# A COMPARATIVE STUDY ON MANAGEMENET PRACTICES OF ASSETS AND LIABILITIES OF COMMERCIAL BANKS

A Dissertation Submitted to the office of the Dean, Faculty of Management in Partial Fulfilment of the Requirements for the Master's Degree

by

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## CERTIFICATION OF AUTHORITY

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "A Comparative Study on Management Practices of Assets and Liabilities of Commercial Banks". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purpose.

Kushal Paudel

Signature:

Date of Submission:

## RECOMMENDATION

This is to certify that the dissertation
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**Kushal Paudel**

Entitled
**"A COMPARATIVE STUDY ON MANAGEMENT PRACTICES OF ASSETS AND LIABILITIES OF COMMERCIAL BANKS"**
has been prepared as approved by this department in the prescribed format of the faculty of management. This dissertation is forward for examination.

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## REPORT OF RESEARCH COMMITTEE

Mr. Kushal Paudel has defended research proposal entitled "A Comparative Study on Management Practices of Assets and Liabilities of Commercial Banks" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidance of supervisors Mr. Madan Kumar Luitel and submit the dissertation for evaluation and Viva-Voce examination.

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## APPROVAL SHEET

We have examined the dissertation entitled "A Comparative Study on Management Practices of Assets and Liabilities of Commercial Banks" presented by Mr. Kushal Paudel for the degree of Master of Business Studies. We hereby certify that the acceptable for the award of degree.

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Date:

## ACKNOWLEDGEMENTS

I am delighted to present this dissertation entitled "A Comparative Study on Management Practices of Assets and Liabilities of Commercial Banks" to the head of the research department, Nepal Commerce Campus, in partial fulfillment of the requirement for the degree of Masters in Business Studies (MBS), Faculty of Management, Tribhuwan University. The completion of this dissertation would have been considerably difficult without the help, co-operation and suggestion of my supervisor Mr. Mandan Kumar Luitel and Asso. Prof. Dr. Jidendra Pd. Upadhayay. I am indebted to him for his kind support in spite of his business. My thanks also goes to my enabling me to carry out my study providing required information, reports as required in my study even in their busy schedule. Their cooperation and friendliness towards learner like me have always remained as a motivating factor.

Kushal Paudel

MBS 4th Semester

## TABLE OF CONTENTS

## LIST OF TABLES

## ABBREVIATIONS

| | | |
|---|---|---|
| & | : | And |
| AD | : | Annon Domini |
| C.V. | : | Coefficient of Variation |
| CR | : | Current Ratio |
| CRR | : | Cash Reserve Ratio |
| e | : | Error Terms |
| EPS | : | Earnings per Share |
| et. al. | : | And Others |
| etc. | : | Etcetera |
| F-Value | : | Fishers Value |
| FY | : | Fiscal Year |
| GDP | : | Gross Domestic Product |
| i.e | : | That is |
| Ltd. | : | Limited |
| MPS | : | Market Price per Share |
| NABIL | : | Nepal Arab Bank Limited |
| NEPSE | : | Nepal Stock Exchange |
| NPLR | : | Non-performing Loan Ratio |
| NRB | : | Nepal Rastra Bank |
| PER | : | Price Earnings Ratio |
| QR | : | Quick Ratio |
| r | : | Coefficient of correlation |
| $R^2$ | : | Correlation Coefficient |
| RBB | : | Rastriya Banijya Bank Limited |
| ROA | : | Return on Assets |
| ROE | : | Return on Equity |
| Rs. | : | Rupees |
| S | : | Firm Size |
| S.D. | : | Standard deviation |
| β | : | Beta Value |

## ABSTRACT

*A financial institution is the life blood of economic development of the country. Financial institution acts as catalyst in the process of economic growth of the country. A bank is a financial institution, which can play a significant role in the enlistment of the economic situation of the developing country like Nepal. Banks play vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. Bank pursue economic growth rapidly, developing the banking habit among the people by collecting small-scattered resources in one bulk, using them in the further productive purpose, and rendering other valuable service to the country. Thus, banks give the individuals an opportunity to borrow funds against future income, which may improve the economic wellbeing of the borrower. Bank deals with collecting deposits and granting loans for commercial purpose.*

*The sources of finance are most essential elements for the establishment and operation of every financial institute. Profit oriented institutions usually obtain these sources through ownership capital, public capital through issue of shares and debentures, borrowing through banking institution as credit (loan). Now a days, the essential source of the organization for financial supporting is the credit, overdrafts and others financial facilities provided by banking institution (Joshi, 2000).*

*A sound banking system is the key factor to achieve success in the present global market. A well-built banking system leads the country to top of economic prosperity. In present context of Nepal being the member in the WTO the role of banking system must be as backbone which makes the economy erect in the competitive global market. The banking system of Nepal has to prepare for more competition with foreign banking system which will be started after few years. A banking system is said well if the deposit collection and its mobilization have flow, if the investment is in productive sector, if it has contributed in GDP, if it has maximized the overall economy (Joshi, 2000).*

# CHAPTER I
# INTRODUCTION

## 1.1 Background of the Study

Industry and commerce play a vital role in the economic development of any country. Many developed countries have proved that for overall development of the country industry and commerce play a dominant role. As development proceeds, the share of industry and service sector dominates. Nepal is predominantly an agricultural country. Agricultural is still the mainstay of Nepalese economy. This sector alone has provided employment to nearly 80 percent of the labor force. It contributes 41 percent to gross domestic product. Similarly, it contributes about 80 percent to the export trade. Despite the emphasis being given to the development of agriculture sector since the fifth plan, a radical change is yet to be seen in this sector. There is a need of good efforts to transfer the increased labor force to the non-agriculture sectors like industry, trade, tourism and so on. The average per capita income of Nepalese is just $ 236, which is too much lower than in developed countries. This has resulted into lower savings or negative savings in most of the cases. So capital formation is either very slow or negative. Therefore, several efforts have been made from concerned sectors to diversify the economic contributors from solely agro-based towards industry based. To increase the pace of industrialization huge amount of capital is needed and at this threshold, actual need of bank or financial institution occurs. The banking and financial infrastructure is inadequate and insufficient and needs to be expanded to finance the growth of industrialization and service sector in the country. Finance is the life blood and the role of banks to the development of Nepal is paramount (Joshi, 2000).

A financial institution is the life blood of economic development of the country. Financial institution acts as catalyst in the process of economic growth of the country. A bank is a financial institution, which can play a significant role in the enlistment of the economic situation of the developing country like Nepal. Banks play vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. Bank pursue economic growth rapidly, developing the banking habit among the people

by collecting small-scattered resources in one bulk, using them in the further productive purpose, and rendering other valuable service to the country. Thus, banks give the individuals an opportunity to borrow funds against future income, which may improve the economic wellbeing of the borrower. Bank deals with collecting deposits and granting loans for commercial purpose. The sources of finance are most essential elements for the establishment and operation of every financial institute. Profit oriented institutions usually obtain these sources through ownership capital, public capital through issue of shares and debentures, borrowing through banking institution as credit (loan). Now a days, the essential source of the organization for financial supporting is the credit, overdrafts and others financial facilities provided by banking institution (Joshi, 2000).

A sound banking system is the key factor to achieve success in the present global market. A well-built banking system leads the country to top of economic prosperity. In present context of Nepal being the member in the WTO the role of banking system must be as backbone which makes the economy erect in the competitive global market. The banking system of Nepal has to prepare for more competition with foreign banking system which will be started after few years. A banking system is said well if the deposit collection and its mobilization have flow, if the investment is in productive sector, if it has contributed in GDP, if it has maximized the overall economy (Joshi, 2000).

Commercial Banks are the heart of financial system. They hold the deposits of many persons, government enterprises and business units. They make funds available through their lending and investing activities to borrowing: individuals, business firms and government establishment. In doing so, they assist both the flow of goods and services from the producers to customers and the financial activities of the government. They provide a large portion of medium of exchange and they are the media through which monetary policy is affected. These facts show that commercial banking system of nation is important to the functioning of the economy.

Every commercial bank’s main functions are to create credit from its borrowed fund. Loans and advances dominated the asset side of the balance sheet of any bank and also

constitute the primary sources of income to the banks. Loans and advances may take different forms and are allowed against various types of securities. Loans, overdraft, discounting of bills of exchange etc. are some of the forms of bank lending. Granting loans and advances always carries certain degree of risk (Joshi, 2000).

**1.2 Problems Statement**

Most of the Nepalese organizations are still facing the problem of working capital management due to the unprofessional human resources. Managers still focus their attention on the procurement aspect of working capital but not on the efficient utilization of funds defined in terms of working capital. The management of working capital is synonymous to the management of short term liquidity. It has been regarded as one of the conditioning factor in the decision making issues. It is no doubt, very difficult to point out as to how much working capital is needed by a particular business organization. An organization, which is not willing to take financial risks, can go for more short-term liquidity. The more of short term liquidity means more of current assets and less of current liabilities. So it is very essential to analyze and find out problems and its solutions to make efficient use of funds for minimizing the risk of loss to attain profit objectives. There are 27 commercial banks till the date. Whereas Rastriya Banijya Bank Limited.is the oldest, NABIL Ltd. is the oldest one from among joint venture commercial banks. These banks are playing significant role in the economic development of the country. Any decision on working capital management of these banks not only affect the liquidity and profitability of the bank but also economic condition of the country. Here, NABIL Ltd. and Bank of Kathmandu have been taken for the analysis of working capital management.

Management of working capital on bank is also difficult that of manufacturing and nonmanufacturing business organizations. Commercial banks are great monetary institutions, which are playing important role to general welfare of the economy of the country. The responsibility of commercial banks is more than any other financial institutions. They must be ready to pay on demand without warning or notice, a good share of their liabilities. Banks collect funds from different types of deposits for providing loans and advances to different sectors. To get higher return, banks must try to

increase funds from deposits as well as their investments. The first motive of banking business is to borrow public savings and lend them to those who are in need of funds. But commercial banks always face the problem for efficient and effective utilization of more deposits due to less research and development activities. The gap between collection of deposits and disbursement of loans increase the cash balance on bank, which require paying its large amount of liabilities on its depositors' demand without notice. But large amount of idle cash balance also decreases the profitability of the banks. The selected joint venture banks i.e. Rastriya Banijya Bank Limited and NABIL Limited have been competitive so far to other joint venture banks on the account of their performance and profitability as well (Joshi, 2000). Specifically, this study is connected to search answer of the following questions related to the selected Banks.

i) What are the practice of assets and liabilities of the banks?
ii) What is the ratio of investment to total deposit?
iii) Are the composition of the working capital of sample banks appropriate?
iv) Which of the current assets are more problematic in Rastriya Banijya Bank Limited and NABIL Ltd.?

### 1.3 Objectives of the study

The major objectives of the Study was to analyze the assets and liabilities of RBB and NABIL Ltd. The specific objectives are as follows:

i. To study the management practice of assets and liabilities of commercial banks.
ii. To analyzes liquidity solvency position of commercial banks.
iii. To compare the assets and liabilities position of commercial banks.
iv. To analyze the profitability situation of the commercial banks.

### 1.4 Research Hypothesis

$H_1$1: There is significant relationship between total assets and total liabilities.

$H_2$2: There is significant relationship between total deposits and total net profits.

### 1.5 Significance of the study

In the banking system assets and liabilities are important factors. Health of the entire system is depends on the both factors. For sound banking system there must be good

utilization and acquirement of these factors. So in every bank manager and other person must know about the situation of their assets and liabilities. So my study on assets and liabilities of commercial bank has following significance. The study will be helpful to compare the assets and liabilities of sample banks the study shows the relationship between deposits and total profit of sample banks. The study shows the relationship between investments and total deposit of sample banks. The study shows the relationship between deposits and loan of sample banks. This study will be helpful to the students and researcher

### 1.6 Limitations of the Study

The study is subject to the following limitations:

i) The study is based on the data of five years

ii) The study is based on secondary data only.

iii) Time, cost and effort were limited.

iv) The research has done as per the objectives. Therefore, it may not be sufficient to draw conclusions beyond the objectives.

v) Only two sample banks are chosen randomly out of 27 existing commercial banks in Nepal.

# CHAPTER II
# REVIEW OF LITERATURE

Literatures are the main sources of information related with the study. The chapter deals with review of literature react to the working capital of the commercial banks. This chapter has been divided into two main sections. The first section of the chapter implies with the conceptual framework of the study which second implies the review of previous studies.

## 2.1 Conceptual Review

### Meaning of Banks

Banks are very important financial intermediaries in financial market. Financial intermediaries not only transfer money and securities between users and savers but also they create new financial products. They gain economics of scale in analysis of credit worthiness of potential borrowers, in processing and collecting loan, and minimize cost of information and make easy flow of transactions (Grywishki, 1993).

Banks are the principal source of credit to household: individuals and family, business: all forms and local units of government. Furthermore, they are the source of financial information, planning and controlling. Banking institution is inevitable for resource mobilization and all-round development of the country. It is resource for economic development; it maintains economic confidence of various segments and extends credit to people. Banks deal with money by accepting various types of deposits, disbursing loans and investing in productive sectors and rendering other financial services as the primary function. Banks are channels between saving surplus and saving deficit people and thus, they are the bridge of utilized scatter fund to productive sectors. Hence, they represent a vital role in the transmission of government economic policies (especially monitory policies) to the economy. When bank credit is expensive, the investment slows down and unemployment rises. Bank deposit represents the most significant component of the money supply used by the public. Commercial banks play an important role for economic development of the country as they provide capital for the development of industry, trade

and business by investing the saving collected as deposits from public. They render various services to their customers facilitating their economic and social life (Grywishki, 1993).

**Balance Sheet**

A balance sheet is one of four basic accounting financial statements. The other three being the income statement, state of owner's equity, and statement of cash flows. The balance sheet uses the accounting equation to show a financial picture of the business on a specific day. In other words, a balance sheet lists all of the assets that a company owns as well as the debts owed by the company and the owner's interest or ownership share in the company. Assets are listed separately first and liabilities and owner's equity are listed together second. Think about the accounting equation. Assets = Liabilities + Owner's equity. Assets have to total the sum or liabilities and owner's equity. This is where the "balance" in balance sheet comes from. Assets have to balance with liabilities and owner's equity. (Assets = liabilities + owner's equity). The balance sheet is one of the most important statements in a company's accounts. It shows what assets and liabilities a company has and how the business is funded (by shareholders and by debt: the financial structure of the company). Book values are usually historical cost or fair value.

**Assets**

An asset is an item of value owned by a company. Assets may be tangible physical items or intangible items with no physical form. Assets add value to a company, and are important to a company's continued success. Mainly assets are two types. One is current assets and another is fixed assets.

**Current assets**

Current assets are those assets that are expected to be used (sold or consumed) within a year, unlike fixed assets. Current assets are shown on the balance sheet, and are listed in order of increasing liquidity (i.e. how easy they are to convert to cash). Usually stocks will be listed first, followed by debtors, with cash last. The current asset position of a company is important, both for assessing its financial strength financial position (see current assets ratio) and for gauging its operational efficiency.

**Fixed assets**

Fixed assets, as opposed to current assets, are those assets with a remaining useful life of over a year. Following the accruals principal, these assets are shown on the balance sheet but their value is depreciated, and treated as an expense in the P & L account for each year of their life.

There are two types of fixed assets:

i) Tangible fixed assets

ii) Intangible fixed assets

Tangible fixed assets include physical assets such as land and buildings and equipment. Long term financial investments are also considered tangible. The most important intangible fixed asset is goodwill. Other intangible includes patents, copyrights and trademarks. In many cases it may be necessary to adjust for the value of intangibles (usually by deducting them from total fixed assets) in order to allow fair comparisons between companies or to make measures of financial strength (such as gearing) more meaningful. This is because the value of intangibles is often less certain and usually reflects the history of the company.

**Liabilities**

A liability is a debt owed from one company to a person or company that is not an owner of business. In other words, liabilities are debts owed to non-owners or creditors. There are many different types of liabilities including accounts payable, payroll taxes payable, and bank notes. Basically, any money owed to an entity other than a company owner is listed on the balance sheet as a liability. Liabilities can be generally categorized into the two types. One is current liabilities and other is long term liabilities.

**Current Liabilities**

Liabilities that are to be settled in less than a year are called current liabilities. These include trade creditors and debt due within a year (including debt repayable on demand such as overdrafts). Current liabilities are one of the major groups of items on the balance sheet. Current liabilities are very important in gauging a company's financial health as the

company needs to have the money to meet these commitments in the short term see current asset ratio and quick assets ratio.

**Long-term Liabilities**

Long term liabilities are those that are due to be paid in more than a year. Those due in less than a year or on demand are current liabilities. The most important type of long term liability is debt. Preference shares are not debt, but given that they are "debt like" this is often something investors should adjust for. Similarly, some short term debt can keep being renewed, so it in fact provides long term funding. This sometimes happens with overdrafts: they are repayable on demand and therefore short term debt, but a company may maintain an overdraft for many years. Conversely debt instruments that originally had a long term that are now close to expiry are short term debt, and shown as such in the accounts.

Long term liabilities are looked at by investors assessing a company's financial health using ratios such as interest cover. Because of gearing high debt enhances the benefits of growth. Like shareholders, the holders of long term debt (i.e. banks and bondholders) are suppliers of funds to a company. They rank higher than shareholders in getting their money back if a company fails and therefore their money is safer, but they do not gain if the company performs better than the minimum necessary to pay back its debt. Non-performing assets, also called non-performing loans, are loans, made by a bank or finance company, on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments than a bank makes its profits. Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time a loan is classified as past due. Once a payment becomes really late (usually 90 days) the loan classified as non-performing.

A high level of non-performing assets compared to similar lenders may be a sign of problems, as may a sudden increase. However this needs to be looked at in the context of the type of lending being done. Some banks lend to higher risk customers than others and therefore tend to have a higher proportion of non-performing debt, but will make up for

this by charging borrowers higher interest rates, increasing spreads. A mortgage lender will almost certainly have lower non-performing assets than a credit card specialist, but the latter will have higher spreads and may well make a bigger profit on the same assets, even if it eventually has to write off the non-performing loans.

**Profit and Loss A/C**

The profit and loss account (P & L), shows the profit or loss a company has made over a period of time. The shortest possible P & L would be: sales –cost = total profit. In accordance with the accrual principle, costs and revenues are matched so that, for example, sales and purchases made on credit during a year, but perhaps not yet paid for, will be included in the P & L for the year. The profit and loss account is structured to provide a reasonably concise breakdown of costs and, to a lesser extent, revenues.

### 2.1.1 Management Policy of NRB and in dividend Sample Bank

Regulatory Framework of Asset Liability Management-ALM Policy Statement, Structure of ALM, MIS for ALM, ALCO.

i) Financial Statements of Banks and Financial Institutions.
ii) Deposit and Non-deposit Liabilities and their Management.
iii) Management of Earning Asset Portfolio.
iv) Capital Management in line with RBCA Guideline.
v) Off-Balance Sheet Activities and their Implications.
vi) Liquidity Management- Demand for and Supply of Liquidity, Maturity Profiles and Forecasting Liquidity Requirements, Strategies for Managing Liquidity Risk.
vii) Interest Rate Risk Management-Mismatch between Assets and Liabilities, Gap and Duration Analysis and Hedging Techniques.
viii) Treasury Operations of a Bank-Policies and Dimensions, Relation between Money Market and Foreign Exchange Operations.
ix) Asset Securitization-Concept and Mechanism

### 2.1.3 Focus on some key Assets Liabilities Management

A bank needs to decide whether it wants to take a relatively neutral approach to ALM risks or is prepared to take a more aggressive approach and target higher long term

earnings and an increase in economic value. Irrespective of the choice made, a bank needs to realize that the right level of skills and resources need to be committed to support the function. Failure to do this can result in a poorly managed operation characterized by volatility in; core earnings/margin; economic value, and; unpredictable economic results. 38. The mismatch position of the balance sheet represents the interest rate and liquidity risk profile inherent. Assuming a single portfolio without hedges, a large and well diversified bank, with transactions weighted broadly across all market segments, will find that its balance sheet will naturally take on countercyclical characteristics as the business environment consolidates through the economic cycle. This makes sense as the bank is effectively providing customers with solutions they are demanding as they operate in the external environment. The market itself will also provide limitations and one of the areas where this can manifest strongly is on the liability side of the balance sheet. Various techniques are used to examine the mismatch in a bank's balance sheet and it can be a difficult process if not supported with adequate systems. Depending on systems and analytical support the ALM process will undertake a number of analysis designed to identify; static and dynamic mismatch; sensitivity of net interest income; and, market value under multiple scenarios -including under high stress. 39. The majority of banks set net interest income (NII) limits as a main measure of performance with the more advanced banks also using market or economic value as a secondary measure. NII has become the industry benchmark simulation tool because; it is relatively easy to understand and implement; it's a single period measure that does not require many assumptions, and; it is easy for investors to relate to because it is directly linked to reported financial results. On the negative side, it is limited as it does not provide a full view of the risks run by a bank or reflect fully the economic impact of interest rate movements. Market value or economic value simulations on the other hand, offer a more complete assessment of the risk being run but require significantly more detailed analysis which is out of reach of many banks at this point. The process requires multiple assumptions that are difficult to form in some cases and is less intuitive and more difficult to understand. Notwithstanding the difficulties of the latter, both metrics are important in the measurement and management of embedded risk in banks. In less developed ALM units, the time it takes to collect and analyze information can render

much of it useless for active management as by the time it is available markets have moved making hedging ineffective (Dangol, 2011).

**Fund Transfer Pricing Policy**

The funds transfer pricing system has become a fundamental ALM tool in a bank. It creates the ability to immunize business units from risk and provides the basis for economic and product transparency. 42. The process of FTP is designed to identify interest margins and remove interest rate and funding or liquidity risk. Looking at it from the business unit perspective, it effectively locks in the margin on loans and deposits by assigning a transfer rate that reflects the re pricing and cash flow profile of each balance sheet item – it is applied to both assets and liabilities. From the ALM unit's perspective, it isolates business performance into discrete portfolios that can be assigned individualized metrics and facilitates the centralization and management of interest rate mismatches. A by-product is that it effectively allocates responsibilities between the organizational business units and the treasury department. 43. In more developed banks, the FTP mechanism can also be used as a tool to assist with management of the balance sheet structure with FTP rates adjusted to either encourage or discourage product and customer flows. The associated analytical process leads to greater understanding of a bank's competitive advantage, assisting with asset allocation and protection of the franchise. Similarly, in smaller and/or less developed banks it is of equal value as both a management and strategy tool. 44. The methods used by banks are generally consistent - FTP rates are structured to include both interest rate and funding liquidity risks with the derived transfer yield curve constructed to include appropriate premiums. Such premiums should capture all elements associated with the banks funding cost. These should include the cost of items such as; holding liquidity reserves; optionality costs, where pre-payment rights exist; term funding program costs; and, items such as basis risk (Kulkarni, 2012).

**Liquidity Management**

The main liquidity concern of the ALM unit is the funding liquidity risk embedded in the balance sheet. The funding of long term mortgages and other securities assets with short term liabilities (the maturity transformation process), has moved to center stage with the contagion effect of the sub-prime debacle. Both industry and regulators failed to

recognize the importance of funding and liquidity as contributors to the crisis and the dependence on short term funding created intrinsic flaws in the business model. Banks must assess the buoyancy of funding and liquidity sources through the ALM process. Banks are in the business of maturity transformation to meet their customers' requirements and these result in liquidity, interest rate and currency mismatch which need to be managed. Units have traditionally analyzed and 'managed' liquidity within preset limits; however it is only the recent crises that have brought its true importance into focus. Failure to manage effectively can have dire results but the events of recent times have demonstrated that liquidity impacts can be cataclysmic to a bank. 47. Like all areas of risk management, it is necessary to put a workable framework in place to manage liquidity risk. It needs to look at two aspects: 1) Managing liquidity under the business as usual scenario, and 2) Managing liquidity under stress conditions. It also needs to include a number of liquidity measurement tools and establish limits against them, some of the tools that have become industry standard (Sharpe, 1992).

### 2.1.4 Theories and Models of Bank Financial Performance

Studies on the performance of banks started in the late 1980s/early 1990s with the application of two industrial organizations models: the Market Power (MP) and Efficiency Structure (ES) theories (Athanasoglou, 2006). The balanced portfolio theory has also added greater insight in to the study of bank financial performance (Nzongang and Atemnkeng, 2006). Numerous studies have found a positive relationship between market structure and firm financial performance. While there is general acceptance of the empirical relationship there is no consensus as to the causation. The relationship between market structure and performance is viewed from two competing hypothesis: The Market Power Hypotheses in the form of Structure-Conduct-Performance (SCP) and Relative-Market-Power(RMP), and the Efficient-Structure (ES) hypotheses in the form of X-efficiency or Scale efficiency (Rose, 2003).

### 2.1.5 Market Power Hypothesis

Applied in banking the MP hypothesis posits that the performance of bank is influenced by the market structure of the industry. There are two distinct approaches within the MP

theory; the Structure-Conduct-Performance (SCP) and the Relative Market Power hypothesis (RMP). The Structure-Conduct-Performance (SCP) hypothesis of Bain (1951) may be summed up as markets characterized by a structure with relatively few firms and high barriers to entry will conduct pricing aimed at achieving joint profit maximization through collusion, price leadership, or other tacit pricing arrangements. This type of price conduct should in turn yield profits and prices that are greater than the competitive norm.

According to the SCP approach, the level of concentration in the banking market gives rise to potential market power by banks, which may raise their financial performance. Banks in more concentrated markets are most likely to make "abnormal profits" by their ability to lower deposits rates and to charge higher loan rates as a results of collusive (explicit or tacit) or monopolistic reasons, than firms operating in less concentrated markets, irrespective of their efficiency (Bhunia, 2011).

Unlike the SCP, the RMP hypothesis posits that bank financial performance is influenced by market share. It assumes that only large banks with differentiated products can influence prices and increase profits. They are able to exercise market power and earn non-competitive profits (Osborn, 2012).

### 2.1.6 Efficiency Structure

An alternative hypothesis is the efficiency-structure (ES) hypothesis that emerges from criticism of the SCP hypothesis. The efficiency hypothesis postulates that the relationship between market structure and performance of any firm is defined by the efficiency of the firm. Firms with superior management or production technologies have lower costs and therefore higher profits.

There are also two distinct approaches within the ES; the X-efficiency and Scale–efficiency hypothesis. According to the X-efficiency approach, more efficient firms are more profitable because of their lower costs. Such firms tend to gain larger market shares, which may manifest in higher levels on market concentration, but without any causal relationship from concentration to profitability. The scale approach emphasizes economies of scale rather than differences in management or production technology.

Larger firms can obtain lower unit cost and higher profits through economies of scale. This enables large firms to acquire market shares, which may manifest in higher concentration and then profitability (Baral, 2005)

### 2.1.7 The Portfolio Theory

The portfolio theory approach is the most relevant and plays an important role in bank performance studies. According to the Portfolio balance model of asset diversification, the optimum holding of each asset in a wealth holder's portfolio is a function of policy decisions determined by a number of factors such as the vector of rates of return on all assets held in the portfolio, a vector of risks associated with the ownership of each financial assets and the size of the portfolio. It implies portfolio diversification and the desired portfolio composition of commercial banks are results of decisions taken by the bank management. Further, the ability to obtain maximum profits depends on the feasible set of assets and liabilities determined by the management and the unit costs incurred by the bank for producing each component of assets (Waring, 2004).

### 2.1.8 Factor Influencing Bank Financial Performance

In accordance with the above theories and models, many studies have introduced some useful variables in the financial performance function of commercial banks to shed light on key factors that make a difference in bank financial performance. Such studies are not without ambiguity especially with regard to the measurement of the variables and the results reported thereafter. However there is general agreement that bank financial performance is a function of internal and external factors. Koch (1995) observed that the performance differences between banks indicate differences in management philosophy as well as differences in the market served.

Athanasoglou (2006) concurred and argued that financial performance is a function of internal factors that are mainly influenced by a bank's management decisions and policy objectives such as the level of liquidity, provisioning policy, capital adequacy, expense management and bank size, and the external factors related to industrial structural factors such as ownership, market concentration and stock market development and other macroeconomic factors. Though most of the studies on bank financial performance are

based on developed countries especially the USA and Europe, a couple of studies focusing on developing countries have also used more or less the same variables to study the determinants of bank profitably (Sufian and Chong, 2009)

### 2.1.9 Capital adequacy and Its effect on financial performance

Capital adequacy refers to the sufficiency of the amount of equity to absorb any shocks that the bank may experience (Kosmidou, 2009). The capital structure of banks is highly regulated. This is because capital plays a crucial role in reducing the number of bank failures and losses to depositors when a bank fails as highly leveraged firms are likely to take excessive risk in order to maximize shareholder value at the expense of finance providers (Kamau, 2009).

Although there is general agreement that statutory capital requirements are necessary to reduce moral hazard, the debate is on how much capital is enough. Regulators would like 16 to have higher minimum requirements to reduce cases of bank failures, whilst bankers in contrast argue that it is expensive and difficult to obtain additional equity and higher requirements restrict their competitiveness (Koch, 1995). Beckmann (2007) argue that high capital leads to low profits since banks with a high capital ratio are risk-averse, they ignore potential (risky) investment opportunities and, as a result, investors demand a lower return on their capital in exchange for lower risk.

However Gavila et. al. (2009) argues that, although capital is expensive in terms of expected return, highly capitalized banks face lower cost of bankruptcy, lower need for external funding especially in emerging economies where external borrowing is difficult. Thus well capitalized banks should be profitable than lowly capitalized banks. Gavila (2009) using a sample of 10 Tunisian banks from 1980 to 2000 and a panel linear regression model, reported a strong positive impact of capitalization to ROA. Sufian and Chong (2008) also reported the same results after examining the impact of capital to the performance of banks in Philippines from 1990 to 2005. The banking sector in Kenya provides an interesting case to examine the impact of capital because the minimum statutory requirement has been upgraded to 1 billion in 2012. Capital adequacy is divided into Tier I and Tier II. Tier I capital is primary capital and Tier II capital is supplementary

capital, but this study will focus on total equity of the banks as opposed to the minimum requirements.

### 2.1.10 Assets quality and its effect on financial performance

Credit risk is one of the factors that affect the health of an individual bank. The extent of the credit risk depends on the quality of assets held by an individual bank. The quality of assets held by a bank depends on exposure to specific risks, trends in non-performing loans, and the health and profitability of bank borrowers (Baral, 2005). Aburime (2008) asserts that the financial performance of a bank depends on its ability to foresee, avoid and monitor risks, possibly to cover losses brought about by risks arisen. Hence, in making decisions on the allocation of resources to asset deals, a bank must take into account the level of risk to the assets.

Poor asset quality and low levels of liquidity are the two major causes of bank failures. Poor asset quality led to many bank failures in Kenya in the early 1980s. During that period 37 banks collapsed following the banking crises of 1986-1989, 1993-1994 and 1998 (Mwega, 2009). Many of the financial institutions that collapse in 1986 failed due to non-performing loans (NPLs) and that most of the larger bank-failures, involved extensive insider lending, often to politicians. The CBK measures asset quality by the ratio of net non-performing loans to gross loans. However Koch (1995) argues that a good measure of credit risk or asset quality is the ratio of loan loss reserve to gross loans because it captures the expectation of management with regard to the performance of loans. Banks with high loan growth often assume more risk as credit analysis and review procedures are less rigorous, however returns are high in such loans indicating a risk and return trade-off (Kandel, 2007).

Kosmidou (2008) applied a linear regression model on Greece 23 commercial banks data for 1990 to 2002, using ROA and the ratio of loan loss reserve to gross loans to proxy profitability and asset quality respectively. The results showed a negative significant impact of asset quality to bank profitability. This was in line with the theory that increased exposure to credit risk is normally associated with decreased firm profitability.

### 2.1.11 Liquidity management and its effect on financial performance

Another important decision that the managers of commercial banks take refers to the liquidity management and specifically to the measurement of their needs related to the process of deposits and loans. The importance of liquidity goes beyond the individual bank as a liquidity shortfall at an individual bank can have systemic repercussions (CBK, 2009). It is argued that when banks hold high liquidity, they do so at the opportunity cost of some investment, which could generate high returns (Kamau, 2009).

The trade-offs that generally exist between return and liquidity risk are demonstrated by observing that a shift from short term securities to long term securities or loans raises a bank's return but also increases its liquidity risks and the inverse is true. Thus a high liquidity ratio indicates a less risky and less profitable bank. Thus management is faced with the dilemma of liquidity and profitability. Levine (1998) emphasized the adverse effect of increased liquidity for financial Institutions stating that, "although more liquid assets increase the ability to raise cash on short-notice, they also reduce management's ability to commit credibly to an investment strategy that protects investors" which, finally, can result in reduction of the "firm's capacity to raise external finance" in some cases (Shrestha, 2005).

### 2.1.12 Management efficiency and its effect on financial performance

Poor expenses management is the main contributors to poor profitability. In the literature on bank performance, operational expense efficiency is usually used to assess managerial efficiency in banks. CIR of local banks is high when compared to other countries and thus there is need for local banks to reduce their operational costs to be competitive globally. Beck and Fuchs (2004) examined the various factors that contribute to high interests spread in Kenyan banks. Overheads were found to be one of the most important components of the high interests rate spreads. An analysis of the overheads showed that they were driven by staff wage costs which were comparatively higher than other banks in the SSA countries.

Although the relationship between expenditure and profits appears straightforward implying that higher expenses mean lower profits and the opposite, this may not always be the case. The reason is that higher amounts of expenses may be associated with higher volume of banking activities and therefore higher revenues. In relatively uncompetitive markets where banks enjoy market power, costs are passed on to customers; hence there would be a positive correlation between overheads costs and profitability (Flamini et al, 2009). Neceur (2003) found a positive and significant impact of overheads costs to profitability indicating that such cost are passed on to depositors and lenders in terms of lower deposits rates/ or higher lending rates.

## 2.2 Review of Related Studies

### 2.2.1 Review of Journal and Article

Shrestha (1990) found that there had been substantial growths in the number of Joint Venture banks in Nepal since 1990s. The basic reason behind this the government's deliberate policy of allowing foreign joint venture banks to operate in Nepal. Government's liberalization policy of allowing also encourages the traditionally run commercial banks to enhance their efficiency and competitiveness through modernization, mechanization and computerization and prompt customer services by setting them to the exposure of joint venture banks.

Chopra (1990) concluded that the existence of foreign joint venture banks has presented an environment of healthy competition among the existing commercial banks. The main beneficiary of this is the Bank-client. The increased competition forces the existing banks to improve their quality and extend services by simplifying procedures and by training, motivating own staff to respond the new challenges.

Lamsal (2004) had undertaken a study entitled "A Comparative Study of Working Capital Management of SBI and Standard Chartered Bank Nepal Limited." The main objective of his study was to study the current assets and current liabilities and their impact on liquidity and profitability as well as to analyze the liquidity, assets utilization, long-term solvency and profitability position of selected banks. He had analyzed five years published data from 2054/55 to 2004/05 of selected banks and mostly used

statistical and financial tools to analyze them in order to achieve these objectives. After analyzing the secondary data of SBI and EBL, it is summarized his findings as “SBI and EBL had maintained Current Ratio of 1.55 and 1.31 in an average respectively. Trend values of current ratios were negative. The average quick ratio of SBI and EBL were 0.64 and 0.75 respectively. Liquidity of EBL was always better then SBI during study period.”

The study analyzed performance of all licensed domestic and foreign commercial banks independently as average basis using linear multiple regression analysis over the period 2000-2011. The study found that management efficiency; assets quality, interest income; capital adequacy and inflation are factors affecting the performance of domestic commercial banks in Uganda. The result revealed that operating efficiency ratio has significant and negative impact on return on assets as performance (Frederick, 2015/16).

Christari and Kurnia (2016/17) examined to determine the impact of capital adequacy ratio (CAR), credit to deposit ratio (CDR), operational efficiency proxies by operational expense to operating income ratio (BOPO) and non-performing loan (NPL) towards bank profitability proxies by return on assets. Multiple regression analysis was used to analyse data optained samples of the banking sector that was listed on the Indonesia Stock Exchange for the period of 2012 - 2015. The F test result shows that CAR, CDR, BOPO, and NPL simultaneously have a significant impact towards ROA. It means that the model can be used to predict bank profitability. the result revealed the operational expense to operating income ratio has significant impact towards banking profitabilityinvestigated the factors affecting performance of commercial banks in Unganda.

Ashok (2009) in his study examined how the financial performance of State Bank Of India (SBI) group, nationalized banks group, private banks group and foreign banks group in India had been affected by the financial deregulation of the economy. The main objective of the empirical study was to assess the financial performance of scheduled commercial banks through CAMEL analysis. CAMEL stands for capital adequacy, asset quality, management efficiency, earnings performance and liquidity. The objectives of his study were to identify the optimal mix of assets and liabilities for the profitability of banks and to offer suitable suggestions to strengthen the funds position of commercial

banks. The study was carried out over a periods of 2000-2001 to 2009-2010. He concluded that banking sector has to take greatest care on the variables which relate to asset liability management and that all the banking groups have to take necessary steps to improve the overall performance of the banking sector.

Mihail (2009) did a study on how asset liability management affect profitability of Banks. The main goal of this paper was to analyze the asset-liability management in banks for the 2004-2011 periods, using a panel of over 30 banks across Europe. The analysis was carried using the canonical correlations where she tested for a linear dependency between two variables, i.e.(the structure of assets and liabilities.) The study concluded that in order to be effective in banks, the management of assets and liabilities must take into consideration the risk level, earnings, liquidity, profit, solvency, the level of loans and deposits.

Haslem et al (1999) used canonical analysis and the interpretive framework of asset/liability management in order to identify and interpret the foreign and domestic balance sheet strategies of large U.S. banks in the context of the "crisis in lending to LDCs." In their study it was revealed that the least profitable very large banks have the largest proportion of foreign loans, but they focus on asset/liability matching strategies.

Gyekyi (2011) used the goal programming method to study the effects of asset liability management on profitability of National Investment Bank in the New Juabeng Municipality in Ghana. His the major findings of the study were; the value of assets and liabilities of the bank had a direct effect on the profitability of the bank, decrease in assets value leads to increase in banking profitability. Increased or decreased in liability had direct effect on company's profitability, inflation rate has the direct effect on profitability, Increase in inflation leads to increase in profitability and decreased in inflation, decreases the profit margin of the firm, Bank of Ghana base rate affects the strategic decisions of the banks, changes in the base rate have direct effect on the banking profitability and Bank of Ghana policies normally affect the decisions of the bankers. Analyzing the behaviour of U.S. commercial banks on the 1990-2005 periods, DeYoung and Yom (2008) in a study in US commercial banks observed the evolution of correlation degree between assets versus liabilities.

Kamau (2009) did a study on the commercial banks in Kenya and set to establish the how capital adequacy effects profitability in the banking sector. He found out that the capital structure of banks is highly regulated. This is because capital played a crucial role in reducing the number of bank failures and losses to depositors when a bank fails as highly leveraged firms are likely to take excessive risk in order to maximize shareholder value at the expense of finance providers. To this extent, he concluded that banks with enough capital were more profitable than banks which were struggling to maintain the statutory capital adequacy requirement, Odhiambo (2006) did a survey of liability management practices in commercial banks in Kenya and found that regular and systematic appraisal of asset liability management policies was a common practice among most banks. Most banks also indicated that their asset liability management systems were governed by guidelines set by the management board which is a cross functional outfit covering all the major functions in the bank this showed that asset liability management is a highly strategic issue in most banks, regardless of their size, extensively utilized most of the conventional hedging instruments.

Muhammed (2007) did a study of liquidity management approaches and their effect on profitability of commercial banks in Kenya. The researcher findings reveal that the most popular theory with bankers is commercial loan theory; the next is asset liability management theory. The evidence of use of shift ability and anticipated income theory is weak. However, there was one bank that employed a hybrid strategy i.e. anticipated and commercial loan theory.

### 2.2.2 Review of Thesis

Pradhan (1991) found that the joint venture banks were in a better position than local commercial banks profit making. In an average, no foreign banks have suffered loss till now, but local banks own the negative profits.

Parajuli (2008) in his study on “A study on assets & liquidity management of joint venture banks” concluded the following findings: All though political uncertainty banks have increased the total loans & advances by the significant percentage. Invested were made in different sectors by the banks. All three banks (Himalayan Bank, NABIL,

Standard Chartered Bank) minimize the non-performing loan ratio. All three banks have managed their loan effectively & invested in proper channels.

Thapa (2010) in her study on "A study on assets and liabilities management of Nepalese joint venture commercial banks" concluded the following findings: In correlation of coefficient analysis, correlation of total deposits & total investments of NABIL insignificant thus Nabil needs to invest deposit in government & non-government sectors other profitable sectors. Total deposits of NABIL are increasing trend but Standard Chartered Bank Nepal is in decreasing trend. It can be concluded that Nabil will collected more deposits in the future but Standard Chartered Bank Nepal won't be enjoy the deposits collection due to suffering from loss. Nabil seems better than Standard Chartered Bank Nepal under the study.

Bhandari (2015/16) investigated the relationship between non-performing assets and profitability. This study has collected the data from 24 commercial bank of Nepal with the total of 120 observations. The study collected the data from the period of 2009 to 2013. The study found negative and significant relationship between non-performing loan and profitability in terms of ROA and TQ. Similarly, loan loss provisions to total loan and non-performing loan to total gross loan have negative impact on ROA and TQ. However, the loan and advance to total assets and net interest income to total loan have positive and significant relationship to ROA and TQ.

Examined the impact of capital adequacy on performance of Nepalese commercial banks for the period of 2007/08 to 2013/14 of 18 commercial banks. The study adopted regression model to test the significance and importance of credit risk and capital adequacy on bank performance. The study used return on assets and earning per share as a dependent variables and non-performing loan, loan loss provision, loan and advances, liquidity and capital adequacy ratio as the independent variables. The study revealed that capital adequacy ratio is positively correlated to return on assets and earning per share Thapaliya (2016/17).

Poudel (2016/17) assessed the impact of non-performing loan on bank profitability. This study covered the data from 16 commercial banks with 176 observations. This study is

based on pooled cross-sectional data which revealed that non-performing loan is negatively related to bank performance in terms of ROA, EPS and TQ. However, total deposits, total loan and firm size are positively related to profitability.

### 2.3 Research Gap

Many researchers have included the assets and liabilities of commercial banks. Some have studied on the topic of asset management and some have studied on the topic of working capital management. No study could find on Assets and liabilities of NABIL and Rastriya Banijya Bank. Mr. Parajuli (2008) has only analyzed the investment in government securities. But didn't calculate the ratio of total credit to total deposits. The financial and statistical tools used by the most of the researchers were ratio analysis, test of hypothesis and regression analysis. This research includes different tools like ratio analysis, mean, standard deviation, correlation analysis and trend analysis as specific tools.

# CHAPTER III
# RESEARCH METHODOLOGY

This chapter is related to the research methodology that is applied in the whole aspect of the study. It refers to the logical sequence of various steps to be adopted by a researcher in studying problems with certain objectives. In others words, research methodology describes the method and process applied in the entire subject of the study. The chapter includes research design, population and sample, Nature and sources of data, data collection procedure and data analysis procedure.

## 3.1 Research Design

The research design followed for the study is basically descriptive and analytical research design. The study aims to portraying accurately upon the assets and liabilities and its impact on overall financial position of the two banks taken for the study. After selecting the topic for the research, researcher should make the plan for the further research. Which is called research design. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions. Research design specifies an outline of plant to be carried out concerning with the proposed research work. The design is simple form but it covers the main comprehension of the study.

## 3.2 Population and Sample

Population covers the whole or total of the observation that have selected for the study sample is the part of population which represents population with regards to the study. There are 27 commercial banks functioning all over the nation and most of their stock are actively traded in stock market. In these study two banks namely Rastriya Banijya Bank Ltd. and NABIL Ltd. are to be taken as sample for this research work using random sampling technique. These banks are selected as sample for the study based on their date of establishment. Both banks are reputed in market.

### 3.3 Nature and Sources of Data

Basically this study is based on secondary data. Secondary data are collected from Annual report of the sample banks; supporting data and information are collected from the office of the sample banks and website of NABIL Limited.

### 3.4 Data Collection Procedure

The technique used to achieve the data is the annual report of Rastriya Banijya Bnak Ltd. and NABIL Ltd. collected from their official websites. Several publication of NRB reports were collected from official website of NABIL Limited. Various previous studies, textbooks and unpublished dissertation have been obtained by visiting Tribhuwan University of central library and Nepal Commerce Campus library.

### 3.5 Tools and Techniques of Analysis

In order to analyze the data both the financial and statistical tools have been employed in this study. The financial tools mainly deals with the ratio analysis whereas the statistical tools mainly deals with mean, standard deviation, coefficient of variation, correlation analysis.

#### Financial Tools

To analyze the data from financial tool, ratio analysis has been chosen. Ratios are as follows.

#### Liquidity Ratio

Liquidity ratios are applied to measure the ability of the firms to meet short term obligations. It measures the speed of firms to convert the firms asset into cash to meet deposit withdraws and other current obligations.

#### Financial Ratios

Financial ratios are useful indicators of a firm's performance and financial situation. Most ratios can be calculated from information provided by the financial statements. Financial ratios can be used to analyse trends and to compare the firm's financials to those of other firms. In some cases, ratio analysis can predict future bankruptcy. Financial ratios can be

classified according to the information they provide. The following types of ratios frequently are used

i) Liquidity ratios

ii) Asset turnover ratios

iii) Financial leverage ratios

iv) Profitability ratios

v) Dividend policy ratios

**Liquidity Ratios**

Liquidity ratios provide information about a firm's ability to meet its short-term financial obligations. They are of particular interest to those extending short-term credit to the firm. Two frequently-used liquidity ratios are the current ratio (or working capital ratio) and the quick ratio. The current ratio is the ratio of current assets to current liabilities:

$$Current\ Ratio = \frac{Current\ Aseets}{Current\ Liabilities}$$

Short-term creditors prefer a high current ratio since it reduces their risk. Shareholders may prefer a lower current ratio so that more of the firm's assets are working to grow the business. Typical values for the current ratio vary by firm and industry. For example, firms in cyclical industries may maintain a higher current ratio in order to remain solvent during downturns. One drawback of the current ratio is that inventory may include many items that are difficult to liquidate quickly and that have uncertain liquidation values. The quick ratio is an alternative measure of liquidity that does not include inventory in the current assets. The quick ratio is defined as follows:

$$Quick\ Ratio = \frac{Current\ Aseets - Inventory}{Current\ Liabilities}$$

The current assets used in the quick ratio are cash, accounts receivable, and notes receivable. These assets essentially are current assets less inventory. The quick ratio often is referred to as the acid test. Finally, the cash ratio is the most conservative liquidity

ratio. It excludes all current assets except the most liquid: cash and cash equivalents. The cash ratio is defined as follows:

$$Cash\ Ratio = \frac{Cash + Marketable\ Securities}{Current\ Liabilities}$$

The cash ratio is an indication of the firm's ability to pay off its current liabilities if for some reason immediate payment were demanded.

**Asset Turnover Ratios**

Asset turnover ratios indicate of how efficiently the firm utilizes its assets. They sometimes are referred to as efficiency ratios, asset utilization ratios, or asset management ratios. Two commonly used asset turnover ratios are *receivables turnover* and inventory turnover. Receivables turnover is an indication of how quickly the firm collects its accounts receivables and is defined as follows:

$$Receivables\ Turnover = \frac{Annual\ Credit\ Sales}{Accounts\ Receivables}$$

**Financial Leverage Ratios**

Financial leverage ratios provide an indication of the long-term solvency of the firm. Unlike liquidity ratios that are concerned with short-term assets and liabilities, financial leverage ratios measure the extent to which the firm is using long term debt. The debt ratio is defined as total debt divided by total assets:

$$Debt\ Ratio = \frac{Total\ Debt}{Total\ Assets}$$

The debt-to-equity ratio is total debt divided by total equity:

$$Debt - Equity\ Ratio = \frac{Total\ Debt}{TotalE\ quity}$$

Debt ratios depend on the classification of long-term leases and on the classification of some items as long-term debt or equity. The times interest earn*ed* ratio indicates how

well the firm's earnings can cover the interest payments on its debt. This ratio also is known as the interest coverage and is calculated as follows:

$$Interest\ Coverage = \frac{EBIT}{Interest\ Charge}$$

Where EBIT = Earnings before Interest and Taxes

**Profitability Ratios**

Profitability ratios offer several different measures of the success of the firm at generating profits. The gross profit margin is a measure of the gross profit earned on sales. The gross profit margin considers the firm's cost of goods sold, but does not include other costs. It is defined as follows:

$$Gross\ Profit\ Margin = \frac{Sales - Cost\ of\ Goods\ Sold}{Total\ Sales}$$

Return on assets is a measure of how effectively the firm's assets are being used to generate profits. It is defined as:

$$Return\ on\ Assets = \frac{Net\ Profit}{Total\ Assets}$$

Return on equity is the bottom line measure for the shareholders, measuring the profits earned for each dollar invested in the firm's stock. Return on equity is defined as follows:

$$Return\ on\ Equity = \frac{Net\ Profit}{Total\ Equity}$$

**Statistical Tools**

**Descriptive Statistical Tools**

Descriptive statistical tools help to find out the trend of financial position of the sample banks. It also analyzes the relationship between variables and helps banks to take appropriate decisions regarding the fulfillment of organization goals. Descriptive

analytical tools such as Percentage, Mean (arithmetic), variance and standard deviation have been used in this research.

**A) Average/ Mean**

Arithmetic mean of a given set of observations is their sum divided by the number of observations. In general, if $X_1$, $X_2$.....$X_n$ are the given N observations, then their arithmetic mean, denoted by $\overline{X}$ is given by,

$$\overline{X} = \frac{x_1 + x_2 + .....+ x_n}{N} = \frac{\sum x}{N}$$

Where, $\sum X$ = Sum of the observations, and N = Number of Years

**B) Standard Deviation**

Standard deviation is the square root of the sum of the squares of the deviations measured from the mean. Thus, in the calculation of standard deviation, first the arithmetic average is calculated and the deviation of various items from the arithmetic average are squared. The squared deviations are totaled and the sum is divided by the number of items. The square root of the resulting figure is the standard deviation of the series (Elhance & Agarwal, 2000). The standard deviation is conventionally represented by the Greek letter sigma. If X1, X2… Xn is a set of N observations then, standard deviation is given by,

$$\sigma = \sqrt{\frac{\sum (X - \overline{X})^2}{N}}$$

$\sum (X - \overline{X})^2$= Sum of the squares of the deviations measured from mean N = Number of Observations

**C) Coefficient of Variation (C.V.)**

Coefficient of variation is computed for comparing the variability of two distributions. A distribution with smaller C.V. is said to be more homogeneous or uniform or less variable than-the other, and the series with greater C.V. is said to be more heterogeneous or more variable than the other. It is computed as under.

$$C.V. = \frac{\sigma}{\overline{X}} \times 100\%$$

**Inferential Statistical Tools**

Unlike with the data description which have the focus of describing the sample data, while the focus of inferential analysis is on estimation or hypothesis testing, by using sample purely to make inferences about the population. This process is formally known as inferential statistics. There are two major groups of inferential statistics, (I) parametric and (ii) non-parametric. In this research, parametric test such as Correlation Analysis and Regression analysis has been used.

**A) Coefficient of correlation (r)**

The correlation is a statistical tool which studies the relationship between two variables and correlation analysis involves methods and techniques used for studying and measuring the extent of the relationship between the two variables. Correlation analysis enables to have an idea about the degree and direction of the relationship between the two variables under study. However, it fails to reflect upon the cause and effect relationship between the variables. The coefficient of correlation, denoted by r is computed as under:

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

# CHAPTER IV
# RESULTS AND DISCUSSION

## 4.1 Data Presentation and Analysis

The chapter is related to the presentation and analysis of data which were collected from various secondary sources. This chapter has been divided into main three sections. The first section of the chapter deals with the presentation and analysis of secondary data, second section deals with financial analysis and third section deals with statistical analysis.

### 4.1.1 Presentation and analysis of total assets and liabilities

In this section assets and liabilities of sample banks are presented in the tabular format and later presented in the bar diagram.

***Table: 4.1***

***Total Assets and Liabilities (Rs. in millions)***

| FY | Assets | | Liabilities | |
|---|---|---|---|---|
| | RBB | NABIL | RBB | NABIL |
| 2015/16 | 89448.2 | 54609.8 | 98065.3 | 51480.4 |
| 2016/17 | 94646.7 | 61292.6 | 102069.6 | 57456.9 |
| 2017/18 | 107478.3 | 71545.3 | 109791.5 | 66887.8 |
| 2018/19 | 115351.6 | 78260 | 112848.1 | 72795.3 |
| 2019/20 | 130046.9 | 93760.3 | 128774.4 | 87070 |

*(Sources: Annual reports of RBB and NABIL)*

In table 4.1 assets and liabilities of Rashtriya Banijya Bank (RBB) and NABIL are presented. The assets of RBB were Rs. 89448.2 million, Rs. 94646.7 million, Rs. 107478.3 million, Rs. 115351.6 million and Rs. 130046.0 million in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 respectively. The assets of NABIL were Rs. 54609.8 million, Rs. 61292.6 million, Rs. 71545.3 million, Rs. 78260 million and Rs. 93760.3 million in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20. From the study of above table and chart we can see that RBB has more assets than the NABIL. But both bank's assets are in increasing rate. On the other side of table

4.1 liabilities are presented. RBB has liabilities of Rs. 98065.3 million, Rs. 102069.6 million, Rs. 109791.5 million, Rs. 112848.1 million and Rs. 128774.4 million in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 respectively. Whereas NABIL has liabilities of Rs. 51480.4 million in mid-July of 2015/16, Rs..57456.9 million ,Rs. 66887..8 million, Rs. 72795.3 million and Rs. 87070 million in the mid-July of 2016/17, 2017/18, 2018/19 and 2019/20 respectively. The liabilities of RBB are also higher than the liabilities of NABIL. Both banks have increasing rate of liabilities

### 4.1.2 Presentation and analysis of Net Profits

In this part, net profit of sample banks are presented. Firstly net profits are presented in table later also presented in trend line.

***Table: 4.2***

***Net Profits of Banks (Rs. in millions)***

| FY | RBB | NABIL |
|---|---|---|
| 2015/16 | 1516.7 | 1798.7 |
| 2016/17 | 1759.3 | 1269.7 |
| 2017/18 | 1446.2 | 1720.9 |
| 2018/19 | 1637.1 | 2232.4 |
| 2019/20 | 1946.9 | 2397.6 |

*(Source: www.nrb.org.np)*

In the table 4.2 net profits of Ratriya Banijya Bank and NABIL are presented. Rastriya Banijya Bank has profit of Rs.. 2015/16.7 million in mid-July of 2015/16 , Rs. 1759.3 million, Rs. 1446.2 million, Rs. 1637.1 million and 1946.9 million in mid-July of 2016/17, 2017/18 ,2018/19, 2019/20 respectively. Whereas NABIL has net profit of Rs. 1798.7 million in 2015/16, Rs. 1269.7 million in 2016/17, Rs. 1720.9 million in 2017/18, Rs. 2232.4 million in 2018/19 and Rs. 2397.6 million in 2019/20. In 2015/16, 2016/17 mid-July RBB has more net profit than NABIL. After that, Nabil has more net profit. Both banks' net profit decreased in 2016/17 mid-July than the 2015/16 mid-July. After mid-July 2016/17, NABIL's net profit has gradually increased but RBB's net profit has gradually decreased until 2017/18, only after 2017/18 mid-July profit has increased.

***Table 4.3***

***Total Deposits of Banks***

| FY | RBB | NABIL |
|---|---|---|
| 2015/16 | 68623.2 | 46334.8 |
| 2016/17 | 73924.1 | 49691.4 |
| 2017/18 | 87775 | 55023.7 |
| 2018/19 | 91093.9 | 63611.3 |
| 2019/20 | 107270.1 | 75384.5 |

*(Source: www.nrb.org.np)*

In table 4.3 total deposits have been presented. Whereas RBB has more deposits collection than the NABIL. RBB has deposit collection of Rs. 68623.2 million in the mid-July of 2015/16, Rs. 73924.1 million in mid-July of 2016/17, Rs. 87775 million in the mid-July of 2017/18, Rs. 91093.9 million in mid-July 2017/18 and Rs. 107270.1 million in mid-July of 2019/20. Whereas NABIL has collected Rs. 46334.8 million, Rs. 49691.4 million, Rs. 55023.7 million, Rs. 63611.3 million, Rs. 75384.5 million in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20.

***Table 4.4***

***Percentage of Non-Performing assets of Banks (In percent)***

| FY | RBB | NABIL |
|---|---|---|
| 2015/16 | 11.4 | 0.1 |
| 2016/17 | 10.9 | 1.8 |
| 2017/18 | 7.3 | 2.3 |
| 2018/19 | 5.3 | 2.1 |
| 2019/20 | 3.9 | 2.2 |

*Source: www.nrb.org.np*

In table 4.4 RBB has decreasing rate of nonperforming assets i.e. 11.4 percent, 10.9 percent, 7.3 percent, 5.3 percent and 3.9 percent in the mid July of 2015/16, 2016/17, 2017/18, 2018/19, 2019/20 respectively. Whereas NABIL has 0.1 percent, 1.8 percent, 2.3 percent, 2.1 percent, 2..2 percent in the mid July of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 respectively. In chart 4.4 non-performing loan of RBB has continuously decreased which means RBB improving in recent years. Nabil has lower rate of nonperforming assets but in recent years. it has increasing rate of nonperforming assets. Although Nabil has lower rate of nonperforming assets than the RBB. It indicates the sound health of the bank.

***Table 4.5***

***Investments of Bank***

| FY | RBB | NABIL |
|---|---|---|
| 2015/16 | 9576.3 | 8128 |
| 2016/17 | 12576.4 | 8920.3 |
| 2017/18 | 23274.8 | 8211.5 |
| 2018/19 | 28137.5 | 8153.7 |
| 2019/20 | 30492 | 8530.5 |

*(Source: www.nrb.org.np)*

In table 4.5 total investments have been presented. Total investment includes investments on Govt. securities + NRB bond + Govt. non-financial institution + other non-financial institution + nonresidents. RBB has more investments than the NABIL. RBB has Rs..9576.3 million, Rs. 12576.4 million, Rs. 23274.8 million, Rs. 28137.5 million and Rs. 30492.8 million in mid-July 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 respectively. On the other hand, Nabil has low investment. Nabil has invested Rs. 8128 million, Rs. 8920.3 million, Rs. 8211.5 million, Rs. 8153.7 million and Rs. 8530.5 in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20.

***Table 4.6***

***Investments on share & other investment***

| FY | RBB | NABIL |
|---|---|---|
| 2015/16 | 3413.2 | 5484.8 |
| 2016/17 | 2756.7 | 4162.5 |
| 2017/18 | 3226.3 | 5863.4 |
| 2018/19 | 1497.3 | 8194.7 |
| 2019/20 | 1567.8 | 9748.9 |

*(Source: www.nrb.org.np)*

Table 4.6 shows the investment made on shares and other investment. RBB has invested Rs. 3413.2 million in mid-July 2015/16 and Rs. 2756.7 million, Rs. 2756.7 million, Rs. 3226.3 million, Rs. 1497.3 million and Rs. 1567.8 million in respectively to the following year Rs. Nabil has invested Rs. 5484.8 million in mid-July of 2015/16, Rs. 4162.5 million, Rs. 5863.4 million, Rs. 8194.7 million and Rs. 9748.9 million in the following years.. After analyzing the investment pattern, RBB has chosen less risky investment option. On the other hand, Nabil has chosen risky investment alternatives. RBB's priority is in government bond and Nabil's priority is in shares.

***Table 4.7***
***Current Ratio of RBB***

| RBB | | | |
|---|---|---|---|
| **FY** | **Current Assets** | **Current Liabilities** | **Current Ratio** |
| 2015/16 | 35252.7 | 23391.7 | 1.51 |
| 2016/17 | 27480 | 21547.3 | 1.28 |
| 2017/18 | 38101.2 | 17647.1 | 2.16 |
| 2018/19 | 33233.2 | 17950 | 1.85 |
| 2019/20 | 42964.2 | 17778.8 | 2.42 |
| **NABIL** | | | |
| **FY** | **Current Assets** | **Current Liabilities** | **Current Ratio** |
| 2015/16 | 5225.3 | 2972 | 1.76 |
| 2016/17 | 8423 | 4545.2 | 1.85 |
| 2017/18 | 14843 | 9623.1 | 1.54 |
| 2018/19 | 13852 | 6651.7 | 2.08 |
| 2019/20 | 18470.3 | 8987.9 | 2.06 |

*(Source: www.nrb.org.np)*

In the table 4.7, the current assets, current liabilities and current ratio has been presented. Current ratios of RBB were 1.51, 1.28, 2.16, 1.85 and 2.42 in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20. Similarly NABIL's current ratios were 1.76, 1.85, 1.54, 2.08 and 2.06 in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20. These facts were also presented in chart 4.7. Both bank's current ratios were fluctuated. They went up and down. From the study RBB has better liquidity position than NABIL

***Table 4.8***

***Return on Total Assets of RBB***

| RBB | | | |
|---|---|---|---|
| **FY** | **Net Profits** | **Total Assets** | **Return on TA (percent)** |
| 2015/16 | 1516.7 | 89448.2 | 2.25 |
| 2016/17 | 1759.3 | 94646.7 | 1.86 |
| 2017/18 | 1446.2 | 107478.3 | 1.35 |
| 2018/19 | 1637.1 | 115351.6 | 1.42 |
| 2019/20 | 1946.9 | 130046.9 | 1.50 |
| **NABIL** | | | |
| **FY** | **Net Profits** | **Total Assets** | **Return on TA (percent)** |
| 2015/16 | 1798.7 | 54609.8 | 3.29 |
| 2016/17 | 1269.7 | 61292.6 | 2.07 |
| 2017/18 | 1720.9 | 71545.3 | 2.41 |
| 2018/19 | 2232.4 | 78260 | 2.85 |
| 2019/20 | 2397.6 | 93760.3 | 2.56 |

*(Source: www.nrb.org.np)*

From the table 4.8 and table 4.10 had showed the percentage of return on total assets. RBB has return on total assets were 2.25 percent, 1.86 percent, 1.35 percent, 1.42 percent and 1.50 percent in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 respectively. Whereas NABIL's return on total assets were 3.29 percent, 2.07 percent, 2.41 percent, 2.85 percent and 2.56 in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 respectively. From above analysis, Nabil had efficiently able to use assets to produce profit than RBB.

***Table: 4.9***

***Total Credits to Total Deposits Ratio of RBB***

| RBB | | | |
|---|---|---|---|
| **FY** | **Total Credits** | **Total Deposits** | **TC/TD ( percent)** |
| 2015/16 | 35616.6 | 68623.2 | 51.90 |
| 2016/17 | 36792.2 | 73924.1 | 49.77 |
| 2017/18 | 40346.2 | 87775.0 | 45.97 |
| 2018/19 | 48981.0 | 91093.9 | 53.77 |
| 2019/20 | 60792.1 | 107270.1 | 56.67 |
| **NABIL** | | | |
| **FY** | **Total Credits** | **Total Deposits** | **TC/TD ( percent)** |
| 2015/16 | 32989.2 | 46334.8 | 71.20 |
| 2016/17 | 38851.5 | 49691.4 | 78.19 |
| 2017/18 | 42817.7 | 55023.7 | 77.82 |
| 2018/19 | 47624.8 | 63611.3 | 74.87 |
| 2019/20 | 56180.6 | 75384.5 | 74.53 |

*(Source: www.nrb.org.np)*

In the table 4.9 and table 4.12 total credits, total deposit and total credit to total deposits ratio has been presented. RBB had total credits to total deposits ratio of 51.90 percent, 49.77 percent, 45.97 percent, 53.77 percent, and 56.67 percent in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19, and 2019/20 respectively. Similarly NABIL has the ratio of 71.20 percent, 778.19 percent, 77.82, 74.87 percent, and 74.53 percent in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19, and 2019/20 respectively.

***Table 4.10***

***Total Credit to Total Deposits ratio (Industry level)***

| FY | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|
| Ratio ( percent) | 74.04 | 76.79 | 71.73 | 74.18 | 74.03 |

*(Source: www.nrb.org.np)*

In chart 4.10 NABIL has higher rate of total credits to total deposits ratio. It means Nabil has able to utilize its deposit more than the RBB. It also indicates that Nabil had created more credit than the RBB. In table 4.10 RBB hadn't reached industry level. Its ratio is below industry level but Nabil had near to industry level.

***Table 4.11***

***Total Investments to Total Deposits Ratio of RBB***

| RBB | | | |
|---|---|---|---|
| **FY** | **Total Investment** | **Total Deposits** | **TI/TD ( percent)** |
| 2015/16 | 9576.3 | 68623.2 | 13.95 |
| 2016/17 | 12576.4 | 73924.1 | 17.01 |
| 2017/18 | 23274.8 | 87775 | 26.52 |
| 2018/19 | 28137.5 | 91093.9 | 30.89 |
| 2019/20 | 30492 | 107270.1 | 28.43 |
| **NABIL** | | | |
| **FY** | **Total Investment** | **Total Deposits** | **TI/TD ( percent)** |
| 2015/16 | 8128 | 46334.8 | 17.54 |
| 2016/17 | 8920.3 | 49691.4 | 17.95 |
| 2017/18 | 8211.5 | 55023.7 | 14.92 |
| 2018/19 | 8153.7 | 63611.3 | 12.82 |
| 2019/20 | 8530.5 | 75384.5 | 11.32 |

*(Source: www.nrb.org.np)*

Table 4.11 shows the total investment, total deposits and total investments to total deposits ratio of RBB and NABIL. RBB had 13.95 percent, 17.01 percent, 26.52 percent, 30.89 percent & 28.43 percent in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19 & 2019/20 respectively. But in the same period NABIL had that ratio of 17.54 percent, 17.95 percent, 14.92 percent, 12.82 percent and 11.32 percent respectively.

***Table 4.12***

***Total Profits to Total Deposits ratio of RBB***

| RBB | | | |
|---|---|---|---|
| **FY** | **Total Profits** | **Total Deposits** | **TP/TD ( percent)** |
| 2015/16 | 1516.7 | 68623.2 | 2.93 |
| 2016/17 | 1759.3 | 73924.1 | 2.38 |
| 2017/18 | 1446.2 | 87775 | 1.65 |
| 2018/19 | 1637.1 | 91093.9 | 1.80 |
| 2019/20 | 1946.9 | 107270.1 | 1.81 |
| **NABIL** | | | |
| **FY** | **Total Profits** | **Total Deposits** | **TP/TD ( percent)** |
| 2015/16 | 1798.7 | 46334.8 | 3.88 |
| 2016/17 | 1269.7 | 49691.4 | 2.56 |
| 2017/18 | 1720.9 | 55023.7 | 3.13 |
| 2018/19 | 2232.4 | 63611.3 | 3.51 |
| 2019/20 | 2397.6 | 75384.5 | 3.18 |

*(Source: www.nrb.org.np)*

In table 4.16 and table, 4.17 total profits and total deposits have been presented. Also calculated total profits to total deposits ratio. In this table, RBB had ratio of 2.93 percent, 2.38 percent, 1.65 percent, 1.8 percent, and 1.81 percent in the mid-July of 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 respectively. In the same period, NABIL had the ratio of 3.88 percent, 2.56 percent, 3.13 percent, 3.51 percent, & 3.18 percent respectively

### 4.1.3 Statistical Analysis

In this part, two statistical aspects have been analyzed. One is mean analysis and other is correlation analysis. Firstly the means of assets and liabilities, current ratio, total credits, total profits and total deposited have been analyzed. Then in second part correlations between total deposits and total loans, correlation between deposits and net profits, correlation between assets and liabilities has been analyzed.

***Table 4.13***

***Mean of Total Assets and Total Liabilities (Rs. in millions)***

| FY | Total Assets | | Total Liabilities | |
|---|---|---|---|---|
| | **RBB** | **Nabil Bank** | **RBB** | **NABIL** |
| 2015/16 | 89448.2 | 54609.8 | 98065.3 | 51480.4 |
| 2016/17 | 94646.7 | 61292.6 | 102069.6 | 57456.9 |
| 2017/18 | 107478.3 | 71545.3 | 109791.5 | 66887.8 |
| 2018/19 | 115351.6 | 78260.0 | 112848.1 | 72795.3 |
| 2019/20 | 130046.9 | 93760.3 | 128774.4 | 87070.0 |
| Total | 536971.7 | 359468 | 551548.9 | 335690.4 |
| Mean | 107394.3 | 71893.6 | 110309.78 | 67138.08 |

*(Source: www.nrb.org.np)*

In table no 4.15, the mean total assets of RBB were Rs. 107394.3 million and NABIL had Rs. 71893.6 million. In the same table RBB had mean total liabilities of Rs. 110309.78 million and NABIL had Rs. 61388.08 million. RBB had higher mean of total assets and total liabilities than that of NABIL.

***Table 4.14***

***Mean of Current Ratio***

| FY | Current Ratio | |
|---|---|---|
| | **RBB** | **NABIL** |
| 2015/16 | 1.51 | 1.76 |
| 2016/17 | 1.28 | 1.85 |
| 2017/18 | 2.16 | 1.54 |
| 2018/19 | 1.85 | 2.08 |
| 2019/20 | 2.42 | 2.06 |
| *Total* | *9.21* | *9.29* |
| *Mean* | *1.84* | *1.85* |

*(Source: www.nrb.org.np)*

In table 4.14 shows the average current ratio has been calculated. The mean current ratio of RBB was 1.84:1 and 1.85:1 of NABIL. Both banks had almost same average current ratio. It means during that period, on average both banks' liquidity position was nearly same.

***Table 4.15***

***Mean of Total Deposits (Rs. in millions)***

| | Total Deposits | |
|---|---|---|
| **FY** | **RBB** | **NABIL** |
| 2015/16 | 68623.2 | 46334.8 |
| 2016/17 | 73924.1 | 49691.4 |
| 2017/18 | 87775.0 | 55023.7 |
| 2018/19 | 91093.9 | 63611.3 |
| 2019/20 | 107270.1 | 75384.5 |
| Total | 428686.3 | 290045.7 |
| Mean | 85737.26 | 58009.14 |

*(Source: Annual Reports)*

Table 4.15 shows the mean deposits of RBB were Rs. 85737.26 million and Rs. 58009.14 million of NABIL. Nabil had able to collect lower deposits than that of RBB.

***Table 4.16***

***Mean of Total Credits (Rs. in millions)***

| | Total Credits | |
|---|---|---|
| **FY** | **RBB** | **NABIL** |
| 2015/16 | 35616.6 | 32989.2 |
| 2016/17 | 36792.2 | 38851.5 |
| 2017/18 | 40346.2 | 42817.7 |
| 2018/19 | 48981.0 | 47624.8 |
| 2019/20 | 60792.1 | 56180.6 |
| Total | 222528.1 | 218463.8 |
| Mean | 44505.62 | 43692.76 |

*(Source: Annual Report)*

From table 4.16 shows RBB had mean total credit of Rs. 44505.62 million and Nabil had Rs. 43692.76 million. RBB had able to create more credit than that of NABIL.

***Table 4.17***

***Mean of Total Profits (Rs. in millions)***

| | Total Profits | |
|---|---|---|
| **FY** | **RBB** | **NABIL** |
| 2015/16 | 1516.7 | 1798.7 |
| 2016/17 | 1759.3 | 1269.7 |
| 2017/18 | 1446.2 | 1720.9 |
| 2018/19 | 1637.1 | 2232.4 |
| 2019/20 | 1946.9 | 2397.6 |
| Total | 8800.2 | 9419.3 |
| Mean | 1760.04 | 1883.86 |

*(Source: Annual Report)*

In table 4.17 total profits of RBB and NABIL have been presented and also calculated mean total profits. RBB had mean profits of Rs. 1760.04 million whereas NABIL had 1883.86 million. NABIL had higher amount of average total profits than RBB during the years. It means Nabil had sound financial health than RBB.

### 4.1.4 Correlation Coefficient of Total Assets and Total Liabilities

The correlation of Coefficient between total assets and total liabilities indicates their relationship. It also indicates how perfectly related they are.

***Table 4.18***

***Correlation Coefficient of Total Assets and Total Liabilities***

| **Banks** | **Correlation of Coefficient** |
|---|---|
| RBB | 0.9853 |
| NABIL | 0.9999 |

RBB had correlation of 0.9853 and NABIL had 0.9999. Both banks had positive correlations and correlations were near to +1. It shows highly positive relationship between these variables in RBB and NABIL.

### 4.1.5 Correlation Coefficient of Total Deposits and Total Net Profits

The correlation Coefficient of Total Assets and Total Liabilities of banks shows relationship between total deposits & total net profits.

***Table 4.19***

***Correlation Coefficient of Total Deposits and Total Net Profits***

| Banks | Correlation of Coefficient |
|---|---|
| RBB | -0.1110 |
| NABIL | 0.8364 |

RBB had correlation of -0.1110 and NABIL had 0.8364. RBB had negative relationship with these variables but NABILs had positive correlations and correlations were near to +1. It shows highly positive relationship between these variables in NABIL.

## 4.2 Major Findings

The following are the major findings of the study

i) RBB had more assets than the NABIL. But both bank's assets were in increasing rate. The liabilities of RBB were also higher than those of NABIL. Both banks have increasing rate of liabilities

ii) In 2015/16 and 2016/17 mid-July, RBB had more net profit than NABIL. After that Nabil had more net profit. Both banks' net profit decreased in 2016/17 mid-July than in 2015/16 mid-July. After mid-July 2016/17, NABIL's net profit had gradually increased but RBB's net profit had gradually decreased till 2017/18, only after 2017/18 mid-July profit had increased.

iii) RBB had higher deposits collection than NABIL. Both bank had increasing trend of deposits.

iv) RBB had better branch network than NABIL but failed to collect deposits as much as NABIL.

v) Nonperforming loan of RBB has continuously decreased which means RBB improving in recent years. Nabil had lower rate of nonperforming assets but in recent years. It had increasing rate of nonperforming assets. Although Nabil had lower rate of nonperforming assets than the RBB. It indicates the sound health of the bank.

vi) After analyzing the investment pattern RBB had chosen less risky investment option. On the other hand, Nabil had chosen risky investment alternatives. RBB's priority was in government bonds and Nabil's priority was in shares

vii) Both bank's current ratios were fluctuated. They went up and down. From the study, RBB had better liquidity position than NABIL

viii) NABIL had higher ratio between total investments to total deposits that of RBB. But from the mid-July of 2017/18 RBB had higher percentage of total investments to total deposits ratio than that of NABIL. It means RBB converted its deposits into investments with higher rate than NABIL.

ix) From above analysis, Nabil had efficiently able to use assets to earn more profit than RBB.

x) NABIL had higher ratio of total loans to total deposits than that of RBB. It indicates that NABIL was successful to utilize its deposits than RBB. Nabil had decreased its ratio from the mid-July of 2016/17 whereas RBB had increased its ratio from mid-July of 2017/18.

xi) NABIL had higher rate of profits under the total deposits rather than RBB. It means NABIL made more profits from deposits than RBB.

xii) NABIL had higher rate of total credits to total deposits ratio. It means Nabil has able to utilize its deposit more than the RBB. It also indicates that Nabil had created more credit than the RBB.

xiii) From the study of total credit to total deposits ratio, the researcher found that RBB had not reached industry level. Its ratio was always below industry level but Nabil had near to industry level.

xiv) NABIL had higher ratio between total investments to total deposits in only two years than that of RBB. But from the mid-July of 2017/18, RBB had higher percentage of total investments to total deposits ratio than NABIL. It means RBB converted its deposits into investments with higher rate than Nabil.

xv) NABIL had higher rate of profits under the total deposits rather than RBB. It means NABIL made more profits from deposits than RBB.

xvi) RBB had higher mean of total assets and total liabilities than that of NABIL.

xvii) Both banks had almost same average current ratio. It means during that period, on average both banks' liquidity position was nearly same.

xviii) . Nabil had less variance in current ratio which shows NABIL had sound liquidity position than that of RBB

xix) RBB had able to collect higher deposits than that of NABIL. But RBB had better branch network all over the country. So, it had to collect more deposits than Nabil. Although deposit collection was higher than NABIL it was not satisfactory.

xx) On average, RBB was able to create more credit than that of NABIL.

xxi) NABIL had higher amount of average total profits than RBB during the years.. It means Nabil had sound financial health than RBB.

xxii) There were highly positive relationship between total assets and total liabilities of both banks.

From the study of correlations between deposits and net profits, RBB had negative relationship with these variables but NABIL had positive correlations and correlations were near to +1. It shows highly positive relationship between these variables in NABIL. This thesis work has been divided into five chapters. They are- Introduction, Review of Literature, Research Methodology, Presentation, Data Analysis and Findings and finally Summary and Recommendations.

**4.3 Discussion**

Lamsal (2004) found "SBI and EBL had maintained Current Ratio of 1.55 and 1.31 in an average respectively. Trend values of current ratios were negative. The average quick ratio of SBI and EBL were 0.64 and 0.75 respectively. Liquidity of EBL was always better then SBI during study period." Thus the findings of this particular study is consistent with Lamsal (2004).

This study finding is consistent with the findings since its is reveled that revealed that operating efficiency ratio has significant and negative impact on return on assets as performance (Frederick, 2015/16).

Christari and Kurnia (2017) examined to determine the impact of capital adequacy ratio (CAR), credit to deposit ratio (CDR), operational efficiency proxies by operational expense to operating income ratio (BOPO) and non-performing loan (NPL) towards

bank profitability proxies by return on assets. Multiple regression analysis was used to analyse data optained samples of the banking sector that was listed on the Indonesia Stock Exchange for the period of 2012 - 2015. The F test result shows that CAR, CDR, BOPO, and NPL simultaneously have a significant impact towards ROA. It means that the model can be used to predict bank profitability. the result revealed the operational expense to operating income ratio has significant impact towards banking profitabilityinvestigated the factors affecting performance of commercial banks in Unganda. The findings of this study is identical to Christari and Kurnia (2017).

Pradhan (1991) found that the joint venture banks were in a better position than local commercial banks profit making. In an average, no foreign banks have suffered loss till now, but local banks own the negative profits. The findings of this study is not consistent with the finding of Pradhan (1991).

Parajuli (2008) in his study concluded the following findings: All though political uncertainty banks have increased the total loans & advances by the significant percentage. Invested were made in different sectors by the banks. All three banks (Himalayan Bank, NABIL, Standard Chartered Bank) minimize the non-performing loan ratio. All three banks have managed their loan effectively and invested in proper channels. The findings of this study is consistent with the finding of Parajuli (2008).

Bhandari (2016) investigated loan loss provisions to total loan and non-performing loan to total gross loan have negative impact on ROA and TQ. However, the loan and advance to total assets and net interest income to total loan have positive and significant relationship to ROA and TQ. The findings of this study is consistent with the finding of Bhandari (2016).

Poudel (2017) assessed the impact of non-performing loan on bank profitability. This study covered the data from 16 commercial banks with 176 observations. This study is based on pooled cross-sectional data which revealed that non-performing loan is negatively related to bank performance in terms of ROA, EPS and TQ. However, total deposits, total loan and firm size are positively related to profitability. The findings of this study is consistent with the finding of Bhandari (2016).

# CHAPTER V
# SUMMARY AND CONCLUSION

This chapter deals with the fact and subject matter acquired from study. This chapter has been divided into three parts. Summary, Conclusion and Recommendations are sub chapters.

## 5.1 Summary

Commercial banks are established to improve people's economic welfare and facility, to provide loan to the agriculture, industry and commerce and to offer banking services to the people and the country. For many developing countries, banking sector has become the medium of developing economic situation, as banks help in capital formation in the country. Bank fills the gap between the searcher and the provider of the fund. Bank provides sufficient back support for the growth and expansion of trade and industry of the country, which eventually helps to develop the economic condition of the country. In this process, JVBs are putting their best effort. Such banks help to transfer foreign investment and advanced technology from one country to the other. Nepal has adopted different liberal and free economic policy to encourage such foreign investments in banking sector.

As mentioned earlier, this study focuses on the Comparative Analysis of Assets and Liabilities of RBB and NABIL. This analysis gives clear picture of the performance of the banks with regard to its operation. All of the information and data are collected from related banks i.e. websites, annual reports. From the viewpoint of the researcher & reader, these two banks are chosen for study mainly because of accessibility and availability of financial data & information for lasts five year period, which are presented in different suitable tables with appropriate analysis and interpretations.

This thesis work has been divided into five chapters. They are- Introduction, Review of Literature, Research Methodology, Presentation, Data Analysis and Findings and finally Summary and Recommendations. To fulfil this objective and other specific objective as described in chapter one, an appropriate research methodology has development, which

include the ratio analysis as a financial tools and statistical tools with t-test (hypothesis) tools. The major ratio analyses consist of the composition of working capital position, liquidity ratio, activity ratio, capital structure ratio and profitability ratio. Under these main ratios and their trend position are studied in the chapter four. In order to test the relationship between the various components of working capital. Karl person's correlation coefficient 'r' is calculated and analysed.

### 5.2 Conclusion

On the basis of analysis and findings of this study, following conclusions are made.

i) RBB has more assets than the NABIL. But both bank's assets are in increasing rate.

ii) The liabilities of RBB are also higher than the liabilities of NABIL. Both banks have increasing rate of liabilities.

iii) Total assets and total liabilities are highly correlated. They are nearly perfectly correlated.

iv) Both banks have earned profits in increasing trend.

v) RBB has collected more deposits than NABIL.

vi) Both banks' deposits collections are in increasing trend.

vii) RBB has higher percentage of nonperforming assets than that of NABIL. RBB has been continuously improving it.

viii) RBB has made investment on less risky option. On the other hand, NABIL has invested in share markets.

ix) Both bank's current ratios were fluctuated. On average, RBB has better liquidity position than NABIL

x) RBB has converted its deposits into investments in higher rate than that of NABIL.

xi) Total credit to total deposits ratio of NABIL is higher than RBB. It means NABIL has perfectly utilized its deposits for credit creation. NABIL maintains the ratio at industry level.

xii) Correlation Coefficient of Total Deposits and Total Net Profits shows that RBB had negative relationship with these variables but NABILs had positive

correlations and correlations were near to +1. It shows highly positive relationship between these variables in NABIL.

### 5.3 Implications

On the basis of comparative analysis and findings of this study, following Implication are forwarded.

i) RBB has big branch network all over the Nepal. But have low deposits collection than NABIL. So RBB must improve its deposit collection policy.

ii) RBB made huge investments but only in less risky or risk free option. It should also made investments upon shares.

iii) Nabil should review its lending policy because its nonperforming assets were increasing in recent years..

iv) Although RBB has decreasing rate of nonperforming assets, it'd be better if bank maintain its NPA ratio at minimum.

v) RBB has lower return on assets ratio than that of NABIL. So, it should increase it.

vi) RBB has lower total credit to total deposits ratio. The ratio was below the industry level. So, bank should increase this ratio, up to the industry level.

vii) Nabil has lower ratio of total investments to total deposits. So bank should increase its investment ratio upon different sectors.

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