary of the firm's liquidity and solvency.

2.1.2 Profit and Loss Statement

The balance sheet is considered as a very significant statement by bankers and other lenders because it indicates the firm's financial strength, as measured by its resources and obligations. However, creditors, particularly bankers in Nepal and India and financial analysts have recently started paying more attention to the firm's earning capacity as a measure of its financial strength. The earning capacity and potential of the firm are reflected by the Income Statement or the Profit and Loss Account. The profit and loss account is the "score-board" of the firm's performance during a particular period of time. The generally accepted convention is to show one year's events in the profit and loss account (also called P/L A/C). Since the P/L A/C reflects the results of operations for a period of time, it is a flow statement. In contrast, the balance sheet is a stock, or status statement as it shows assets, liabilities and owners' equity at a point of time. Analysis of P/L A/C for several years may reveal desirable or undesirable trends in the profit earning capacity of a business enterprise. The P/L A/C presents the summary of revenues, expenses and net income (or net loss) of a firm for a period of time. Revenues are benefits which customers contribute to the firm in exchange for goods or services provided by the firm. The cost of the economic resources used in providing goods or services to the customers is called expense. So expenses are costs incurred for generating revenue and are therefore related to the operations of a business firm. The excess of earned revenues over the incurred expenses in a specific period is called profit or income which results increase in owners' equity. If expenses exceed revenues the difference is called a loss resulting in net decrease in owners' equity.

2.1.3 Assets and Liabilities of Commercial Banks as per NRB Directives

The statement that shows the assets and liabilities of a commercial bank is its balance sheet. We have so much discussed about Balance sheet above. So there is no need to repeat the definition of it.

The following are the items that appear in the assets and liabilities sides of the balance sheet.

2.1.3.1 Assets of the Banks

Under this head, the researcher will be explaining about the assets and liabilities of a commercial bank, a brief knowledge of which may be helpful for further course of our research study.

- A. Cash :** Cash is the first asset in the portfolio of a commercial bank. Cash is completely liquid form of asset which refers to cash in hand, and cash with the central bank. Cash is held to meet the demands of the customers. Cash is the primary reserve of the bank and the bank knows by its experience that it must keep a certain percentage of its deposits liabilities in the form of cash for its contingent reasons. The structure of the cash of a commercial bank will be in the form of cash in its vault, with central bank and some portion with other commercial banks for their interbank adjustments. The cash reserve with central bank and other banks are equally good as cash lying in its vault¹.

The liquidity position of a bank is measured by the ratio of its cash and bank balance to its total deposit which is called the Cash Reserve Ratio and in this regard the following arrangements have been put into force by the central bank of Nepal i.e. Nepal Rastra Bank.

a)	Balance to be maintained with Nepal Rastra Bank	5.5% of Current and Saving deposit liabilities 5.5% of fixed deposit liabilities
b)	Cash in Vault	3% of total deposit liabilities

In the event of short fall in maintenance of the Cash Reserve Ratio as above, banks are penalized as per section 32(2) of NRB Act, 2012.

The success of a bank depends on the maintenance of adequate cash reserves required to honour the cheques presented by the customers. A bank usually synchronizes the deposits and withdrawals through investigations and research. A commercial bank has to manage these two in such a way that the good banker always keeps an extra amount of cash for the sake of safety. However, the bank must avoid excessive holding of cash since it is an idle asset and do not generate any income from this.

- B. Money at Call and Short Notice :** The amount of all interest bearing placements with other banks (local or foreign) with maturity period of not-exceeding 7 days with stipulated condition for payment at call or at short notice (48 hours) are exhibited under this head.
- C. Bills Discounted and Purchased:** Commercial banks prefer to invest in bills for several reasons. The bills are negotiable and can be bought and sold easily. Bills may be promissory notes, bills of exchange or treasury bills. Commercial banks prefer to have this type of assets due to its ready-liquidity nature. That is, they can be easily marketed and they also bring some revenue to the bank. Most of the bills are eligible for rediscount at the central bank. This enhances the liquidity of the bills. They are regarded as ideal bank assets because they satisfy the principles of liquidity, safety and profitability.
- D. Investments :** Investments constitute a banker's third line of defense, after cash and bills discounted. Investments yield a higher return than that obtained from liquid assets but is less than loans and advances. Banks invest a large proportion of their funds in government securities and other gilt-edged securities. These securities can be converted into cash easily and without much loss of value. But the banks do not prefer to invest their funds in corporate shares and debentures due to risk involved in them. The commercial banks of Nepal also make considerable amount of investments in government treasury bills and bonds.
- E. Loans and Advances, Cash Credits and Overdrafts:** Loans and advances are the most profitable of all the assets of a commercial bank. This is the primary source of income and

the most profitable of all the assets of the banks. Loans and advances account for the largest part of the revenue of the bank. It is therefore, a bank is always willing to lend as much of its funds as possible. But it has to be careful about the safety of such advances as well. If the bank is too liberal, it may be influenced by bad debts whereas its timidity may fail to obtain adequate returns from the allocated funds for it. In the mean time, they are the least liquid of all the assets. In other words, it is very difficult to realize them at short notice except those which are repayable on demand. Therefore a bank cannot rely on such funds at the time of emergency.

There are different types of loans and advances and different types of securities are required for such loans and advances. Whatever is the nature of the security, it should lend money for short periods rather than long periods so that such short loans can be collected at short notice². Further commercial banks are not bound to supply money for long term credit or investment in fixed capital. The nature of its collected deposits determines the nature of lending of the commercial bank. Even if the bank receives long term deposits, it is profitable for it to make advances for short term.

Banks lend money in different forms. The main types of loans and advances granted by banks in Nepal are cash credit i.e. working capital loan, overdraft, demand loan, term loan, trust receipt loan and discounting of bills of exchange. The overdraft is a running loan account which is given against the security of bonds/fixed deposits or are given without any security. Its drawing permitted on current account. Cash credit loan is also a running loan account, drawing power of which is regulated by stock statements of the borrower and wherein credit/debit transactions are permitted within the sanctioned limit. Cash credit is always granted against security of certain commodities, products, or book debts/receivables. Demand loan is a loan on repayment basis and is not a running account. Demand loan once granted will have a debit for the quantum sanctioned and thereafter only credits for repayment normally personal in nature are permitted. A Term Loan has all the characteristics of a Demand loan except that the repayment period is normally more than 5 years. Trust Receipt Loans are sanctioned as a limit to be utilised

against hypothecation of stocks imported under the bank's own L/C, normally for a period of 90 days. It is in the nature of demand loan which is liquidated by 2-3 installments. However unlike demand loan, the limit is not canceled with liquidation but is reinstated. The discounting of bills of exchange is the best form of advance in terms of credit discipline, as it is self-liquidating in nature. Any trader/ industrialist receive payments by mode of cheques or draws Hundis/Documents on the buyer. These cheques/bills of exchange are discounted by the bank.

- F. Fixed Assets :** All assets of long-term nature (fixed) owned by bank are accounted and exhibited under this head at written down value after deducting the depreciation from the total cost. In case of disposal of asset, sold or written off, for the purpose of determining profit/loss on such sale or writing off, the (Fixed) Assets Account will be credited with the amount equivalent to the written down value, and the difference in cash receipt will be adjusted to Profit & Loss A/c.

Fixed assets are the least liquid assets of the bank such as land and buildings, vehicles, machinery owned by the bank. They cannot be considered as the liquid assets of the bank.

- G. Other Assets:** Other assets of the banks include any other tangible and intangible assets, not mentioned above, Stationery Stock, Accrued interest on investment, Accrued Interest on Loan, Sundry Debtors, Assets-in-transit, Non-Banking Assets, Expenses not written off like prepaid expenses, development expenses etc. which are exhibited under this head.

- H. Contingent Liabilities :** Claims on bank but not accepted by the bank, the amount of letter of credit opened, the amount of rediscounted bills, full value of unmatured guarantees, the full value of unmatured forward exchange contract, the amount of acceptances and endorsements etc. are disclosed under contingent liabilities.

2.1.3.2 Liabilities of the Banks

The liabilities of a commercial bank represent the sources of its funds which are employed by the bank in the ordinary course of its business. The items which appear in the liabilities side of the Balance Sheet are as follows:

- A. Capital :** The authorised capital is the maximum amount of capital that a bank can issue under its Memorandum of Association. The issued capital is that capital which is issued for public for subscription. Subscribed capital may be the whole of issued capital of its part. Called up capital is the amount that the shareholders are required to pay. Paid up capital is the actual amount that the shareholders have paid. So the paid up capital is the actual cash capital of the bank. The difference between the called up capital and paid up capital is known as uncalled capital. It is an additional margin of safety for the depositors and creditors of the bank in case of their doubt about the financial situation of the bank.
- B. Reserve Fund :** Reserve fund is the presentation of accumulation of profits appropriated over a period of time. The objective of the reserve fund is to meet the unforeseen contingencies. It is not made from the original capital of shareholders but by the profit generated by the bank. Generally, the amount of reserve fund is invested in first class securities. At the time of heavy losses by banks, this fund is used. In other words, the figure of the reserve presents an additional security of the banks to their customers. Under this head, General Reserve Fund or the Statutory Reserve Fund, Capital Reserve Fund, Share Premium, other Reserves and funds except the above and Accumulated Profit/Loss are presented.
- C. Deposits :** This item represents the liability of the bank. Since the deposits are the borrowed amount from the depositors or from general public, it is the largest portion of liability of the banks. A bank can collect deposits in various forms - savings, time, current or demand deposits, etc. Today we can see different types of deposits offered by banks in Nepal. Banks usually adopts different policy of the withdrawals of money from bank by the depositors. Similarly,

different interest rates are entitled for different types of deposits.

Deposits are the main source of fund which the banks usually uses for the generation of profit. Therefore, the efficiency of the banks depends on its ability to attract deposits.

The deposits are highly affected by number of factors - types of customers, physical facilities, management accessibility of customers, participation in community activities, types and range of services offered, and rate of interest paid on deposits. In addition, the prevailing economic conditions exert a decisive influence on the amount of deposits the banks receive. The nature of the bank such as retail or wholesale, or the environment of the community - industrial, agricultural, etc. are other factors that influences the bank deposits.

- D. Borrowings from Other Banks:** It includes the amount which a bank has borrowed from other banks during the course of operation. For this the bank pays certain amount of interest to the lending bank.
- E. Bills Payable:** Under this head, the outstanding amounts pertaining to draft, T.T., Mail Transfer and Pay-orders issued by one branch to another branch of the bank, as well as bills drawn on the bank by other local and foreign banks are accounted.
- F. Other Liabilities:** Other than the capital and liabilities accounts mentioned above, all other liabilities of whatsoever nature such as pension fund, insurance fund, unclaimed dividends, un-expired discounts, etc. are included under this heading.
- G. Profit and Loss Account :** It is the balance of profits left after making all adjustment which also appears in the liability side of the balance sheet.

2.2. Cash Flow Analysis

The cash flow or cash budget, as it is called sometimes, is basically a functional statement, concerning itself with the pure cash management aspect. It is designed to throw light on

- (i) what cash commitments are likely to arise within short span of time and
- (ii) what cash resources will be available to meet them. For instance, if the Finance Manager has to pay an installment of a term loan to a financial institution within a period of three months, he needs to visualize a cash budget to decide whether he can meet his commitment without any additional bank overdraft. Similarly the cash budget would be a very useful and handy tool if the banker, examining a request from the borrower for opening an L/C for import of materials, has to decide whether the borrower would be able to meet the L/C liability without any increase in the sanctioned cash credit limit. A cash budget is a simple projection of cash account - usually month-wise indicating cash receipts and cash disbursement.

For the preparation of a cash budget, we need some information on the unit's corporate policy in terms of sales, purchases and other payables, other discretionary outlays like capital expenditures, dividends, retirement of debts, etc. Following are the parameters for the purpose:

- (a) Terms of sales - cash and credit with respective ratios,
- (b) Period of credit allowed and period of realization of sundry debtors,
- (c) Period of credit available on purchases of raw materials, stores and spares,
- (d) Terms of payment for other expenses/payable.
- (e) Production and sales budget.

From these basic parameters and other data on miscellaneous receipts and payments, a cash budget can be drawn up.

2.3. Ratio Analysis

Ratio analysis is a significant tool of performance analysis. It is one of the techniques of measuring the financial activities of enterprises. Ratio analysis is defined as the systematic use of ratio to interpret the financial statements, so that the strengths and weaknesses of a firm as well as its historical performance and current performance can be determined. The term ratio indicates a numerical or quantitative relationship between two items or variables within a particular financial statement or within financial statements which helps to make a quantitative judgement and can be expressed as proportion of numbers, function and percentage.

Ratio analysis is such a powerful tool of performance analysis that through it economic and financial position of a business unit can be fully x-rayed. They also are a measure of work efficiency and prove to be basic instruments in the control process; they are the backbone in schemes of business forecasts. Besides, they enable us to take rational and profitable investment decisions. Thus, "the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concerns."³

The financial statements and balance sheets published by NSBL and EBL contain important information for analysing which have been extracted to determine its historical and current performance. In other words, important information extracted from the published financial statement and balance sheets of NSBL and EBL presented and interpreted by ratios would be effective to analyse the overall financial performance of these two banks. To depict different aspect of NSBL and EBL, the ratios have been classified into following four groups.

- i. Profitability Ratios.
- ii. Activity Ratios.
- iii. Liquidity Ratios
- iv. Other miscellaneous Ratios

2.3.1 Profitability Ratios

Profitability ratio indicate the degree of success in achieving desired profit. A bank should earn profit to survive and grow over a long

period of time and to contribute towards the social overheads for the welfare of the society. Profit is the major aspect which influences entire decision-making process. The profitability ratio gives answer to how effectively the bank is being managed. The measurement of profit of JVB's operating in Nepal can be given greatest weight since it is probably best indicator of overall efficiency. Albeit the profitability ratio mainly studies the earning power of firm (bank) it depicts almost entire performance of the bank. Here the researcher aims to analyze and compare earning pattern as well as profitability pattern of NSBL and EBL.

2.3.2 Liquidity Ratios

Liquidity ratios examine the adequacy of funds, the solvency of the firm and the firm's ability to pay its obligations when due. This ratio measures the firm's ability to meet short-term obligations. In case of commercial banks short term obligations are current deposit, saving deposit, short term loans and source of meeting these obligations are cash and bank balance, money at call and short notice, investment in government securities and bills discounted and purchase. There is compulsion in banking sector to maintain cash and bank balance as directed by NRB. From legal perspective cash and bank balance to total deposit ratio shows actual liquidity position of the bank where as other liquidity ratios are also useful.

2.3.3. Activity Ratios

Activity ratio is intended to measure the effectiveness to employment of the resources in a business concern. Through this ratio, it is known whether the funds employed have been used efficiently in the business activities or not. It also shows the efficiency in utilizing the collected resources to generate income. This ratio is also called turnover ratio because it indicate the speed of collection of funds and utilization of those funds to increase revenue by providing loans and advances, investments and other services rendered by banks.

2.3.4. Other Miscellaneous Ratios

Under this head, other miscellaneous ratios which contribute in measuring the financial performance of NSBL and EBL are studied. They are as follows:

- i. Debt Equity Ratio
- ii. Interest Coverage Ratio
- iii. Price Earnings Ratio
- iv. Dividend Payout Ratio

2.4. Trend Analysis

In financial analysis, the direction of changes over a period of years is of crucial importance. Trend analysis of ratios indicates the direction of change. This kind of analysis is particularly applicable to the items of profit and loss account. It is advisable that trends of sales and net income may be studied in the light of two factors: the rate of fixed expansion or secular trend in the growth of the business and the general price level. It might be found in practice that a number of firms would show a persistent growth over a period of years. But to get a true trend of growth, the sales figures should be adjusted by a suitable index of general prices. In other words, sales figures should be deflated for rising price level. When the resulting figures are shown on graph, we will get trend of growth devoid of price changes. Another method of securing trend of growth and one which can be used instead of the adjusted sales figures or as check on them is to tabulate and plot the output or physical volume of sales expressed in suitable units of measure. If the general price level is not considered while analysing trend of growth; it can mislead management. They may become unduly optimistic in periods of prosperity or pessimistic in dull periods.

For trend analysis, the use of index numbers is generally advocated. The procedure followed is to assign the number 100 to items of the base year and to calculate percentage changes in each item of other years in relation to the base year. This procedure may be called as "trend - percentage method".

2.5. Index Number

There are various phenomena, which change with the passage of time, an index number is a statistical device assigned to measure the relative change in the level of phenomena (variable or group of

variables) with respect to time, geographical location or other characteristics. So index number is a device for measuring changes in the magnitude of the phenomena from time to time or even from place to place. The careful study of relative changes that have taken place in the past helps to forecast the future trend and tendencies.

The characteristics of both Index Number and Trend-Percentage method seem to be similar. Hence both these terms are used in this study as synonym of each other to evaluate trends of deposits, investments, interest spread, operating income, net profit, and net worth.

2.6. Review of Past Studies

There has been a number of thesis done in financial performance of joint venture bank in Nepal. The financial performance of Nepal SBI Bank Ltd. added one more study in this banking sector through which the researcher can analyze the performance of Nepal SBI Bank Ltd.

In this "review of related studies" section some researchers finding related to joint venture banks are presented.

Ghale Shakta Man "A study on the comparative analysis of financial performance of joint venture banks in Nepal, NABIL and Nepal Bangladesh Bank". The main objective of this thesis, is to evaluate the financial performance of NABIL and Nepal Bangladesh Bank comparatively in terms of their liquidity ratio, activity ratio, leverage ratio, profitability ratio, earning percentage, market per share, dividend per share, book value per share, dividend pay out ratio, profit earning ratio. The other objectives are comparing the performance of Nabil and Nepal Bangladesh Bank and providing suggestion and recommendation for the improvement of the future financial performance of these two banks based on the comparative performance analysis.

The finding, he had presented is that loan and advances to current asset ratios shows that Nabil Bank has very poor performance in utilizing its funds as the ratio is very low compared to that of Nepal Bangladesh Bank. Turn over which is the main indicator of income generating activity where performing assets to total assets ratio

shows that Nabil Bank is performing slightly better than Nepal Bangladesh Bank but both are under performing. The profitability ratio shows that there is no much difference between the two-bank performances the return in both cases is too low. The other finding are both Nabil and NB Bank have incurred more debts than necessary. Higher dividend pay out ratio of Nabil indicates that it is paying a higher portion of its earnings as cash dividends to share holders. Average EPS of Nabil Bank is higher than NB Bank in the same time EPS of Nabil Bank decreased because of issuing bonus shares. Average DPS of Nabil Bank is higher than that of NB Bank, interest earnings is high in Nabil Bank where as NB Bank earns more than Nabil Bank from commission and discount, foreign exchange and other income. NB Bank is paying more of its income for interest and commission and other general expenses. Similarly, Nabil Bank is expending its income excessively on staff expenses and bonus. Operating expenses of Nabil Bank is higher because of many branches and large number of staff. Loan recovery of Nabil Bank is very low due to the loan outstanding still needs to be recovered, EPS of Nabil Bank is negative where as it is positive in case of NB Bank which shows improvement of NB Bank's performance. DPS of Nabil Bank is positive and greater than that of NB Bank, which shows that Nabil is performing better than NB Bank. Net profit of both banks is positive which signals the growing performance of both the banks. Loan and advance trends and deposit collection trends are improving for both banks. The trend analysis of the above mentioned performance indicates that both the banks are striving to be a market leader.

Bhattarai Subodh Prasad: - "A comparative study of the financial performance of Bank of Kathmandu Ltd. and Himalayan Bank Ltd.". The main objective of this study are to find out the financial performance of the Himalayan Bank and Bank Of Kathmandu Ltd. where both the banks have met their obligation to pay interest on deposit and dividend to the share holders, to find out their financial strength or weakness and find whether they have utilized the loans efficiently, and maintain sufficient liquidity position.

The finding of the study are BOKL and HBL is not good so the banks are not able to meets its short-term obligation. Cash and bank balance percentage of BOKL is better than that of HBL. Ratio of cash and bank balance for BOKL is higher than the cash and bank balance of HBL. So BOKL should invest its cash and bank balance to

some extent whereas HBL should maintain sufficient cash and bank balance to meet its current obligation. BOKL has balance to pay unanticipated payment on different deposit than HBL. BOKL liquidity is higher than HBL from fixed deposit to total deposit ratio. Both bank fail to keep deposit in NRB so both are suggested to keep the balance as required by NRB. HBL has higher investment of Treasury bill on total current asset than BOKL it reveals that BOKL has invested its funds in more risky sector than HBL so it is suggested that BOKL should invest more in government treasury bills to avoid risk in its investment. BOKL invests more amount total deposit in terms of loan and advances than HBL. HBL is able to invest more its total deposit in different sector than BOKL has. So, BOKL is suggested investing its more amount of total deposit in different sectors to earn more profit, loan and advances to fixed deposit is higher in HBL. Performing assets to total assets ratio for HBL is greater than BOKL. Total assets were finance by more debt in both so lower debts to finance the total asset is suggested. Long term debt to total net worth is high in BOKL it is suggest to minimize the riskiness of the bank .Net Fixed Asset to Net worth ratio of BOKL is more than HBL.BOKL has adequate shareholders fund it is suggested that BOKL should invest shareholders fund in profitable investment opportunities to earn additional profit. HBL is earning more interest than BOKL because its interest earned to total asset ratio is greater than HBL. Return on Asset is positive in HBL where as it is negative in BOKL.Net profit to total deposit ratio is higher in HBL, BOKL has negative profit. Return on Net worth is higher in HBL.EPS, DPS of BOKL is less. Interest Income of HBL is high. BOKL has spent much amount for staff expenses and other general expenses.

Bhattarai Ram chandra"A study of Financial Analysis Of HBL & NSBL" The main objective of the study is to review the previous research studies of HBL & NSBL, evaluate the liquidity position of HBL & NSBL, evaluate the earning position of HBL & NSBL and to draw conclusion and propose some recommendations.

The main finding of the study cash and bank balance to current deposit of HBL & NSBL is fluctuating. NSBL has higher ratio which shows weaker position of HBL.NSBL balance with NRB to total deposit is higher than HBL which shows stronger position of NSBL. Liquidity asset to total deposit ratio of HBL is higher which show stronger in liquidity position of HBL. Debt equity ratio of HBL and

NSBL are fluctuating & increasing. Employment of debt in the capital structure of HBL was higher than the same in NSBL. Debt Asset ratio reveal the capital structure of HBL is riskier. Long Term Debt to Net worth ratio of HBL was fluctuating trend while the same was in increasing trend. Interest on deposit to interest on loans and advances ratios of HBL is higher than NSBL, HBL have earned better on investment than NSBL as stated by their return on investment ratio. Net Profit margin of both is satisfactory but is found better in HBL. Return of Total Asset ratio of HBL is slightly better than NSBL. Return on Net worth of HBL was higher than NSBL. Correlation between total investment and net profit was found higher in case of NSBL than in HBL.

Oli Jhalak Bahadur "A comparative study on financial performance of HBL, NSBL, NB Bank Ltd" the objective of the study is to examine the financial performance (i.e. liquidity, activity, capital & profitability ratio) of HBL, NSBL, NB Bank Ltd. To analyze comparative financial positions of JVs banks and to provide decisive & pragmatic suggestion to improve the financial performance of three JVs Banks on the basis of findings.

The major finding of the study is that the liquidity position of NB Bank is better than others, Short Term solvency position of NB Bank is seen better than other bank. NB Bank has sufficient cash and bank balance to its total deposit without fixed deposit to compare with others. Cash and bank balance (except money at call) to current deposit ratio of NB Bank is found higher than other which means there are a lot of ideal assets on other banks which earn nothing that can be utilized in productive sector. Fixed Deposit to Total Deposit of NB Bank is relatively higher than other which indicate the stronger liquidity position. Total Debt to shareholders' equity is higher in HBL which show that HBL is always more capable to meet any windfall in comparison to NSBL & NB Bank. Total Debt to Total Asset ratio is higher in HBL which Implies that the former has riskier debt financing as compared to later. Capital Adequacy show that debt with respect to shareholders & Total Asset are slightly higher for HBL than other.

Upadhaya Kumud Chandra "A Study On Joint Venture Banks in Nepal With Special Reference to NGBL". The objectives of the study is to present the profit of Jvs Banks in Nepal, economic Position of the Jvs Bank, rules of opening account in the Jvs Bank, achievement

of the Jvs Bank, operational aspects of NGBL difference between Jvs Bank , review government policy towards banking sector.

The main findings of the Study are Jvs Bank Should be established in Village & Remote area to provide better service to the people, Bank Should have equal emphasis for small & higher level customer Initial balance should be less than Rs. 2500.00 while opening the saving Account, Employee selection should be based on democratic ideology not internal placement etc.

Adhikari Dev Raj "Evaluating the financial performance of Nepal Bank Limited".The objective of the Study is to examine the trend of Deposit mobilization along with cost of deposits, Assess the Investment portfolio of the Bank, evaluate the credit operation of the Bank, measure liquidity profitability and operation efficiency of the Bank, evaluate earning power and dividend paying ability of the Bank, provide a package of suggestion and provide guidelines to improve the performance of NBL based on finding of the analysis.

The major findings of the study is to share of different deposits, the fixed deposit had the highest share in deposit portfolio of NBL. Shares of Saving Deposit and Current deposits however have shifted during the period. The share of current deposit was higher than the share of saving till FY 2042 which afterwards remained lower in subsequent year. Thus in the later years, the current deposit share in total deposit remained the lowest, Average Growth in total deposit, average growth in cost of deposit loans and advances share in the investment, Investment Portfolio on Govt. securities increases (risk less asset Portfolio) which is not principle of commercial bank, Loan Portfolio-less priority to productive and priority sector loans and more priority to traditional unproductive and rather safe sectors like commercial sector loan and social and other loans, Growth in Doubtful Loans, the profit decrease sharply due to increase in total expenses in comparison to total income, generating loss operating income than expenses, Liquidity Position of the Bank is not so bad, Return on capital, EPS is in declining trend.

Basnet Laxmi Kumari "A Study of Growth and financial Analysis of Rastriya Banijya Bank".The objectives of the study is to examine the growth of RBB for the period of 10 Years i.e. from 2045 BS to

2054 BS, interpret the financial performance of RBB for the Period of 10 Years, provide package of suggestions which will improve the performance of RBB.

The finding of the Study is the liquidity Position of bank is not satisfactory, Bank has manage to keep sufficient balance of cash against its various deposits, Cash and Bank balance to current deposit is better for paying them when demand, Total Deposit is efficiently utilized and mobilized by bank, Loan and Advances to Fixed Deposit is in fluctuating trend. It has utilized its Fixed Deposit effectively, Saving Deposit in terms of Loans and advances is effectively manage, Investment to Total deposit is Unsatisfactory, Return on Net worth is fluctuating .The Bank is on loss. It can be notice that the bank is far from satisfactory, the performance of bank is worst, Return On investment of RBB is not satisfactory, Return on Assets is fluctuating and negative trend, which means profitability, is far from satisfaction. There has been a gradual increase in the amount of funded debt and total capitalization. There is regular increase in both funded debt and Net worth during the study period. The ratio has been changing from time to time. In an average the position of the bank can be said satisfactory.

Rijal KIshor "A case Study Of Nepal SBI Bank Ltd". The objectives of the Study is to study the financial position of NSBL, achievements of NSBL, operational aspects of Nepal SBI Bank Ltd, prospects of NSBL.

The findings of his studies are liquidity position shows highly fluctuating trend, which means the failure of proper Liquidity management of bank. Utilization (Activity) Position shows that deposit is utilized less on investment. Capital Adequacy Position is not satisfactory but the shareholders fund is following highly decreasing trend. Profitability is highly fluctuating and in decreasing trend and the bank is not perfectly successful in generating of interest income by mobilization of earning assets, Operational aspects shows weak management, frustrations among the staff, conservative attitude are the drawback of the bank.

CHAPTER–THREE

RESEARCH METHODOLOGY

3.1. Introduction

Research methodology may be defined as a systematic process that is adapted by the researcher in studying a problem with certain objective in view. In other words, research methodology describes the methods and process applied in the entire aspects of the study.

The basic objective of this study is to evaluate the overall performance of NSBL, especially in relation to its Deposits and Investments and to suggest for the improvement of its performance. To achieve the mentioned objective an appropriate research methodology has to be followed. Thus, in this chapter focuses have been made on research design, population, nature and sources of data, data collection and processing procedures and tools used for analysis. Data of the FY 1993/94 to 1999/00 have been presented and analyzed through appropriate financial ratios and statistical tools. With the help of this analysis, we can evaluate the performance and financial position of NSBL.

3.2 Research Design:

Research is a theory building activities. Theory is a relationship between two or more facts. The research design refers to the conceptual Structure within which the research is conducted. "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."¹ Thus, research design is a plan to obtain the answer of research question through analysis of data. The first step of the study is to collect necessary information and data concerning the study of Nepal SBI Bank Ltd. The task will be fulfilled by the collection of secondary data and various published information regarding the context. In this study, two different research designs are used to meet the objective of the study. These designs are analytical and descriptive.

Analytical, descriptive and exploratory research design will be used for clearing the situation on the basis of presented data and facts.

The data is carefully studied and analyzed systematically under specific major headings so as to meet the objective of the study. On the other hand, the accumulated data is described and tabulated systematically. In this study ratio analysis and statistical tools has been designated to analyze the overall performance.

Especially from Balance Sheet and Profit and Loss Account published by NSBL from 1993/94 to 1999/00. Thus, the sources of data are the published annual reports and data are of secondary nature. The primary data will not be used throughout the study.

3.3. Nature and Sources of Data

This study is based on secondary data provided by NSBL and EBL. The data for the comparative study of financial performance have been taken from balance sheet and profit and loss account of concern banks. The other additional data available on internet website of Nepal Stock Exchange. The annual reports of concerned banks are the chief sources of data.

3.4. Population and Sample

The published financial statements viz. balance sheet and profit and loss account have been assessed to examine the financial performance NSBL and EBL. The financial statements i.e. balance sheet and profit and loss account of NSBL and EBL published from the fiscal year 2062/63 to 2066/67 have been assumed as population of the study. A sample from the population has been taken for the study which comprises the published financial statements of both banks for five years from 2062/63 to 2066/67.

3.5. Data Processing Procedure

In this study, the data extracted from annual financial reports published by NSBL & EBL has been processed and interpreted considering the requirement of the study. The financial and statistical tools and techniques have been applied in data processing

procedure. The relevant data of 5 years have been rearranged, presented, analyzed and interpreted.

3.6. Tools and Techniques of Performance Analysis:

Some tools and techniques have been followed to analyze and evaluate the information of the financial statements, viz. Balance Sheet and Profit and Loss Account. The below maintained ratios and statistical tools have been used

Financial Tools:

A) Liquidity Position.

1) Current Ratio = current asset/current liabilities

In my study Current Asset include Cash , Bank Balance ,Money at Call, Investment, Bills Discounted, Loan & Advances, Bills on Collection , Customer Liabilities Whereas Current Liabilities include of Deposit, Loan & Advances from other Banks, Bills Payable, Bills for collection, Customer Liabilities.

2) Cash & Bank Balance to Total Deposit Ratio

= Cash & Bank Balance/ Total Deposit

In my study total deposit include all the deposit interest bearing or non interest bearing deposit.

3) Fixed Deposit to Total Deposit Ratio

= Fixed deposit/Total deposit.

4) NRB Balance to Total Deposit Ratio

= NRB Balance/Total deposit

5) Cash & Bank Balance to Current Deposit Ratio

= Cash & Bank Balance/ Current Deposit

6) Saving deposit to Total deposit

= Saving deposit/Total deposit

7) Current deposit to Total deposit

=Current deposit/Total deposit

B) **Activity Ratio**

1) Loan & Advances (including Bills Discounted) to Total Deposit Ratio

= Loan & advances (including Bill discounted)/ Total deposit

In this ratio Loan & advances include bill discounted also.

2) Investment to Total Deposit Ratio.

= Investment/ Total Deposit

In my study Investment include government securities, other investment and investment in rural Bank.

3) Loan & Advances to Fixed deposit Ratio

= Loan & Advances/ Fixed deposit

4) Loan & Advances to Saving Deposit Ratio

= Loan & advances/Saving deposit

5) Loan & Advances to Current Deposit Ratio

= Loan & Advances/ Current deposit

C) Profitability Ratio

1) Return on Net worth Ratio

= Return/Net Worth

In my study Net Worth includes paid up capital and reserve whereas return means net profit.

2) Net Profit to Total Deposit Ratio

= Net Profit/ Total deposit

3) Return on Total Asset Ratio

= Return/ Total asset

Here total asset include current asset, fixed asset, other asset.

4) Total interest earn on Total outside asset Ratio

$$= \text{Total interest/ Total outside asset}$$

In my study Total Outside asset include loan & advances, bill discounted, investment.

5) Return on Risky Asset

$$= \text{Return/ Risky Asset}$$

In my study Risky asset include loan & advances, bill discounted.

6) Interest Expenses on Deposit to Interest Income on Loan & Advances Ratio

$$= \text{Interest Expenses on deposit/ interest income on loan \& advances}$$

7) Return on Investment

$$= \text{Return/Investment}$$

8) Net Worth Per Share

$$= \text{Net Worth/No. of common share outstanding}$$

9) Earnings per share

$$= \text{Net profit/No. of common share outstanding}$$

10) Dividend per share

$$= \text{Dividend/ No. of common share outstanding}$$

11) Dividend payout Ratio

$$= \text{Dividend per Share/ Earning per Share}$$

12) Interest Income to Total Income Ratio

$$= \text{Interest Income/ Total Income}$$

13) Commission & Discount to Total Income Ratio

$$= \text{Commission \& Discount/ Total Income}$$

14) Interest Expenses to Total Deposit Ratio

$$= \text{Interest Expenses/ Total Deposit}$$

15) Interest Income to Loan & advance Ratio

= Interest Income/ Loan & advance Ratio

D) Capital Structure /Leverage Structure

1) Total Debt (excluding other liabilities) to Total Asset (excluding other asset) Ratio

= Total Debt/ Total Asset

In my study total debt include loan & advances from other bank, deposit, Bills Payable, Bills for collection, Whereas Total asset include current asset, fixed asset. Here other liabilities of total debt and other assets of total asset have been not taken.

2) Total debt to Net worth Ratio

= Total Debt/ Net worth

In my study Total debt include loan & advances from the bank, deposit, bills payable, bills for collection, and other liabilities.

3) Long Term Debt to Net worth Ratio

= Long Term Debt/ Net worth

Long term debt means fixed deposit.

E) Capital Adequacy Ratio

1) Shareholders fund to Total Deposit Ratio

= Shareholders fund / Total deposit

Shareholders' funds include paid up capital and reserve.

2) Shareholders fund to Total Asset (excluding other asset) Ratio

= Shareholders fund/ Total Asset

Here Total Asset doesn't include other asset.

Statistical Tools:

Two types of statistical tools have been used for the analysis of data in this research work.

1) Correlation Analysis: It shows the significance relationship between two variables within certain period for which correlation coefficient has been used. The formula for calculation of correlation coefficient is as under:

$$r = \frac{N\sum xy - \sum x \sum y}{\sqrt{N\sum x^2 - (\sum x)^2} \sqrt{N\sum y^2 - (\sum y)^2}}$$

Where,

N = Number of Pairs of X and Y observed.

X = Value of Loan and Advances.

Y = Values of Total Deposit.

r = Pearson's Correlation Coefficient.

2) Probable Error (PE):

The probable error is calculated for judge the correction of the calculation. The less the value of probable error, the more accurate will be calculation. The formula for calculation of Probable Error is mentioned as under:

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

If the value of r is less than PE, there is no evidence of correlation means the value of r is not significant at all. If the value of r is more than 6 times of probable error (PE), the probable error is particularly significant.

CHAPTER-FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Financial Analysis :-

4.1 Liquidity Ratio: -

Liquidity Ratio measures the ability of the bank to meet its current obligation .The Liquidity ratios of the bank are as follows:

4.1.1 Current Ratio: -

The current ratio is a measure of general liquidity and is most widely used to make the analysis for short term financial position or liquidity of a firm. It is calculated by dividing current asset by current Liabilities. Current asset include Cash, Bank Balance, Money at Call, Investment, Bill Discounted, Loan & Advances, Bill on Collection, Customer Liabilities. Current Liabilities include deposit, Loan & Advances from other banks, Bills Payable, Bills for Collection, Customer liabilities. The ratio is general and quick measure of liquidity of a firm. It represents the margin of safety available to creditors. It is an index of the firms financial stability. It is also an index of technical solvency and an index of the strength of working capital.

Table 4.1: Current Ratio

Fiscal Year	Current Assets	Current Liabilities	Ratio
2003/04	429,906,587.41	329,725,878.71	1.30
2004/05	847,407,541.00	739,438,300.00	1.15
2005/06	1,786,245,414.00	1,641,236,017.00	1.09
2006/07	2,558,224,313.00	2,411,182,778.00	1.06
2007/08	3,815,244,792.00	3,757,672,662.00	1.02
2008/09	4,526,618,021.00	4,387,606,883.00	1.03
2009/10	4,829,160,645.00	4,601,126,305.00	1.05
	Average		1.10

From the analysis of the above table the average current ratio is 1.10.The current ratio is high in FY 2003/04 and decreasing regularly in the F.Y. 2004/05,2005/06,2006/07,2007/08 and increase in the fiscal year 2008/09,2009/10.

In the Fiscal Year 2004/05 the current asset has been increased by 97.11% and the current Liabilities is increased by 124.26%. So the increase in current liabilities percentage is more than increase in asset, which is not proper, due to which the current ratio has been decreased.

In the Fiscal Year 2005/06 the current asset has been increased by 110.79% and the current liabilities have been increased by 121.96%. Here the current liabilities percentage has been slightly increased than current assets percentage so the current ratio has been decrease here.

In the Fiscal Year 2006/07 the current asset has been increased by 43.22% and the current liabilities has been increased by 46.91%. So the current ratio has been decreased as compared to previous year.

In the Fiscal Year 2007/08 the current asset has been increased by 49.14% and the current liabilities have been increased by 55.84%. In this year the similar circumstances arises due to which the current ratio has been decreased than FY 2006/07.

In Fiscal Year 2008/09 the current asset has been increased by 18.65% where as the current liabilities has been increase by 16.76%. In this year current asset has been increased than current liabilities, which is preferable due to which current ratio is also increased.

In the Fiscal Year 2009/10 the current asset has been increased by 6.68% but the current liabilities has been increased by 4.87%. So the current ratio has been increased.

The above table shows the ratio is not fluctuating highly and it is up to standard of 2:1 .The ratio is highest of 1.15 in the FY 2004/05 and lowest in the FY 2007/08 of 1.02.

4.1.2. Cash and Bank Balance to Total Deposit Ratio: -

This ratio shows the percentage of Total Deposits maintained as cash and Bank Balance by the Bank. This ratio is significant in the bank because the commercial bank has to maintain certain portion of deposit to NRB which should be as required by NRB.

Table No.4.2: Cash & Bank Balance to Total Deposit

Fiscal Year	Cash & Bank Balance	Total Deposit	Ratio
2003/04	131,806,386.97	295,523,414.19	44.60
2004/05	202,948,313.00	715,844,345.00	28.35
2005/06	220,395,994.00	1,624,595,927.00	13.57
2006/07	392,021,197.00	2,358,908,404.00	16.62
2007/08	761,558,061.00	3,744,506,858.00	20.34
2008/09	1,357,797,230.00	4,380,018,844.00	31.00
2009/10	890,018,854.00	4,535,734,173.00	19.62
	Average		24.87

In the Fiscal Year 2004/05 the cash & bank balance has been increased by 53.97% and the total deposit has been increased by 142.23% due to which the ratio has been decreased as compared to previous year.

In FY 2005/06 the cash & bank balance has been increased by 8.60% and the total deposit has been increased by 126.95% therefore the ratio has been again decrease than FY 2004/05.

In FY 2006/07 the cash and bank balance has been increased by 77.87% and the total deposit has been increased by 45.20%. The ratio has been increase than FY 2005/06.

FY 2007/08 the cash and bank balance has been increased by 94.26% and the total deposit has been increased by 58.74% which ultimately increase the ratio as compared to previous year.

In FY 2008/09 the cash & bank balance has been increased by 78.29% and the total deposit has been increased by 16.97% due to which ratio increase to 31.00%.

In FY 2009/10 the cash & bank balance has been decreased by 34.45% and the total deposit has been increased by 3.56%. The ratio has decrease highly due to decrease in cash & bank balance.

The above table shows that average ratio is 24.87%. The ratio seems high in the FY 2003/04 of 44.60% and lowest in FY 2005/06 of 13.57%, which shows the failure of proper liquid management because the ratio is in fluctuating trend. Higher the ratio better is the

liquidity position but initialization of the fund, which sacrifice the opportunity of return on loan & advances.

4.1.3. Fixed Deposit To Total Deposit Ratio: -

Fixed Deposit is the long-term deposit and the bank can mobilize them on investment and loan & advances. The higher is the fixed deposit ratio lower is the short-term deposit, which is current, call, saving deposit.

Table No. 4.3: Fixed Deposit to Total Deposit Ratio

Fiscal Year	Fixed Deposit	Total Deposit	Ratio
2003/04	159,687,000.00	295,523,414.19	54.04
2004/05	474,139,000.00	715,844,345.00	66.23
2005/06	927,205,850.00	1,624,595,927.00	57.07
2006/07	1,532,649,685.00	2,358,908,404.00	64.97
2007/08	2,383,622,602.00	3,744,506,858.00	63.66
2008/09	2,100,218,551.00	4,380,018,844.00	47.95
2009/10	2,420,298,451.00	4,535,734,173.00	53.36
	Average		58.18

In FY 2004/05 the fixed deposit increases by 196.92% and total deposit increases by 142.23% due to which ratio increase from 54.04% to 66.23%.

In FY 2005/06 the fixed deposit increases by 95.56% and total deposit increases by 126.95% therefore the ratio decrease than previous year, which means the total deposit, consist less fixed deposit which is preferable for the bank.

In FY 2006/07 the fixed deposit increase by 65.30% and total deposit increase by 45.20% due to which ratio has been increased which is not healthy sign for the bank.

In FY 2007/08 the fixed deposit has increased by 55.52% and total deposit increase by 58.74%. So the ratio has been slightly decrease to 64.97% to 63.66% of previous year.

In FY 2008/09 the fixed deposit has been decreased by 11.89% whereas total deposit has been increased by 16.97% which ultimately decrease the ratio of the bank which is good for the bank because higher ratio means high interest bearing deposit.

In FY 2009/10 the fixed deposit has been increased by 15.24% against Total deposit which has been increased by 3.56% due to high increase in fixed deposit against the total deposit so there has been increased in ratio.

The above table shows average ratio of 58.18%. The highest ratio is in FY 2004/05 of 66.23% and lowest in the FY 2008/09 of 47.95%. The ratio is in fluctuating trend, higher ratio indicate the bank has high interest bearing deposit in total deposit mix whereas the lower ratio indicate the low interest bearing deposit in total deposit mix. The higher ratio of fixed deposit represents high cost of fund.

4.1.4. NRB Balance to Total Deposit: -

This ratio is necessary for the bank, as the commercial bank has to maintain certain portion of deposit to NRB as circulation made by the NRB, which changes time to time. So commercial bank should be careful to maintain this ratio otherwise the bank will be liable for the punishment set by the NRB. This ratio is calculated by dividing NRB Balance to Total Deposit

Table No. 4.4:NRB Balance To Total Deposit Ratio

Fiscal Year	NRB Balance	Total Deposit	Ratio
2003/04	37,260,340.01	295,523,414.19	12.61
2004/05	143,018,146.00	715,844,345.00	19.98
2005/06	144,107,263.00	1,624,595,927.00	8.87
2006/07	235,505,333.00	2,358,908,404.00	9.98
2007/08	574,125,657.00	3,744,506,858.00	15.33
2008/09	693,064,209.00	4,380,018,844.00	15.82
2009/10	371,866,848.00	4,535,734,173.00	8.20
	Average		12.97

In FY 2004/05 NRB balance has been increased by 283.83% and total deposit has been increased by 142.23% due to which ratio has been increase to 19.98% from 12.61%.

In FY 2005/06 NRB balance has been increased by 0.76% and total deposit has been increased by 126.95% therefore the ratio has decrease to 8.87% from 19.68%, which is satisfactory.

In FY 2006/07 NRB balance has been increased by 63.42% and total deposit has been increased by 45.20%. So the ratio has slightly increased.

In FY 2007/08 NRB balance has been increased by 143.78% and total deposit has been increased by 58.74%. So the ratio has increased from 9.98% to 15.33%.

In FY 2008/09 NRB balance has been increased by 20.72% and total deposit has been increased by 16.97% due to this slightly increase in ratio have been occurred.

In FY 2009/10 NRB balance has been decrease by 46.34% and total deposit has been increase by 3.56% only. So due to high decrease in NRB balance the ratio is highly decrease from 15.82% to 8.20%.

The above table shows that the ratio is in highly fluctuating trend. In the fiscal year 2004/05 the ratio is highest of 19.98% and in the fiscal year 2009/10 it is lowest of 8.20%, which proves that the ratio is in fluctuating trend. The average ratio of NRB Balance to Total Deposit is 12.97% that is significant liquidity but the bank has not adopting constant policy needed in sound performance of bank in utilizing its fund.

4.1.5. Cash and Bank Balance to Current Deposit Ratio: -

This ratio shows the availability of banks liquid or an immediate fund to meet unanticipated calls on current deposits.

Table No.4.5:Cash & Bank Balance To Current Deposit Ratio

Fiscal Year	Cash & Bank Balance	Current Deposit	Ratio
2003/04	131,806,386.97	65,785,997.84	200.36
2004/05	202,948,313.00	129,780,052.00	156.38
2005/06	220,395,994.00	421,627,018.00	52.27
2006/07	392,021,197.00	438,193,883.00	89.46
2007/08	761,558,061.00	761,682,296.00	99.98
2008/09	1,357,797,230.00	1,426,373,496.00	95.19
2009/10	890,018,854.00	951,004,571.00	93.59
	Average		112.46

In FY 2004/05 the cash and bank balance has been increased by 53.97% and the current deposit has been increased by 97.28% due to which the ratio has been decreased from 200.36% to 156.38%. In FY 2005/06 the cash and bank balance has been increased by 8.60% and the current deposit has been increased by 224.88%. The high increase in current deposit in comparison to current deposit has tremendously decreased the ratio from 156.38% to 52.27%.

In FY 2006/07 the cash and bank balance has been increased by 77.87% and the current deposit has been increased by 3.93% due to which the ratio have been increased from 52.27% to 89.46%.

In FY 2007/08 the cash and bank balance has been increased by 94.26% and the current deposit has been increased by 73.82%. So the ratio has been slightly increased from 89.46% to 99.98%.

In FY 2008/09 the cash and bank balance has been increased by 78.29% and the current deposit has been increased by 87.27%. The increase in current deposit is high than increase in cash and bank balance therefore the ratio is decreased from 99.98% to 95.19%.

In FY 2009/10 the cash and bank balance has been decreased by 34.45% and current deposit has been decreased by 33.33%. The decrease in current deposit is high than decrease in cash and bank balance due to which the ratio is decreased from 95.19% to 93.59%.

The average ratio is 112.46% with highest ratio of 200.36% in FY 2003/04 and lowest in FY 2005/06 of 52.27%. The overall ratio is quite high which shows it unanticipated demand to meet its current obligation that is good but in the same side the bank sacrifice the opportunity of earning from the unutilized Fund.

4.1.6. Saving Deposit to Total Deposit Ratio: -

This ratio is calculated by dividing saving deposit to total deposit ratio. Saving Deposit are short-term interests bearing deposits. These ratios show the proportion of these deposits on total deposits. This deposit's main purpose is to make the saving habit in the common people and non-profit making organization

Table No. 4.6: Saving Deposit To Total Deposit Ratio

Fiscal Year	Saving Deposit	Total Deposit	Ratio
2003/04	43,811,692.46	295,523,414.19	14.83
2004/05	73,846,385.00	715,844,345.00	10.32
2005/06	181,732,366.00	1,624,595,927.00	11.19
2006/07	345,623,157.00	2,358,908,404.00	14.65
2007/08	527,237,236.00	3,744,506,858.00	14.08
2008/09	78,671,1245.00	4,380,018,844.00	17.96
2009/10	90,2758,609.00	4,535,734,173.00	19.90
	Average		14.70

In FY 2004/05 Saving deposit increase by 68.55% and total deposit increase by 142.23% due to which ratio decline from 14.83% to 10.32%.

In FY 2005/06 saving deposit increases by 146.10% and total deposit increase by 126.95%. The ratio increases from 10.32% to 11.19%.

In FY 2006/07 saving deposit increase by 90.18% and total deposit increase by 45.20%. The ratio increases from 11.19% to 14.65%.

In FY 2007/08 saving deposit increase by 52.55% and total deposit increases by 58.74%. The ratio decreases from 14.65% to 14.08%.

In FY 2008/09 saving deposit increases by 49.21% and total deposit increases by 16.97%. The ratio increases from 14.08% to 17.96%.

In FY 2009/10 saving deposit increase by 14.75% and total deposit increase by 3.56%. The ratio increases from 17.96% to 19.90%.

The above table shows that average ratio is 14.70%. The highest ratio of 19.90% is on FY 1999/00 and the lowest ratio of 10.32% is on FY 2004/05. The low percentage of saving deposit reveals that the liquidity position of NSBL is satisfactory. The above description helps to conclude that the NSBL liquidity position can be marked as satisfactory.

4.1.7. Current Deposit to Total Deposit Ratio: -

This ratio is calculated by dividing current deposit to total deposit. Current Deposit is short-term non-interest bearing deposit. These ratios show the proportion of these deposits on total deposits. Higher the Current deposit ratio more beneficial it will be for the bank.

Table No. 4.7: Current Deposit To Total Deposit Ratio

Fiscal Year	Current Deposit	Total Deposit	Ratio
2003/04	65,785,997.84	295,523,414.19	22.26
2004/05	129,780,052.00	715,844,345.00	18.13
2005/06	421,627,018.00	1,624,595,927.00	25.95
2006/07	438,193,883.00	2,358,908,404.00	18.58
2007/08	761,682,296.00	3,744,506,858.00	20.34
2008/09	1,426,373,496.00	4,380,018,844.00	32.57
2009/10	951,004,571.00	4,535,734,173.00	20.97
	Average		22.68

In FY 2004/05 current deposit has been increased by 97.28% and total deposit has been increased by 142.23%. The ratio has been decreased from 22.26% to 18.13%.

In FY 2005/06 current deposit has been increased by 224.88% and total deposit has been increased by 126.95% due to which the ratio has been increased from 18.13% to 25.95%.

In FY 2006/07 current deposit has been increased by 3.93% whereas total deposit has been increased by 45.20%. So the ratio has been decrease from 25.95% to 18.58%.

In FY 2007/08 current deposit has been increased by 73.83% and total deposit has been increased by 58.74% which ultimately increases the ratio from 18.58% to 20.34%.

In FY 2008/09 current deposit has been increased by 87.27% and total deposit has been increased by 16.97% due to which the ratio increases from 20.34% to 32.57%.

In FY 2009/10 current deposit has been decreased by 33.33% and total deposit has been increased by 3.56% due to which the ratio has change from 32.57% to 20.97%.

The average deposit mix of current deposit in total deposit is 22.68% with highest in FY 2008/09 with 32.57% and lowest in FY 2004/05 with 18.13%. Since current deposit is non-interest bearing deposit the more current deposit is available in the total deposit mix the more it will be beneficial for the bank. The above table clearly shows that the deposit is highly fluctuating which means there is lack of proper deposit management.

4.2 Activity Ratio: -

Activity ratios are intended to measure the effectiveness to employment of the resources in a business concern. Through these ratios, it is known whether the funds employed have been used efficiently in the business activities or not.

The funds of depositors and owners are invested in various assets to generate profits. The better the management of assets, the higher the amount of profits. Activity ratios are employed to evaluate the

efficiency with which the bank manages and utilizes its assets. To judge the effectiveness of assets utilization, activity ratios are calculated which depend upon the various types of assets in the study. The following are the ratios employed to analyze the activities of NSBL.

4.2.1. Loan & Advance (Including Bill Discounted) to Total Deposit Ratio: -

This ratio measures the extent to which the banks are successful to mobilize the outsider's fund on loan and advances (Including Bill Discounted) for the purpose of profit generation. The ratio is shown in the following table.

Table No. 4.8: Loan & Advance (including Bill Discounted) To Total Deposit Ratio

Fiscal Year	Loan & Advance (incl. BD)	Total Deposit	Ratio
2003/04	283,453,757.76	295,523,414.19	95.92
2004/05	609,194,073.00	715,844,345.00	85.10
2005/06	1,175,314,830.00	1,624,595,927.00	72.35
2006/07	1,718,790,999.00	2,358,908,404.00	72.86
2007/08	2,363,559,152.00	3,744,506,858.00	63.12
2008/09	2,963,032,294.00	4,380,018,844.00	67.65
2009/10	3,559,409,677.00	4,535,734,173.00	78.47
	Average		76.50

In FY 2004/05 Loan & Advances increase by 114.92% and total deposit increases by 142.23% due to which the ratio has been decreased from 95.92% to 85.10%.

In FY 2005/06 Loan & advances increase by 92.93% as compared to previous year whereas total deposit increases by 126.95%. So, the deposit utilization has been decrease from 85.10% to 72.35%, which shows that the bank is not following the liberal lending policy.

In FY 2006/07 Loan & Advances increases by 46.24% but total deposit increases by 45.20% due to which the ratio has been increased from 72.35% to 72.86%.

In FY 2007/08 Loan & Advances increases by 37.51% and total deposit increases by 58.74% therefore the ratio has been decrease.

In FY 2008/09 Loan & Advances increases by 25.36% and total deposit increases by 16.97% and in the same side the ratio of deposit utilization has also been increased from 63.12% to 67.65%. In FY 2009/10 Loan & Advances increases by 20.13% and total deposit increases by 3.56%. So, there has been drastic increase in the ratio of deposit utilization from 67.65% to 78.47%.

The ratio is highest in FY 2003/04 of 95.92% and lowest at the fiscal year 2007/08 of 63.12%. The average ratio is 76.50% .The above table clearly shows that the deposit utilization ratio is quite fluctuating which indicates that the bank is not following the constant deposit utilizing policy.

4.2.2. Investment To Total Deposit Ratio: -

This ratio shows how effectively the bank is utilizing its deposit on Investment. This ratio is calculated by dividing Investment to total deposit ratio.

Table No. 4.9: Investment To Total Deposit Ratio

Fiscal Year	Investment	Total Deposit	Ratio
2003/04	13,465,912.50	295,523,414.19	4.56
2004/05	32,408,840.00	715,844,345.00	4.53
2005/06	374,378,043.00	1,624,595,927.00	23.04
2006/07	396,820,300.00	2,358,908,404.00	16.82
2007/08	681,589,410.00	3,744,506,858.00	18.20
2008/09	202,578,300.00	4,380,018,844.00	4.63
2009/10	201,793,780.00	4,535,734,173.00	4.45
	Average		10.89

In FY 2004/05 Investment increases by 140.67% and total deposit increases by 142.23% due to which the ratio has been decreased from 4.56% to 4.53%.

In FY 2005/06 Investment increases by 1055.17% and total deposit increases by 126.95% due to which the ratio has been tremendously increases from 4.53% to 23.04%.

In FY 2006/07 the investment has been increases by 5.99% and the total deposit has been increases by 45.20% therefore the ratio has been decrease from 23.04% to 16.82%.

In FY 2007/08 the investment has been increase by 71.76% and the total deposit has been increased by 58.74% therefore the ratio has been increase from 16.82% to 18.20%.

In FY 2008/09 the investment has been decreased by 70.28% and the total deposit has been increased by 16.97%, which ultimately decrease the ratio from 18.20% to 4.63%.

In FY 2009/10 the investment has been decrease by 0.39% and the total deposit has been increased by 3.56% due to which ratio decrease from 4.63% to 4.45%.

The above analysis clears that the investment to total deposit is in highly fluctuating trend for NSBL. It is lowest in FY 2009/10 of 4.45% and highest in FY 2005/06 of 23.04%. The average ratio is 10.89%, which clearly shows that NSBL is utilizing its deposits less on investment.

4.2.3. Loan & Advances to Fixed Deposit Ratio: -

This ratio is calculated by dividing Loan & advances by fixed deposit.

Table No. 4.10: Loan & Advances To Fixed Deposit Ratio

Fiscal Year	Loan & Advance	Fixed Deposit	Ratio
2003/04	275,905,086.33	159,687,000.00	172.78
2004/05	603,290,899.00	474,139,000.00	127.24
2005/06	1,142,998,320.00	927,205,850.00	123.27
2006/07	1,672,719,593.00	1,532,649,685.00	109.14
2007/08	2,314,979,430.00	2,383,622,602.00	97.12
2008/09	2,905,258,365.00	2,100,218,551.00	138.33
2009/10	3,502,258,008.00	2,420,298,451.00	144.70
	Average		130.37

In FY 2004/05 loan & advances increases by 196.62% and fixed deposit increases by 286.92%. Therefore the ratio increases from 172.78% to 127.24%.

In FY 2005/06 the loan & advances increases by 89.46% and the fixed deposit increases by 95.56% due to which the ratio has also been decreased.

In FY 2006/07 the loan & advance increases by 46.34% and the fixed deposit increases by 65.30%. The ratio then decreases from 123.27% to 109.14%.

In FY 2007/08 the loan & advance increases by 38.40% and the fixed deposit increases by 55.52%, therefore the ratio has been decreased.

In FY 2008/09 the loan & advance increases by 25.50% but the fixed deposit has been increased by 11.89%, which have increased the ratio from 97.12% to 138.33%.

In FY 2009/10 the loan & advances has been increased by 20.55% and the fixed deposit has been increased by 15.24%. The ratio has been increased from 138.33% to 144.70%.

The average ratio is 130.37% which include the highest ratio at the FY 2003/04 of 172.78% and lowest at the FY 2007/08 of 97.12%.

4.2.4. Loan & Advances to Saving Deposit Ratio: -

The ratio of loan & advance to saving deposit ratio measures the efficiency of NSBL on its saving deposit.

Table No.4.11: Loan & Advance to Saving Deposit

Fiscal Year	Loan & Advance	Saving Deposit	Ratio
2003/04	275,905,086.33	43,811,692.46	629.75
2004/05	603,290,899.00	73,846,385.00	816.95
2005/06	1,142,998,320.00	181,732,366.00	628.95
2006/07	1,672,719,593.00	345,623,157.00	483.97
2007/08	2,314,979,430.00	527,237,236.00	439.08
2008/09	2,905,258,365.00	786,711,245.00	369.29
2009/10	3,502,258,008.00	902,758,609.00	387.95
	Average		536.56

In FY 2004/05 the loan & advances has been increased by 118.66% and the saving deposit has been increased by 68.55% due to which the ratio has been increased from 629.75% to 816.95%.

In FY 2005/06 the loan & advances has been increased by 89.46% and the saving deposit has been increased by 146.10%. So, the ratio has been increased.

In FY 2006/07 the loan & advances has been increased by 46.34% and the saving deposit has been increased by 90.18% therefore ratio decrease from 628.95% to 483.97%.

In FY 2007/08 the loan & advances has been increase by 38.40% and the saving deposit has been increased by 52.55% due to which the ratio has been decreased from 483.97% to 439.08%.

In FY 2008/09 the loan & advances has been increased by 25.50% and the saving deposit has been increased by 49.21% therefore the ratio has been again decrease from 439.08% to 369.29%.

In FY 2009/10 the loan & advances has been increased by 20.55% than previous year and saving deposit has been increased by 14.75% due to which the ratio has been increased from 369.29% to 387.95%.

The above table shows that the loan & advances to saving deposit is quite high with average of 536.56%. Since saving deposit is short-term deposit there is always chance of withdrawals so bank should try to maintain this ratio. The ratio is high on FY 2004/05 of 816.95% and low on FY 2008/09 of 369.29% the ratio is highly fluctuating so there seems lack of proper management of saving deposit to loan & advances.

4.2.5. Loan & Advances to Current Deposit Ratio: -

This ratio shows how bank is utilizing its current deposit on loan & advances. Current deposit is short-term deposit so there is high chance of it being withdrawals so the bank should consider that high loan & advances to current deposit ratio is not fruitful for the bank. Though the bank should analysis the past trend of withdrawal of current deposit from the bank and maintains the ratio appropriately so that bank can have optimum advantage from the current deposit of the bank. The below table shows the bank ratio.

Table No. 4.12: Loan & Advances to Current Deposit Ratio

Fiscal Year	Loan & Advance	Current Deposit	Ratio
2003/04	275,905,086.33	65,785,997.84	419.40
2004/05	603,290,899.00	129,780,052.00	464.86
2005/06	1,142,998,320.00	421,627,018.00	271.09
2006/07	1,672,719,593.00	438,193,883.00	381.73
2007/08	2,314,979,430.00	761,682,296.00	303.93
2008/09	2,905,258,365.00	1,426,373,496.00	203.68
2009/10	3,502,258,008.00	951,004,571.00	368.27
	Average		344.71

In FY 2004/05 the loan & advances has been increased to 118.66% and current deposit has been increased to 97.28% on the same side the ratio has also been increased from 419.40% to 464.86%.

In FY 2005/06 the loan & advances has been increased by 89.46% whereas current deposit has been increased by 224.88%. Current deposit has been increased tremendously so it ultimately decrease the ratio from 464.86% to 271.09% this can safe side the bank in the heavy withdrawal from the bank, But if the withdrawal is less than the bank miss the opportunity which it can utilize by providing loans bank should maintain optimum ratio so that bank can earn more.

In FY 2006/07 the loan & advances increases by 46.34% and the current deposit increases by 3.93% which increases the ratio from 271.09% to 381.73%, which means there is more utilization of current deposit.

In FY 2007/08 the loan & advances increases by 38.40% and the current deposit increases by 73.82%, which ultimately decreases the ratio from 381.73% to 303.93%.

In FY 2008/09 the loan & advances increases by 25.50% and the current deposit increases by 87.27% due to which the ratio decreases from 303.93% to 203.68%.

In FY 2009/10 the loan & advances increases by 20.55% whereas current deposit decreases by 33.33% so there is significantly increase in the ratio from 203.68% to 368.27%.

The average ratio is 344.71% and the highest ratio is on FY 2004/05 of 464.86% and lowest ratio is on FY 2005/06 of 203.68%. This shows that there is highly fluctuating in the ratio which shows lack of constant loan & advances to current deposit ratio.

4.3 Profitability Ratio: -

A company should earn profit to survive and grow over long period of time. Profits are essential, but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profits.

Profitability ratio indicates the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the efficiency of a business firm. Similarly bank is profit-oriented organization and the success and failure of the bank depends upon its profitability showing how efficiently it is utilizing its deposit. The various ratios to measure the efficiency of the bank are as follows.

4.3.1. Return on Net worth Ratio: -

This ratio can also be treated as return on capital employed ratio, which shows how efficiently the bank is utilizing its Net worth for profit generation. The efficiency can be analyzed from the below table.

Table No.4.13: Return on Net worth Ratio

Fiscal Year	Net Profit	Net Worth	Ratio
2003/04	133,762.03	119,956,178.05	0.11
2004/05	7,370,832.00	133,464,850.00	5.52
2005/06	37,886,580.00	149,398,377.00	25.36
2006/07	44,920,940.00	177,199,486.00	25.35
2007/08	58,976,519.00	222,610,910.00	26.49
2008/09	16,760,390.00	310,932,949.00	5.39
2009/10	50,065,475.00	197,586,141.00	25.34
	Average		16.22

In FY 2004/05 the net profit increases by 5410.40% than previous year, which is tremendously higher, this shows that bank has achieved milestone in profit and the increase in net worth is 11.26%, which has increased ratio from 0.11% to 5.52%, which is good sign of bank performance.

In FY 2005/06 the net profit has been increased by 80.55% and the net worth has been increased by 11.94% due to which the ratio has been increased from 5.52% to 25.36%.

In FY 2006/07 the net profit has been increased by 18.56% and the net worth has been increased by 18.61% therefore the ratio has been decreased to 25.36% to 25.35%.

In FY 2007/08 the net profit has been increased by 31.29% and the net worth has been increased by 25.63% due to which the ratio has been increased from 25.35% to 26.49%.

In FY 2008/09 the net profit has decreased by 71.58% and the net worth has increased by 39.68% therefore there is tremendous decrease on ratio from 26.49% to 5.39%.

In FY 2009/10 the net profit has been increase by 198.71% and the net worth has decrease by 36.45%. So the ratio has been increase from 5.39% to 25.34%.

The average ratio is 16.22%. Return on net worth is increasing every year except the FY 2008/09 when the return on net worth is highly decrease which is not fruitful for the bank which shows that bank is not moving towards prosperity so attention should be given in this regard otherwise it will be difficult for the bank to survive in this competitive banking sector.

4.3.2. Return on Total Deposit: -

This ratio shows that how much effectively the bank is getting return on its total deposit which he is collecting in the form of saving, current, fixed etc. Thus ratio reflects the bank position of utilizing the deposit, which it contains.

Table No. 4.14: Return On Total Deposit

Fiscal Year	Net Profit	Total Deposit	Ratio
2003/04	133,762.03	295,523,414.19	0.05
2004/05	7,370,832.00	715,844,345.00	1.03
2005/06	37,886,580.00	1,624,595,927.00	2.33
2006/07	44,920,940.00	2,358,908,404.00	1.90
2007/08	58,976,519.00	3,744,506,858.00	1.58
2008/09	16,760,390.00	4,380,018,844.00	0.38
2009/10	50,065,475.00	4,535,734,173.00	1.10
	Average		1.20

In FY 2004/05 the net profit has been increase by 5410.41% than previous year which is quite high and the deposit has been increased by 142.33% due to which the return on total deposit has been shifted from 0.05% to 1.03%.

In FY 2005/06 the net profit has been increase by 414.01% and the total deposit has been increase by 126.95%. So the return on deposit has been increased from 1.03% to 2.33%.

In FY 2006/07 the net profit has been increased by 18.57% whereas total deposit has been increase by 45.20%, which decrease the ratio from 2.33% to 1.90%.

In FY 2007/08 the net profit has been increase by 31.29% and the total deposit has been increase by 58.74%, which decrease the ratio.

In FY 2008/09 the net profit decrease by 71.58% and the total deposit increase by 18.40%, which decrease the ratio from 1.58% to 0.38%.

In FY 2009/10 the net profit increase by 198.71% and the total deposit increase by 3.56%, which increase the ratio from 0.38% to 1.10%.

The average ratio is 1.20% with highest 2.33% in FY 2005/06 and lowest 0.38% in FY 2008/09. Higher the ratio better it will be for the bank. Which means that it has earn high on total deposit.

4.3.3. Return on Total Asset Ratio: -

The ratio of return on total assets measures the success and failure to utilize the total assets. This ratio judges effectiveness in using the pool of funds which is useful to measure the profitability of all the financial resources invested in the firm's assets. Higher the ratio betters the financing position. Return on total assets is computed by dividing the net profit by total assets.

The following table shows the return on total assets of NSBL from 2003/04 to 2009/10.

Table No. 4.15:Return On Total Asset Ratio

Fiscal Year	Net Profit	Total Asset	Ratio
2003/04	133,762.03	446,766,210.54	0.03
2004/05	7,370,832.00	888,506,561.00	0.83
2005/06	37,886,580.00	1,866,459,171.00	2.03
2006/07	44,920,940.00	2,684,214,476.00	1.67
2007/08	58,976,519.00	4,028,008,198.00	1.46
2008/09	16,760,390.00	4,760,038,970.00	0.35
2009/10	50,065,475.00	5,123,054,020.00	0.98
	Average		1.05

In FY 2004/05 the net profit has been increased by 5410.41% and total asset has been increase by 142.23% due to which the ratios has been increased from 0.03% to 0.83%.

In FY 2005/06 net profit has been increase by 414.01% and total assets have been increased by 110.08%. Since the increase in net profit is higher than increase in total assets, so there has been increased in the ratio.

In FY 2006/07 net profit has been increase by 18.57% and total assets has been increase by 43.10%. The increase percentage of net profit is higher which decrease the ratio from 2.03% to 1.67%. In FY 2007/08 the net profit has been increased by 31.29% and total asset has been increase by 49.09% due to which the ratio has again decreased

In FY 2008/09 the net profit has been decreased by 71.58% and the total asset increase by 18.40% therefore the ratio has significantly fallen down from 1.46% to 0.35%, which is not beneficial for the bank.

In FY 2009/10 the net profit has been increased by 198.71% and the total asset increases by 6.71%. Since the increase in net profit is higher than increase in total assets the ratio has been increase than previous year.

The table shows the highest return on total assets of 2.03% on FY 2005/06 and lowest return on total asset of 0.03 on FY 2003/04 with average ratio of 1.05%. Higher ratio implies the better utilization of resources. Assets nature also plays a key factor to generate profit. Hence, the investment in assets leads to generate profit. The ratio is in increasing trend from 2003/04 to 2005/06 and afterward from 2005/06 to 2008/09 the ratio has been decreased and again increases from 2008/09 to 2009/10, which shows bank inefficiency to mobilize its total assets due to which the bank ratio is in highly fluctuating trend.

4.3.4. Total Interest Earn to Total outside Ratio: -

This ratio measure the percentage of Total interest earned on Total outside asset, which are investment, loan & advances, bills discounted.

Table No. 4.16 Total Interest Earn on Total Outside Asset Ratio

Fiscal Year	Total Interest Earn	Total Outside Asset	Ratio
2003/04	19,967,356.41	29,691,9670.3	6.72
2004/05	65,612,982.00	641,602,913.00	10.23
2005/06	174,640,987.00	1,549,692,873.00	11.27
2006/07	261,697,933.00	2,115,611,299.00	12.37
2007/08	365,030,304.00	3,045,148,562.00	11.99
2008/09	403,488,620.00	3,165,610,594.00	12.75
2009/10	437,315,885.00	3,761,203,457.00	11.63
	Average		10.99

In FY 2004/05 the interest earn has increase by 228.60% and the total outside asset has been increase by 206.09% therefore the ratio has been increased.

In FY 2005/06 the interest earn increase by 166.17% and total outside asset increase by 141.53%. Since the increase of interest earn is higher than increase on total outside asset the ratio has been increased from 10.23% to 11.27%.

In FY 2006/07 the interest earn increases by 49.85% and total outside asset increases by 36.52% due to which the ratio has increase from 11.27% to 12.37%.

In FY 2007/08 the interest earn increases by 39.49% and total outside asset increases by 43.94%. Since the interest earns increase percentage is less than total outside asset increase percentage the ratio has been decrease from 12.37% to 11.99%.

In FY 2008/09 the interest earn increase by 10.54% and total outside asset increases by 3.96% due to which the ratio has been increase from 11.99% to 12.75%.

In FY 2009/10 the interest earn increases by 8.38% and total outside asset increase by 18.81% therefore the ratio has been decreased from 12.75% to 11.63%.

The average ratio is 10.99% with highest of 12.75% on FY 2008/09 and 6.72% lowest in the FY 2003/04. The ratio indicates that the bank is less successful in generating interest income by mobilizing earning assets.

4.3.5. Return on Risky Asset: -

The ratio of return on risky assets is useful in measuring the profitability of all financial resource invested in the banks risky assets. Return means net profit after tax and risky asset means loan & advances plus bill discounted.

Table No. 4.17: Return On Risky Asset

Fiscal Year	Net Profit	Risky Asset	Ratio
2003/04	133,762.03	283,453,757.76	0.05
2004/05	7,370,832.00	609,194,073.00	1.21
2005/06	37,886,580.00	1,175,314,830.00	3.22
2006/07	44,920,940.00	1,718,790,999.00	2.61
2007/08	58,976,519.00	2,363,559,152.00	2.50
2008/09	16,760,390.00	2,963,032,294.00	0.57
2009/10	50,065,475.00	3,559,409,677.00	1.41
	Average		1.65

In FY 2004/05 the net profit has increase by 5410.41% than previous year and the risky asset has increase by 53.47%. Since the increase percentage of net profit is quite high the ratio has been increased.

In FY 2005/06 the net profit has been increase by 414.01% and the risky asset has increase by 53.47% due to which the ratio is increase from 1.21% to 3.22%.

In FY 2006/07 the net profit has been increase by 18.57% and the risky asset has increase by 92.93% therefore the ratio has been decrease from 3.22% to 2.61%.

In FY 2007/08 the net profit has been increase by 31.29% and the risky assets has increases by 37.51%. Since the increase in risky asset is higher than increase in net profit the ratio has been decrease from 2.61% to 2.50%.

In FY 2008/09 the net profit has been decrease by 71.58% and the risky asset has been increase by 25.36%. The ratio has been tremendously fallen down from 2.50% to 0.57%, which is not proper for sound banking.

In FY 2009/10 the net profit has been increase by 198.71% and the risky asset has been increase by 20.13%. Since the increase in net profit percentage is higher than risky asset the ratio has been increased from 0.57% to 1.41%.

The table shows the ratio of return on risky assets is highest of 3.22% in the FY 2005/06 and lowest in the FY 2003/04 with 0.05%. The average ratio is 1.65%. and the above table shows the fluctuating trend of this ratio. Lower ratio indicates less investment on risky assets from the financial resources available. Return means not only the interest received from loans and advances (Incl. Bill discounted) so there are many other factors influencing the return. Return on risk assets measure the capacity of bank to generate profit from its investment, the reasons for declining the return may be due to idle fund raised for deposits.

4.3.6. Interest Expenses on Deposit to Interest Income on Loan & Advances Ratio: -

This ratio measures the ratio of interest expenses against interest income. Lower the ratio better it will be for the bank and higher the ratio it will be disadvantage to the bank.

Table No. 4.18: Interest Expenses On Deposit To Interest Income On Loan & Advances Ratio

Fiscal Year	Interest On Deposit	Interest On Loan & Advances	Ratio
2003/04	8,645,179.53	19,967,356.41	43.30
2004/05	35,087,509.00	65,612,982.00	53.48
2005/06	100,875,234.00	174,640,987.00	57.76
2006/07	162,646,258.00	261,697,933.00	62.15
2007/08	240,745,681.00	365,030,304.00	65.95
2008/09	310,794,981.00	403,488,620.00	77.03
2009/10	281,657,912.00	437,315,855.00	64.41
	Average		60.58

In FY 2004/05 the interest expenses on deposit has increase by 305.86% and interest income on loan and advances has increases by 228.60% due to which the ratio has been increase from 43.30% to 53.48%.

In FY 2005/06 the interest expenses on deposit has increase by 187.50% and interest income on loan and advances increases by 166.17%. Since the increase percentage of interest expenses on deposit is higher than interest income on loan & advances the ratio has increase from 53.48% to 57.76%.

In FY 2006/07 the interest expenses on deposit has increase by 61.24% and interest income on loan & advance has increase by 49.85%, therefore the ratio has been increase from 57.76% to 62.15%.

In FY 2007/08 the interest expenses on deposit has increase by 48.02% and interest income on loan & advance has increase by 39.49% due to which the ratio has been decreased.

In FY 2008/09 the interest expenses on deposit has increase by 29.10% and interest income on loan & advance has increase by 10.54% therefore the ratio has been increase from 65.95% to 77.03%.

In FY 2009/10 the interest expenses on deposit has decrease by 9.38% and interest on loan & advances has increase by 8.38%. Since the increase percentage of interest expenses on deposit is decrease the ratio has decreased.

The average ratio is 60.58% with highest on FY 2008/09 with 77.03% and lowest in FY 1993/94 with 43.30%. Lower ratio is preferred because its shows high income against expenses on interest.

4.3.7. Return on Investment: -

The ratio of return on investment measures the capacity of the bank to generate profit from its investment. In other words, return on investment is the contribution of investment to net profit.

Table No. 4.19:Return On Investment

Fiscal Year	Net Return	Investment	Ratio
2003/04	133,762.03	13,465,912.50	0.99
2004/05	7,370,832.00	32,408,840.00	22.74
2005/06	37,886,580.00	374,378,043.00	10.12
2006/07	44,920,940.00	396,820,300.00	11.32
2007/08	58,976,519.00	681,589,410.00	8.65
2008/09	16,760,390.00	202,578,300.00	8.27
2009/10	50,065,475.00	201,793,780.00	24.81
	Average		12.42

In FY 2004/05 the net profit has increase by 5410.41% and the investment has increase by 140.67% due to which there has been drastic change in the ratio from 0.99% to 22.74%

In FY 2005/06 the net profit has increase by 414.01% and investment has increase by 1055.17% therefore the ratio has been decreased from 22.74% to 10.12%

In FY 2006/07 the net profit has increase by 18.57% and investment has increase by 5.99%. Since the increase percentage of net profit is higher than increase in investment the ratio has increase from 10.12% to 11.32%.

In FY 2007/08 the net profit has increase by 31.29% and investment has increase by 71.76%, which ultimately decrease the ratio from 11.32% to 8.65%.

In FY 2008/09 the net profit has decrease by 71.58% and investment has decrease by 70.28%, which again decrease the ratio.

In F.Y. 2009/10 the net profit has increase by 198.71% and the investment decrease by 0.38%, which made the significant increment in the ratio from 8.27% to 24.81%.

The average ratio is 12.42% with 22.74% and 0.99%with highest and lowest in the FY 2004/05 and 2003/04 respectively. Higher ratio shows the good return on investment so the bank does not seem in achieving the expected return on investment.

4.3.8. Net Worth per Share: -

This ratio is calculated by dividing the net worth capital, which is paid up capital plus reserve divided by no. of shares.

Table No. 4.20:Net worth Per Share

Fiscal Year	Net Worth	No. Of Common Share	Ratio
2003/04	119,956,178.05	1,200,000.00	99.96
2004/05	133,464,850.00	1,200,000.00	111.22
2005/06	149,398,377.00	1,200,000.00	124.50
2006/07	177,199,486.00	1,200,000.00	147.67
2007/08	222,610,910.00	1,200,000.00	185.51
2008/09	310,932,949.00	1,200,000.00	259.11
2009/10	197,586,141.00	1,200,000.00	164.66
	Average		156.09

The above table clearly states the financial position of the bank. The net worth has been increased by 11.26%, 11.94%, 18.61%, 25.63%, 39.68% from 2003/04 to 2008/09 respectively than previous yearn FY 2009/10 the net worth has decrease by 36.45% than previous year. The no. of common share outstanding is same in seven year.

The average net worth per share is 156.09% with highest in FY 2008/09 of Rs.259.11 and lowest in FY 2003/04 with lowest of Rs.99.96. Higher ratio shows the soundness of the bank and assure sure of the depositor and shareholders fund in the bank which increase the market value of the share.

4.3.9 Earning Per Share: -

Earning per Share simply shows the profitability of the firm on a per share basis, it does not reflect how much is paid as dividend and how much is retained in the business. NSBL EPS has been given in the below table

Table No.4 .21 Earning per Share

Fiscal Year	Net Profit	No. of Common Share	Ratio
2003/04	133,762.03	1,200,000.00	0.11
2004/05	7,370,832.00	1,200,000.00	6.14
2005/06	37,886,580.00	1,200,000.00	31.57
2006/07	44,920,940.00	1,200,000.00	37.43
2007/08	58,976,519.00	1,200,000.00	49.15
2008/09	16,760,390.00	1,200,000.00	13.97
2009/10	50,065,475.00	1,200,000.00	41.72
	Average		25.73

The average earning per share is Rs.25.73 with highest of Rs.49.15 in FY 2007/08 and lowest in FY 2003/04 with Rs.0.11. EPS of the bank is far from satisfaction and in the fluctuating trend with increasing and decreasing trends, which is the sign of sickness in the bank, which have to be eliminated with proper management.

Higher ratio is preferable the more the bank can earn more beneficial it will be for the organization to sustain in the today's competitive banking environment where profit is the primary source of measuring the efficiency of the bank.

4.3.10. Interest Income to Total Income Ratio: -

These ratio shows the interest income in the total income ratio as the interest earn on loan & advances, investment, Bill discounted are the main source of interest income. The ratio of Interest income on total income of NSBL for different FY are as given in table below.

Table No.4.22: Interest income to Total Income Ratio

Fiscal Year	Interest Income	Total income	Ratio
2003/04	19,967,356.41	35,304,117.96	56.56
2004/05	65,612,982.00	85,173,743.00	77.03
2005/06	174,640,987.00	203,642,698.00	85.76
2006/07	261,697,933.00	293,457,527.00	89.18
2007/08	365,030,304.00	415,929,582.00	87.76
2008/09	403,488,620.00	452,415,332.00	89.19
2009/10	437,315,885.00	495,286,119.00	88.30
	Average		81.97

In FY 2004/05 interest income has increase by 228.60% whereas total income has increase by 141.26% due to which the ratio has increase from 56.56% to 77.03%.

In F.Y.2005/06 interest income has increase by 166.17% and total income has increase by 139.10% due to which ratio has been increased again.

In FY 2006/07 interest income has increase by 49.85% and the total income increases by 44.10% therefore ratio increase from 85.76% to 89.18%.

In FY 2007/08 interest income has increase by 39.49% and the total income increases by 41.73%, which decrease the ratio from 89.18% to 87.76%.

In FY 2008/09 interest income increase by 10.54% and the total income increase by 8.77%, which increase the ratio from 87.76% to 89.19%.

In FY 2009/10 interest income increase by 8.38% than previous year whereas the total income increase by 9.48%. Since the increase percentage of total income is higher than interest income the ratio has decrease.

The average ratio is 81.97% with highest at FY 2008/09 of 89.19% and lowest at FY 2009/10 with 56.56%. Higher ratio indicate higher share of profit contain interest income whereas lower ratio indicate the low proportion of interest income on total income.

4.3.11.Commission and Discount to Total Income Ratio: -

This ratio is calculated by dividing commission & discount income by Total income. Higher ratio indicates the higher share of commission and discount in total income and lower share is the sign of lower portion of income in total income.

Table No.4.23:Commission & Discount to Total Income

Fiscal Year	Commission & Discount	Total income	Ratio
2003/04	6,482,720.40	35,304,117.96	18.36
2004/05	8,503,751.00	85,173,743.00	9.98
2005/06	12,616,525.00	203,642,698.00	6.20
2006/07	19,482,505.00	293,457,527.00	6.64
2007/08	22,073,953.00	415,929,582.00	5.31
2008/09	27,199,760.00	452,415,332.00	6.01
2009/10	34,175,265.00	495,286,119.00	6.90
	Average		8.49

In FY 2004/05 commission & discount increase by 31.18% and total income increase by 141.26%. Since increase in Commission & discount percentage is higher than increase in total income the ratio decrease from 18.36% to 9.98%.

In FY 2005/06 commission and discount increase by 48.36% and total income increase by 139.10% due to which the ratio decrease.

In FY 2006/07 commission & discount increase by 54.42% whereas total income increases by 44.10% therefore the ratio increase from 6.20% to 6.64%.

In FY 2007/08 commission & discount increase by 13.30% and total income increase by 41.73%. Since the increase percentage of total income is high the ratio decreasing from 6.64% to 5.31%?

In F.Y.2008/09 Commission & discount increase by 23.22% than previous year and total income increase by 8.77% which change the ratio from 5.31% to 6.01%.

In FY 2009/10 Commission & Discount increase by 25.65% and total income increase by 9.48%, which ultimately increase the ratio from 6.01% to 6.90%.

The average ratio is 8.49% with highest in FY 2003/04 of 18.36% and lowest in FY 2008/09 with 6.01%. The high ratio is indicator of high share of commission and discount in total income and low ratio is the sign of low share of commission & discount earning in total income.

4.3.12. Interest Expenses to Total Deposit Ratio: -

This ratio shows the cost of fund the bank bears in utilizing its total deposit. Higher ratio shows that bank expenses in interest are high and lower ratio shows vice versa. NSBL interest expenses to total deposit ratio for seven years are presented below in a table.

Table No. 4.24: Interest Expenses to Total Deposit Ratio

Fiscal Year	<i>Interest Expense</i>	Total Deposit	Ratio
2003/04	8,645,179.53	295,523,414.19	2.93
2004/05	35,087,509.00	715,844,345.00	4.90
2005/06	100,875,234.00	1,624,595,927.00	6.21
2006/07	162,646,258.00	2,358,908,404.00	6.89
2007/08	240,745,681.00	3,744,506,858.00	6.43
2008/09	310,794,981.00	4,380,018,844.00	7.10
2009/10	281,657,912.00	4,535,734,173.00	6.21
	Average		5.81

In FY 2004/05 the interest expenses increase by 305.86% and total deposit increase by 142.23%. Since the increase ratio in interest expenses is higher the ratio has increase.

In FY 2005/06 interest expenses increase by 187.50% whereas total deposit increase by 126.95% due to which the ratio has been shifted from 4.90% to 6.21% which is not good for the bank.

In F.Y. 2006/07 interest expenses increase by 61.24% and total deposit increase by 45.20% therefore the ratio has been increase from 6.21% to 6.89%.

In FY 2007/08 interest expenses increase by 48.02% and total deposit increase by 58.74%, which change the ratio from 6.89% to 6.43%.

In FY 2008/09 interest expenses increase by 29.10% and the total deposit increase by 16.97%. The ratio is increase than previous year.

In FY 2009/10 interest expenses decrease by 9.38% and total deposit increase by 3.56%, which decrease the ratio from 7.10% to 6.21%

The average ratio is 5.81% and the highest ratio is on FY 2008/09 with 7.10% and lowest in FY 2003/04 of 2.93%. Higher the ratio high will be the cost of fund of the bank and lower ratio shows lower cost of fund. So bank prefer low ratio.

4.3.13. Interest Income to Loan and Advances Ratio: -

This ratio shows how much the bank has earned from the loan & advances it has provided. Higher the ratio better will be it for the bank so bank should try to increase this ratio. The table below shows NSBL interest income on loan and advances it has provided to outsiders.

Table No. 4.25: Interest Income To Loan & Advances Ratio

Fiscal Year	Interest Income	Loan & Advances	Ratio
2003/04	19,967,356.41	275,905,086.33	7.24
2004/05	65,612,982.00	603,290,899.00	10.88
2005/06	174,640,987.00	1,142,998,320.00	15.28
2006/07	261,697,933.00	1,672,719,593.00	15.65
2007/08	365,030,304.00	2,314,979,430.00	15.77
2008/09	403,488,620.00	2,905,258,365.00	13.89
2009/10	437,315,855.00	3,502,258,008.00	12.49
	Average		13.03

In FY 2004/05 interest increase by 228.60% and loan & advances increase by 118.66% due to which the ratio has been increase from 7.24% to 10.88%.

In FY 2005/06 interest increase by 166.17% and loan and advances increase by 54.27% therefore the ratio has been increased from 10.88% to 15.28%.

In FY 2006/07 interest increase by 49.85% and loan & advances increase by 46.34%. Since the increase percentage of interest income is higher than increase percentage of loan & advances the ratio has been increased.

In FY 2007/08 interest income increase by 39.49% and loan & advances increase by 38.40% due to which the ratio has been increase from 15.65% to 15.77%.

In FY 2008/09 interest income increase by 10.54% and loan & advance increase by 25.50% due to which the ratio has been shifted from 15.77% to 13.89%.

In FY 2009/10 interest income increase by 8.38% and loan & advance increase by 20.55% therefore the ratio has decrease from 13.89% to 13.03%

The average ratio is 13.03% with highest at 2007/08 with 15.77% and lowest in FY 2003/04 with 7.28%, which shows the fluctuating trend of the ratio. The ratio is far from the satisfaction and the bank is not able to meet the excepted return on the loan & advances.

4.4. Capital Structure or Leverage Ratio: -

This ratio is indicating mix of funds provided by owners and lenders. To judge the long-term financial position of the bank these ratio is given emphasis. High ratio shows the large share of financing by the depositor, as compare to that of shareholders, which means in time of distress depositor suffer more than shareholder. The below-maintained ratio is calculated to measure the capital structure of the bank.

4.4.1.Total Debt (Excluding other liabilities) to Total Asset (Excluding other asset) Ratio: -

This ratio shows the financing of total asset from the debt capital. Lower ratio is preferable for the shareholders so the bank should try to decrease the ratio gradually. The Below given table shows the ratio of NSBL from its establishment period to its seventh year of operation. Total debt includes loan and advances from others bank, deposit, bills payable, bills for collection, other liabilities and total asset include current asset, fixed asset, other asset. This ratio is calculated by dividing total debt(excluding other liabilities) by total asset(excluding other asset)

Table No. 4.26: Total Debt(exc. Other Liabilities) to Total Asset(exc. Other asset) Ratio

Fiscal Year	Total Debt	Total Asset	Ratio
2003/04	329,725,878.71	442,451,195.22	74.52
2004/05	739,438,300.00	864,104,956.00	85.57
2005/06	1,641,236,017.00	1,815,149,849.00	90.42
2006/07	2,411,182,778.00	2,597,514,441.00	92.83
2007/08	3,757,672,662.00	3,872,758,470.00	97.03
2008/09	4,387,606,883.00	4,585,199,878.00	95.69
2009/10	4,560,250,006.00	4,892,676,393.00	93.21
	Average		89.90

In FY 2004/05 total debt increase by 124.26% where as total asset increase by 95.30% due to which the ratio has been decrease from 74.52% to 85.57%.

In F.Y. 2005/06 total debt increase by 121.95% and total asset increase by 110.06% therefore the ratio has been increase from 85.57% to 90.42%.

In FY 2006/07 total debt increase by 46.91% and total asset increase by 43.10%. Since the increase in debt is slightly higher than increase in total asset the ratio has increase from 90.42% to 92.83%.

In FY 2007/08 total debt increase by 55.84% whereas total asset increase by 49.09%. The ratio has been change from 92.83% to 97.03%.

In FY 2008/09 total debt increase by 16.76% and total asset increase by 18.40%. The increase percentage of asset is higher than debt due to which the ratio has decrease from 97.03% to 95.69%.

In FY 2009/10 total debt increase by 3.93% and total asset increase by 6.71% which ultimately decrease the ratio from 95.69% to 93.21%.

The average ratio is 89.90% with highest ratio of 97.03% in the FY 2007/08 and the lowest in the FY 2003/04 of 74.52%. High ratio shows high debt than its total asset due to which the goodwill of the bank may be lost. NSBL total debt to total asset ratio is quite high so serious thought has to be given to decrease the ratio.

4.4.2.Total Debt to Net worth Ratio: -

This ratio is also called debt-equity ratio The relationship between borrower fund which is loan & advances from other bank, deposit, bills payable, bills for collection, other liabilities and owners equity which is paid up capital and reserve. A high ratio shows the large share of financing by borrower as compare to shareholders. The table shows the ratio for different FY of NSBL.

Table No. 4.27: Total Debt to Net worth ratio

Fiscal Year	Total Debt	Net worth	Ratio
2003/04	333,501,206.62	119,956,178.05	278.02
2004/05	754,281,749.00	133,464,850.00	565.15
2005/06	1,696,567,682.00	149,398,377.00	1135.60
2006/07	2,492,206,980.00	177,199,486.00	1406.44
2007/08	3,860,304,854.00	222,610,910.00	1734.10
2008/09	4,473,633,362.00	310,932,949.00	1438.78
2009/10	4,878,569,499.00	197,586,141.00	2469.08
	Average		1,289.60

In FY 2004/05 the total debt increased by 126.17% and net worth increased by 11.26% due to which the ratio increased from 278.02% to 565.15%.

In FY 2005/06 total debt increased by 124.92% and net worth increased by 11.94%. Since the increase in total debt percent is significantly high than growth of Net Worth of which ultimately

increases the ratio from 565.15% to 1135.60%.

In FY 2006/07 total debt increased by 46.90%, than previous year and Net Worth increased by 18.61% than previous year, which brings the ratio to 1135.60% to 1406.44%.

In FY 2007/08 total debt increased by 54.89% in comparison of increase in Net Worth of 25.63% due to which ratio shifted from 1406.44% to 1734.10%.

In FY 2008/09 total debt increased by 15.89% and Net Worth increased by 39.68% due to which ratio decreases.

In FY 2009/10 total debt increased by 9.05% but at the same time Net Worth decreased by 36.45% therefore there is a significant increase in the ratio from 1438.78% to 2469.08%.

The average ratio for seven year is 1289.60% with lowest ratio of 278.02 % in FY 2003/04 and highest ratio of 2469.08% in FY 2009/10. High ratio is not beneficial for the bank because the depositor may lose their faith in bank seeing this high ratio of debt equity because the depositor will suffer the most in time of distress.

4.4.3. Long term debt Net Worth ratio: -

This ratio is calculated by dividing long-term debt by Net Worth. Fixed deposit is considered as long-term debt of the bank. Higher this ratio the large share of financing is by the fixed depositor.

Table No. 4.28: Long Term Debt to Net Worth Ratio

Fiscal Year	Long Term Debt	Net worth	Ratio
2003/04	159,687,000.00	119,956,178.05	133.12
2004/05	474,139,000.00	133,464,850.00	355.25
2005/06	927,205,850.00	149,398,377.00	620.63
2006/07	1,532,649,685.00	177,199,486.00	864.93
2007/08	2,383,622,602.00	222,610,910.00	1070.76
2008/09	2,100,218,551.00	310,932,949.00	675.46
2009/10	2,420,298,451.00	197,586,141.00	1224.93
	Average		706.44

In FY 2004/05 long term debt increased by 196.92% and Net Worth increased by 11.26% due to which the ratio increase from 133.12% to 355.25%.

In FY 2005/06 long-term debt decreased by 95.56% than previous year and the Net Worth increased by 11.94% due to which the ratio increased from 355.25% to 620.63%.

In FY 2006/07 long-term debt decreased by 65.301% than the previous year and the Net Worth increased by 18.61% due to which the ratio increased from 620.63% to 864.93%.

In FY 2007/08 long-term debt decreased by 55.52% with reference to the previous year and the Net Worth increased by 25.63%, which brought about the increase in ratio from 864.93% to 1070.76%.

In FY 2008/09 long-term debt decreased by 11.89% with reference to the previous year and the Net Worth increased by 39.68%, which brought about the decrease in ratio from 1070.76% to 675.46%.

In FY 2009/10 long-term debt increased by 15.24% with reference to the previous year and the Net Worth decreased by 36.45%, which brought about an increase in the ratio from 675.46% to 1224.93%.

The average ratio for seven year is 706.44 with lowest of 133.12% in FY 2003/04 and highest ratio of 1224.93% in FY 2009/10. High ratio is not beneficial for the bank because the depositor may lose their faith in bank seeing this high ratio of debt equity.

4.5. Capital Adequacy Ratio: -

Commercial banks have to maintain sufficient amount as capital fund. Capital adequacy of banks can be measured by analyzing different ratios. Here, two ratios have been analyzed for this purpose.

This ratio shows whether commercial banks are maintaining sufficient amount as capital fund or shareholders' fund in compared to the amount of their total deposit. It is calculated by dividing total shareholder's fund by total deposit. The two type of capital adequacy ratio is described below.

4.5.1 Shareholder's Fund to Total Deposit Ratio: -

This ratio shows whether commercial banks are maintaining sufficient amount as Capital Fund or Shareholders fund in

comparison to amount of the banks total deposit. It is calculated by dividing total shareholders fund by total deposit. The table is shown below.

Table No. 4.29:Shareholders fund to Total Deposit Ratio

Fiscal Year	Shareholders Fund	Total Deposit	Ratio
2003/04	119,956,178.05	295,523,414.19	40.59
2004/05	133,464,850.00	715,844,345.00	18.64
2005/06	149,398,377.00	1,624,595,927.00	9.20
2006/07	177,199,486.00	2,358,908,404.00	7.51
2007/08	222,610,910.00	3,744,506,858.00	5.94
2008/09	310,932,949.00	4,380,018,844.00	7.10
2009/10	197,586,141.00	4,535,734,173.00	4.36
	Average		13.33

In FY 2004/05 shareholder fund increase by 11.26% and the total deposit increase by 142.23% due to which there is drastic decrease in the ratio from 40.59% to 18.64%.

In FY 2005/06 shareholder fund increase by 11.94% and total deposit increase by 126.95% therefore the ratio has decrease from 18.64% to 9.20%.

In FY 2006/07 shareholder fund increase by 18.61% and total deposit increase by 45.20% which change the ratio from 9.20% to 7.51%.

In F.Y. 2007/08 shareholder fund increase by 25.63% and total deposit increase by 58.74%. Since increase percentage of total deposit is higher than increase percentage of shareholders fund the ratio has decrease from 7.51% to 5.94%.

In F.Y. 2008/09 shareholder fund increase by 39.68% and total deposit increase by 16.97%. The increase percentage of shareholder fund is high than increase percentage of total deposit, which increase the ratio from 5.94% to 7.10%.

In FY 2009/10 shareholder fund decrease by 36.45% and total deposit increase by 3.56% therefore the ratio significantly fall down from 7.10% to 4.36%.

The average ratio is 13.33% and the ratio is in declining trend except in FY 2008/09 where increase is observed. From Shareholder point of view bank performance has been far from satisfaction.

4.5.2. Shareholders Fund to Total Asset Ratio: -

This ratio measures the sufficiency of capital fund against the total asset. Lower ratio is the harmful for the bank so emphasis should be given to increase the ratio. NSBL seven years period shareholders fund to total asset ratio is presented in the below table

Table No. 4.30: Shareholders fund to Total Asset (exc. Other Asset) Ratio

Fiscal Year	Shareholders Fund	Total Asset	Ratio
2003/04	119,956,178.05	42,451,195.22	27.11
2004/05	133,464,850.00	864,104,956.00	15.45
2005/06	149,398,377.00	815,149,849.00	8.23
2006/07	177,199,486.00	2,597,514,441.00	6.82
2007/08	222,610,910.00	3,872,758,470.00	5.75
2008/09	310,932,949.00	4,585,199,878.00	6.78
2009/10	197,586,141.00	4,892,676,393.00	4.04
	Average		10.60

In FY 2004/05 shareholder fund increase by 11.26% and total asset increase by 95.30% due to which the ratio has been decrease by 27.11% to 15.45%.

In F.Y. 2005/06 shareholder fund increase by 11.94% and total asset increase by 110.06% therefore the ratio the ratio decrease by 15.45% to 8.23%.

In F.Y. 2006/07 shareholder fund increase by 18.61% and total asset increase by 43.10%. Since, the increase percentage of total asset is higher than increase percentage of shareholder fund the ratio has been decrease from 8.23% to 6.82%.

In FY 2007/08 shareholder fund increase by 25.63% and total asset increase by 49.09% which change the ratio from 6.82% to 5.75%.

In F.Y. 2008/09 shareholder fund increase by 39.68% and total asset increase by 18.40%. The ratio has been slightly increased from 5.75% to 6.78%.

In FY 2009/10 shareholder fund decrease by 36.45% and total asset increase by 6.71% due to which the ratio has decrease from 6.78% to 4.04%.

The average ratio is 10.60% with highest in FY 2003/04 of 27.11% and lowest in FY 2009/10 with 4.04%. The ratio is in declining trend except in the FY 2008/09 where there has been slightly increase.

Statistical Analysis

Applying Karl Pearson's Correlation (r) can test the significant relationship between two variables (say loan and advances & total deposit) during the study period. Probable Error (PE) also can test this relation. Here is the calculation of Correlation Coefficient and Probable Error.

1) Correlation Analysis (r):

Correlation coefficient shows the significance relationship between two variables within certain period. The formula for the calculation of Karl Pearson's Correlation Coefficient (r) is :

$$r = \frac{N\sum xy - \sum x \sum y}{\sqrt{N\sum x^2 - (\sum x)^2} \sqrt{N\sum y^2 - (\sum y)^2}}$$

Where,

- N = Number of Pairs of X and Y observed.
- X = Value of Loan and Advances.
- Y = Values of Total Deposit.
- r = Pearson's Correlation Coefficient.

Calculation of Correlation Coefficient

Table No. 33

Rs. In Million

Fiscal Year	x	X ²	Y	y ²	XY
2003/04	275.91	76,126.33	295.52	87,332.07	81,536.92
2004/05	603.29	363,958.82	715.84	512,426.91	431,859.11
2005/06	1,143.00	306,449.00	1,624.60	2,639,325.16	1,856,917.80
2006/07	1,672.72	2,797,992.20	2,358.91	5,564,456.39	3,945,795.94
2007/08	2,314.98	5,359,132.40	3,744.51	14,021,355.14	8,668,465.76
2008/09	2,905.26	8,440,535.67	4,380.02	19,184,575.20	12,725,096.91
2009/10	3,502.26	12,265,825.11	4,535.73	20,572,846.63	15,885,305.75
N=7	Σx= 12,417.41	Σx ² = 30,610,019.53	Σy= 17,655.13	Σy ² =62,582,317.50	Σxy= 43,594,978.19

Here,

$$\begin{aligned}
 N &= 7 \\
 \sum x &= 12,417.41 \\
 \sum x^2 &= 30,610,019.53 \\
 \sum y &= 17,655.13 \\
 \sum y^2 &= 62,582,317.50 \\
 \sum xy &= 43,594,978.19
 \end{aligned}$$

$$r = \frac{\sum xy - \sum x \sum y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

$$r = \frac{7(43,594,978.19) - (12,417.41)(17,655.13)}{\sqrt{7(30,610,019.53) - (12,417.41)^2} \sqrt{7(62,582,317.50) - (17,655.13)^2}}$$

$$r = \frac{305,164,847.30 - 219,230,780}{\sqrt{(214,270,136.70 - 154,192,071.10)} \sqrt{(438,076,222.50 - 11,703,615.30)}}$$

$$r = \frac{85,933,859.50}{7751.00 \times 11241.56}$$

$$r = \frac{85,933,859.50}{87,133,331.56}$$

$$r = 0.9862$$

The Correlation of correlation (loan and advances dependent variable and total deposit independent variable) of Nepal SBI Bank Ltd. is 0.9862.

2) Calculation of Probable Error (PE):

$$\begin{aligned}
 PE &= 0.6745 \frac{1-r^2}{\sqrt{N}} \\
 &= 0.6745 \frac{1 - (0.9862)^2}{\sqrt{7}} \\
 &= 0.6745 \frac{1 - 0.9726}{2.6458} \\
 &= \frac{0.6745 (0.0274)}{2.6458} \\
 \therefore PE &= 0.007
 \end{aligned}$$

And,

$$\frac{r}{PE} = 140.89$$

Since r is more than 0.5 and far more than 6 times the PE (Probable Error), it is considered significant. In other words, there is highly positive correlation between "Total Deposits" and "Loan and Advances" of Nepal SBI Bank Limited.

CHAPTER-FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1: Summary :

The primary objective of the study is to analyze the overall performance of NSBL, However other objectives are to examine the overall performance of NSBL in terms of liquidity, activity, profitability, leverage and capital adequacy ratio, to study the achievement of NSBL, to evaluate the effectiveness of collection of deposit and their utilization, to examine the causes of gap existing between deposits and loan, investment etc, to provide suggestion and recommendation for the improvement of future performance and maximum utilization of deposit.

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss a/c. In this study, dynamic type of financial analysis has been adopted. This study covers the seven financial years of Nepal SBI Bank Ltd and five categories of financial ratios liquidity, activity, profitability, leverage, and capital adequacy. Similarly two types of Statistical tools Correlation and Probable Error has been calculated, analyzed and interpreted to evaluate the financial performance of Nepal SBI Bank Ltd through which below maintained findings have been analyzed.

The liquidity ratio of the bank is far from the satisfaction the constant policy has not been followed. The highly fluctuating trend indicates failure of proper liquidity management. In liquidity management shareholders and depositor both priority should be consider. Depositor prefers high liquidity, which means the bank, is unable to utilize the idle fund, which the shareholder does not prefer. Cash and Bank Balance, Fixed Deposit, Current Deposit, NRB Balance increase percentage is lower than total deposit increase percentage, which the shareholders prefer whereas the increase percentage of saving deposit is higher than total deposit. Current asset increase percentage is less than current liabilities during the study period, which can increase the dissatisfaction among depositor. Cash and Bank Balance increase percentage is lower than Current deposit increase percentage, which may create fear among

depositor.

The activity ratio measure the bank effectiveness in utilizes its assets for generating profit. Loan & advances, Investment increase percentage is lower than increase percentage of total deposit, which means the bank is not utilization the deposit properly. Loan & Advance increase percentage is lower than the increase percentage of current, saving, fixed deposit. So, NSBL should give high priority to increase its loan & advances so that optimum profit can be achieved.

Profitability ratio indicates the performance of the bank. Higher profitability means bank is moving towards right direction and low profitability means the bank is not running properly. Though other factors are also considered for the success of the bank but the profitability is the major one. Return increase percentage is higher than increase percentage of Net Worth, total deposit, total asset, which means bank return, is higher than other increase percentage but it is not up to expectation. Here interest earn has been increase higher than total outside asset. The return increase percentage is higher than increase percentage of risky asset but the increase is not satisfactory. Interest expenses increase percentage is higher than interest income, which means bank, is not able to increase its performance. The ratio of investment is also far from the satisfaction. NSBL is not able to achieve high return on investment. Net Worth of share ratio is not increasing up to expectation which means bank should improve its performance. EPS, DPS, and Dividend payout ratio are also not satisfactory. Commission and discount increase percentage is lower than that of total income increase percentage whereas interest income increase percentage is higher than total income percentage. The increase percentage of interest expenses is higher than increase percentage of total deposit, which means high cost bearing deposit has increase. Interest Income increase percentage is higher than total loan & advance increase percentage.

Capital Structure or leverage ratio may be defined as percentage return on equity to percentage return on total capitalization. This ratio is used to describe the firm's ability to use fixed costs assets or fund to magnify the return to its owners. This ratio of NSBL is not satisfactory because it is in increasing trends, which mean depositors suffered highly in case of liquidation.

Capital Adequacy ratio which are shareholders fund to total deposit and shareholders fund to total asset ratio is in decreasing trend which is not good for the bank because this would decrease faith of depositor on bank.

5.2: Conclusion:

Current ratio of NSBL during the study period from 2003/04 to 2009/10 are 1.30, 1.15, 1.09, 1.06, 1.02, 1.03, 1.05 respectively. Thus increase in current asset during study period is 1023.30%, whereas the increase in current liabilities is 1295.44%, so there has not been proportionate increase in current asset as compared to current liabilities. The Current ratio should be 2:1 no rule of thumb has been followed by bank.

Cash and bank balance to total deposit ratio are 44.60%, 28.35%, 13.57%, 16.62%, 20.34%, 31.00%, 19.62% respectively from FY 2003/04 to 2009/10. Cash & Bank Balance increase by 575.25% and total deposit increase by 1434.81% during the study period which shows that there has not been proportionately increase between cash & bank balance to total deposit.

Fixed Deposit to Total Deposit Ratio during the study period are 54.04%, 66.23%, 57.07%, 64.97%, 63.66%, 47.95%, 53.36%. The fixed deposit increase by 1415.65% and total deposit increase by 1434.81% during the study period that means the increase in fixed deposit percentage is slightly low than that of total deposit.

NRB Balance to Total Deposit ratio are 12.61%, 19.98%, 8.87%, 9.98%, 15.33%, 15.82%, 8.20% respectively during the study period. NRB Balance increase by 898.02% and total deposit increase by 1434.81%, which means increase in total deposit is quite high in comparison to NRB balance.

Cash & Bank Balance to Current Deposit Ratio are 200.36%, 156.38%, 52.27%, 89.46%, 99.98%, 95.19%, 93.59% during the study period from 2003/04 to 2009/10. Cash & Bank Balance increase by 575.25% and Current deposit increase by 1345.60% during the study period. So there is not proportionately increase in cash & bank balance to current deposit ratio.

Saving Deposit to Total Deposit Ratio of NSBL during the study period of 2003/04 to 2009/10 are 14.83%, 10.32%, 11.19%,

14.65%, 14.08%, 17.96%, 19.90%, respectively. Saving Deposit increase by 1960.54% and total deposit increase by 1434.81% during the study period of 2003/94 to 2009/00. The increase of saving deposit percentage is higher than increase percentage of total deposit.

Current Deposit to Total Deposit Ratio of the bank is 22.36%, 18.13%, 25.95%, 18.58%, 20.34%, 32.57%, and 20.97% during the study period from 2003/04 to 2009/10. Current Deposit increases by 1345.60% and total deposit increase by 1434.81% during the study period of 2003/04 to 2009/10 which shows the increase percentage in total deposit is higher than current deposit.

Loan & Advances (Including Bill discounted) to Total deposit ratio of NSBL during the study period of 2003/04 to 2009/10 are 95.92%, 85.10%, 72.35%, 72.86%, 63.12%, 67.65%, 78.47%. Loan & Advances (Including Bill Discounted) increase by 1155.73% and total deposit increase by 1434.81% during the study period. So there has not been proportionate increase in loan & advances (Including Bill discounted) as compared to total deposit.

Investment to Total Deposit Ratio during the study period of 2003/04 to 2009/10 are 4.56%, 4.53%, 23.04%, 16.82%, 18.20%, 4.63%, 4.45%. The increase percentage of investment is 1398.55% and total deposit is 1434.81%. The increase percentage of total deposit is higher than the investment percentage during the study period from 2003/04 to 2009/10.

Loan & Advances to Fixed Deposit Ratio during the study period of 2003/04 to 2009/10 are 172.78%, 127.24%, 123.27%, 109.14%, 97.12%, 138.33%, 144.70% respectively. Loan & Advances increases by 1169.37% and Fixed Deposit increase by 1415.65% during the study period. Hence there have not been comparative increases in loan & advances in comparison to fixed deposit.

Loan & Advances to Saving Deposit Ratio of NSBL are 629.75%, 816.95%, 628.95%, 483.97%, 439.08%, 369.29%, and 387.95% respectively during study period. Loan & Advances increase by 1169.37% and saving deposit increase by 1960.54% during the study period from 2003/04 to 2009/10. So there has not been proportionate increase in loan & advances in comparison to saving deposit.

Loan & Advances to Current Deposit Ratio of the bank during the study period of F.Y. 2003/04 to 2009/10 are 419.40%, 464.86%, 271.09%, 381.73%, 303.93%, 203.68%, and 368.27%. Increase in loan & advances by 1169.37% and current deposit by 1345.60% during the study period of 2003/04 to 2009/00 has been observed which shows that there has not been comparatively increase in loan and advances against current deposit.

Return on Net Worth Ratio of NSBL during the study period of 2003/04 to 2009/10 are 0.11%, 5.52%, 25.36%, 25.35%, 26.49%, 5.39%, 25.34% respectively. Here return has been increase by 37328.76% and Net Worth has been increase by 64.72%. So there has been high increase in return in comparison to Net Worth during the study period of 2003/04 to 2009/10.

Return on Total Deposit Ratio of NSBL during the study period of 2003/04 to 2009/10 are 0.05%, 1.03%, 2.33%, 1.90%, 1.58%, 0.38%, 1.10% respectively. Here the return has been increase by 37328.76% and total deposit increase by 1434.81% during the study period. So, there has been significantly increase in return against total deposit.

Return on Total Asset Ratio of NSBL during the study period of 2003/04 to 2009/10 are 0.03%, 0.83%, 2.03%, 1.67%, 1.46%, 0.35%, 0.98% respectively. Thus increase in return during the study period was 37328.76% whereas increase in total asset was only 1046.70%. So there has not been proportionate increase in return as compared with total asset.

Interest Earn on Total outside Asset Ratio of NSBL during the study period of 2003/04 to 2009/10 are 6.72%, 10.23%, 11.27%, 12.37%, 11.99%, 12.75%, 11.63% respectively. Here interest earn has been increase by 2090.15% whereas total outside asset increase by 1166.74% during the study period. Here the increase percentage of interest earn is very high in comparison to total outside asset increase percentage which means the increase percentage is not proportionately.

Return on Risky Asset Ratio during the study period of 2003/04 to 2009/10 of NSBL are 0.05%, 1.21%, 3.22%, 2.61%, 2.50%, 0.57%, 1.41% respectively. The net profit of the bank has been increase by 37328.76% and the risky asset has been increase by

1155.73% during the study period. The increase in net profit is very high in comparison to increase in risky asset.

Interest Expenses on Deposit to Interest Income on Loan & Advances Ratio of NSBL during the study period are 43.30%, 53.48%, 57.76%, 62.15%, 65.95%, 77.03%, and 64.41% respectively. Here interest expenses increase by 3157.98% and interest income increase by 2090.15%, which means the interest expenses, has been increase more in comparison to interest income.

Return on Investment ratio of NSBL during the study period are 0.99%, 22.74%, 10.12%, 11.32%, 8.65%, 8.27%, 24.81% respectively. Here the increase percentage of return is 37328.76% and the increase percentage of investment is 1398.55% during the study period, which shows that increase in return is quite high than increase in investment.

Net Worth Per Share of bank is 99.96%, 111.22%, 124.50%, 147.67%, 185.51%, 259.11%, and 164.66% during the study period from 2003/04 to 2009/10. The Net Worth of share is increasing except in FY 2009/2010 there is decrease in net worth per share.

Earning Per Share of NSBL for the period of 2003/04 to 2009/10. are 0.11%, 6.14%, 31.57%, 37.43%, 49.15%, 13.97%, 41.72% respectively. The ratio seems increasing except in FY 1998/99 there has been some decline in the ratio.

Dividend per Share has been provided only on FY 2005/06, 2006/07, 2007/08, 2008/09 of 20%, 20%, 20%, 10% respectively on other study period not dividend had been provided.

Dividend payout Ratio are paid for only four year of the study period that is 2005/06, 2006/07, 2007/08, 2008/09 where ratio are 0.63%, 0.53%, 0.41%, 0.72% respectively.

Interest income to Total Income Ratio of NSBL during the study period of 2003/04 to 2009/10 are 56.56%, 77.03%, 85.76%, 89.18%, 87.76%, 89.19%, 88.30% respectively. Here the interest income increase by 2090.15% and total income increase by 1302.91% during study period which shows that there has not been

relatively increase in total income in comparison to interest income, which is very highly, increase.

Commission and Discount to Total Income Ratio of NSBL during the study period of 2003/04 to 2009/10 are 18.36%, 9.98%, 6.20%, 6.64%, 5.31%, 6.01%, 6.90% respectively.. Here commission and discount increase by 427.17% and total Income increase by 1302.91% during the study period. Thus the increase percentage of total income is very high in comparison to increase percentage of commission & discount.

Interest Expenses to Total Deposit Ratio of NSBL during the study period of 2003/04 to 2009/10 are 2.93%, 4.90%, 6.21%, 6.89%, 6.43%, 7.10%, and 6.21%. Here the interest expenses increase by 3157.98% and total deposit increase by 1434.81%. Thus increase in interest expenses percentage is higher than increase in total deposit.

Interest Income to Loan and Advances Ratio of NSBL during the study period are 7.24%, 10.88%, 15.28%, 15.65%, 15.77%, 13.89%, and 12.49% respectively. Here interest income increase by 2090.15% and loan & advances increase by 1169.37%. Thus the interest income has been increase highly than loan & advances.

Total Debt (exc. Other liabilities) to Total Asset (excluding other Assets) Ratio of NSBL during the study period are 74.52%, 85.57%, 90.42%, 92.83%, 97.03%, 95.69%, 93.21% respectively. Total debt increase by 1283.04% and Total asset increase by 1005.81%. Here the total debt increase percentage is less than total asset increase percentage during the study period.

Total Debt to Net Worth Ratio of NSBL during the study period from 2003/04 to 2009/10 are 278.02%, 565.15%, 1135.60%, 1406.44%, 1734.10%, 1438.78%, 2469.08%. Total debt increase by 1362.83% and Net Worth ratio increase by 64.72% during the study period. The increase percentage of total debt is high than the increase percentage of Net Worth.

Long Term Debt to Net Worth Ratio of NSBL during the study period from 2003/04 to 2009/10 are 133.12%, 355.25%, 620.63%, 864.93%, 1070.76%, 675.46%, 1224.93%. Long-term debt increase by 1415.65% and Net Worth increases by 64.72%. Thus increase in long-term deposit is higher than increase in Net Worth.

Shareholders fund to Total Deposit Ratio of NSBL during the study period are 40.59%, 18.64%, 9.20%, 7.51%, 5.94%, 7.10%, 4.36% respectively. Shareholders fund increase by 64.72% and total deposit increase by 1434.81%. Here the increase of shareholders fund is less than total deposit increase.

Shareholders Fund to Total Asset (exc. Other Asset) Ratio of NSBL during study period of 2003/04 to 2009/10 are 27.11%, 15.45%, 8.23%, 6.82%, 5.75%, 6.78%, 4.04% respectively. The increase percentage of shareholder fund is 64.72% and the increase percentage of total asset is 1046.70% during the study period.

5.3 Recommendation:

NSBL is fully computerized bank with highly modern operating system "Bancs 2000". Based on entire research work, some suggestion and recommendation had been given.

NSBL should be operating in rural areas most of its branches are in urban areas. The branches in rural area are operating very poorly there existence are just for fulfilling the compliance of NRB directive and collection of small sum of rural deposit so this should be discourage.

NSBL should recruit professional, skilled, technical and managerial staffs, especially professionally skilled manager are rare in this bank. The establishment of marketing and customer relation department in this bank will be highly appreciable for the success of the bank. The old and outdated thinking about financial management should be changed. Hiring or recruiting of any new staffs should be judged based on experience, professional skill and knowledge.

Deposit utilization percentage of NSBL is low, So it should be increase by following liberal policy, developing a special investment promotion unit for seeking new profitable investment opportunities, grant mid-term loan also for more deposit utilization.

The capital adequacy ratios are in declining trend, So NSBL is recommended to raise its amount of shareholders fund for maintaining proper capital adequacy position.

Likewise current asset, current deposit, loan & advances, investment, return, interest earn, dividend, commission & discount, shareholders fund is recommended for incensement whereas Cash & Bank Balance, Fixed Deposit, NRB Balance, Saving deposit, Interest expenses, Total debt, Long term debt are recommended to decrease so that bank performance will be uplifted.

NSBL is facing competition from all commercial banks, finance companies and insurance companies. So giving emphasis on technology development. NSBL should be more market oriented / service oriented steps forward on new business activities, develop efficiency of manpower and offer a complete range of financial services. It should introduce Tele Banking, ATM and Credit Card system to boost its transaction as well as to capture more market of financial service industry. Not only this it should adopt efficient and latest market strategy to make its transaction more capable as well as to fulfill growing demand of new financial service and facilities.

The personnel management of NSBL is not satisfactory. There is lack of personnel department so it should be established to look at the problem of staff, recruitment of staff, transfer & promotion policy, staff performance, staff facilities and attention should be given to staff motivation because the staff of NSBL are leaving the organization due to lack of proper policy regarding their growth in organization. The job rotation, which have been introduce recently in the bank shows management positive step towards staff motivation.

NSBL should give attention towards credit. The bank should consider five C 's of credit viz. character, capacity, capital, collateral and conditions. The credit control department should be established which function is to follow up for interest collection and controlling credit.

The current ratio is not up to standard of 2: 1 therefore the depositor margin of safety is low. NSBL should increase its current asset so that its current liabilities obligation can be paid easily though the value of current asset decrease by half. NSBL should increase its current asset show that the depositor faith remain with the bank otherwise if the depositor faith is not on bank there may be heavy withdrawal which may lead the bank to liquidation. So, NSBL should pay high attention towards maintaining this ratio.

Cash & Bank Balance to Total Deposit ratio seems fluctuating during the study period which proves bank mismanagement in maintaining this ratio, So proper attention should be given to maintain constant ratio Though during the study period the increase percentage of total deposit against cash & bank balance is high which means bank is utilizing the fund on loan & advances.

Fixed deposit is high interest bearing deposit so proper attention should be given to decrease this deposit in total deposit mix, which decrease the cost of fund for the bank. NSBL Fixed deposit to Total Deposit average ratio is 58.18% during the study period shows that more than 50% deposit is Fixed Deposit so the bank should give emphasis to decrease this ratio.

Bank has to maintain certain balance on NRB for the safeguard of depositor money as rules laid by NRB. NSBL NRB Balance to Total Deposit Ratio is highly fluctuating with average of 12.97%, which is quite high the bank should try to decrease this ratio and lend the fund in secured sector such as treasury bills. So, that bank can earn from that fund and it can be converted in liquid quickly.

NSBL Cash & Bank Balance to Current Deposit Ratio is quite fluctuating with average of 112.46% there seems not constant policy regarding maintaining this ratio. So bank should analyze the past withdrawal of current deposit in past years and maintain the adequate ratio considering the past years withdrawal so that bank can earn highest return on the current deposit held.

Saving Deposit are short term interest bearing deposit in total deposit though the cost of fund of utilizing the saving deposit is less than that of fixed deposit there is always chance of quick withdrawal of saving deposit whereas fixed deposit is time deposit which withdrawal will be after mature time. NSBL this ratio is in fluctuating trend with average of 14.70%, So proper step should be taken in maintaining the appropriate ratio which ultimately increase the profitability of the bank.

Current Deposit is non-interest bearing short term deposit the chance of its being withdrawal is very high. NSBL has been maintaining average ratio of 22.68% during the study period. Since current deposit to total deposit ratio shows the portion of current deposit in total deposit therefore the high ratio is preferable. NSBL has not been able to maintain high ratio so proper attention should

be given to increase the current deposit rather than saving, fixed and other deposit in total deposit mix.

Loan & Advances (Incl. Bill discounted) are interest earning source of the bank the increase in loan & advances (including bill discounted) is low than that of increase in total deposit. So NSBL should try to increase in this ratio so that it will increase the profitability of the bank.

Investment to Total Deposit ratio of NSBL is average of 10.89% during study period, which is not far from satisfaction. So NSBL should give attention towards increasing investment so that bank earn from the investment.

Loan & Advances to Fixed Deposit Ratio is in highly fluctuating trend so there seems lack of proper management of this ratio. NSBL should try to adapt proper management in regarding this ratio so that bank can utilize the long-term deposit (fixed deposit) in loan & advances to earn optimum profit.

Loan & Advances to saving deposit of NSBL does not seem satisfactory as there has been fluctuating in this ratio so proper policy has to be followed in mobilizing the saving deposit in loan & advances so that profitability of the bank will increase.

Loan & Advances to Current Deposit Ratio of NSBL is highly fluctuating during the study period which shows that there is no sound policy of maintaining the appropriate ratio of loan & advances to current deposit ratio. NSBL should analyze the past withdrawal of current deposit and follow proper ratio so that it will be healthy for the bank.

Return on Net worth ratio is in increasing trend except in FY 2008/09 where the ratio has been tremendously fallen down. NSBL return on Net worth ratio is far from the satisfaction so there seems lot of mismanagement in overall efficiency of the bank so measure action should be taken to increase the return on Net worth ratio of the bank and to survive in today's competitive banking sector where many new banks are entering with high technology and customer oriented business.

Return on Total deposit Ratio of NSBL is very low so bank should try to earn high from their deposit .The ratio of return on deposit shows

that its earning on total deposit is far from the satisfaction which shows the bank management inefficiency. Therefore measure step such as lending in secured sector, increasing in lending, business expansion etc should be considered for increasing the return on total deposit.

Return on Total Asset ratio of NSBL is very low and it is not good for the sound banking system so measure action should be implement to increase the net profit of the bank as there seems increasing and decreasing ratio during the study period which proves bank performance is not up to standard so measure action such as utilizing deposit, increasing bank business of L.c., Draft, Travelers cheque, etc should be follow.

Interest Earn on total outside asset is far from the satisfaction so bank should try to earn much more interest by utilizing the deposit the bank has maintain in productive sector and good loan should be provide for which proper credit policy should be implement and there is also need of marketing.

Return on Risky asset ratio seems in increasing and decreasing trend which means bank is unable to get appropriate return on Risky asset, So emphasis have to be given in this regard and the policy should be adapted for the higher ratio and try to find out the cause of decline and slow growth in the ratio.

Interest Expenses on Deposit to Interest Income on Loan & Advances Ratio of NSBL is not satisfactory the increase percentage of interest expenses is high than increase percentage of interest income. So, bank should try to increase its interest income by increasing their lending and try to minimize the interest expenses by collecting non-interest bearing or low interest bearing deposit.

Return on Investment Ratio of NSBL is quite fluctuating it has been tremendously increased and decrease so the proper investment policy should be followed to get higher return from investment. Though the ratio of NSBL return on investment on FY 2009/10 is satisfactory but the past trend shows that the bank is unable to get appropriate return on investment.

Net worth per share of NSBL is not increasing up to expectation, being joint venture bank of state bank of India its net worth per share has not been up to standard so measure policy regarding

credit and Guarantee, L.C., etc should be introduced to uplift the net worth per share of the bank.

Earning per Share shows the return shareholder earn from their share, so shareholder prefer higher ratio since the bank has not been earning high shareholder has not been able to earn more from their investment. NSBL should give emphasis to earn more profit by increasing its business and activities by establishing marketing department and utilizing its deposit by investing in industry and trade with proper facility to VIP client.

Dividend per Share has been provided only for four year out of total seven year of study. Shareholder is far from the satisfaction on the dividend provided to them so proper dividend should be provided to the shareholder by increasing the earning of the bank attention should be needed in this regard because shareholder are the owner of the Bank.

Dividend Pay out Ratio of NSBL seems satisfactory but it is not following the constant dividend pay out ratio throughout the period of study. So, the bank should provide some percentage of earning as dividend so the shareholder feels happy with the dividend they receive.

Interest Income to Total Income Ratio of NSBL seems satisfactory of the total income of the bank higher percentage is from the interest income. Though this seems good the bank is unable to increase its total income in comparison to increase in interest income so the bank should try to increase in its total income as comparison to interest income.

Commission & Discount to Total Income Ratio of NSBL shows that it earn less from the commission and discount so emphasis should be given to earn high from the commission and discount so that the commission can also be increase in percentage similar to that of total income. So the bank should provide better service to the customer with prompt service to the customer.

Interest Expenses to Total Deposit Ratio during the period of study of NSBL there has been in fluctuating trend with increasing and decreasing but the interest expenses has been increase highly than total deposit which is not fruitful for the bank. So the bank should try to decrease its interest expenses by collecting low cost deposit.

Interest Income to Loan and Advances Ratio of the bank has been fluctuating. Since the increase in interest income is high than increase in loan & advances, which shows the bank comfortable position in this regard.

Total Debt (excluding other liabilities) to Total Asset (excluding other asset) Ratio of NSBL is not so fluctuating, as other ratio of the bank is which shows that bank ratio is satisfactory.

Total Debt to Net worth Ratio of NSBL during the study period are highly fluctuating and in increasing trend except in the FY 1998/99 where there has been decrease in ratio. The high ratio reflects the poor performance of the bank, so proper policy has to be followed to decrease the ratio.

Long Term Debt to Net worth Ratio of NSBL is increasing except in the FY 2008/09 where there has been decrease in such circumstances depositors suffer most. So the bank should maintain proper ratio otherwise the depositor may loss faith in bank and may bring heavy withdrawal.

Shareholders fund to total deposit ratio is decreasing except in FY 2008/09 where there is slightly increase in ratio. The analysis concludes that the ratio is not satisfactory bank should try to increase the ratio.

Shareholder Fund to Total Asset (

excluding other asset) Ratio is in decreasing trend except in FY 2008/09 there is slightly increase. Here the Total asset increases every year but shareholder fund is not increased every year. NSBL should increase this ratio.
