

**A COMPARATIVE STUDY ON PROFITABILITY  
OF NEPAL SBI BANK LIMITED  
AND NEPAL BANGLADESH BANK LIMITED**

**A THESIS**

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# **RECOMMENDATION**

This is to certify that the thesis

Submitted By:

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## **A COMPARATIVE STUDY ON PROFITABILITY OF NEPAL SBI BANK AND NEPAL BANGLADESH BANK**

has been prepared as approved by this Campus in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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# **VIVA-VOCE SHEET**

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**Master of Business Studies (M.B.S.).**

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## **DECLARATION**

I hereby declare that this thesis entitled "A Comparative Study on Profitability of Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited" submitted to Shankerdev campus, Faculty of Management, Tribhuvan University, is my original work as partial fulfillment of requirements for the Degree of Master of Business Studies (M.B.S), which is prepared under the supervision of Asso. Prof. Prakash Singh Pradhan of Shanker Dev Campus.

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## **ABBREVIATIONS**

A.D	Anna Dommini
ADB/N	Agriculture Development Bank/Nepal
ATM	Automated Teller Machine
B.S	Bikram Sambat
C.V	Coefficient of Variance
EBL	Everest Bank Limited
EPS	Earning Per Share
Etc	It's Extra
GDP	Gross Domestic Product
HPPC	Hindering to profit Planning
HMG/N	His Majesty Government/Nepal
JVBs	Joint Venture Banks
LAO	Loan, Advances and Overdrafts
LC	Letter Of Credit
Ltd.	Limited
NABIL	Nepal Arab Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NGBL	Nepal Grind lays Bank Limited
NGO	Non-Government Organization
NIDC	Nepal Industrial Development Corporation
NPA	Non-Performing Assets
NPAT	Net Profit after Tax

NRB	Nepal Rastra Bank
NSBL	Nepal SBI Bank Limited
ROE	Return on Equity
ROTA	Return on Total Assets
Rs.	Rupees
S.D	Standard Deviation
SCBL	Standard Charter Bank Limited
UNDP	United Nations Development Program
%	Percentage

# CHAPTER – ONE

## 1. INTRODUCTION

### 1.1 Background

Nepal is a landlocked country bordered by the Tibet Autonomous Region of China in the North and by India in the East, West and South. It occupies a total areas of 1,47,181 sq. km, stretching 885 km from east to west and ranging 145 kilometers to 241 km from north to south. Topographically, the country is divided into three distinct regions from north to south: the mountains, the hills and the flat plains known as the Terai. The mountainous area includes the renowned Himalaya, including the World's Highest Peak, the Mt. Everest (8,848-m). The population of Nepal is 23.4 millions (UNDP, 1998) and the rate of increased by 2.24 per annum.

Nepal is among the least developed countries of the world despite tremendous natural endowments, economic and development activities in the country. The inability of Nepal to make sustainable and proper use of the available resources is the reason for the poverty. Nepal is among the poorest and least developed countries in the world, with almost one-quarter of its population living below the poverty line. Agriculture is the mainstay of the economy, providing a livelihood for three-fourths of the population and accounting for about one-third of GDP. Industrial activity mainly involves the processing of agricultural products, including pulses, jute, sugarcane, tobacco, and grain. Nepal has considerable scope for exploiting its potential in hydropower, with an estimated 42,000 MW of feasible capacity, but political instability hampers foreign investment. Additional challenges to Nepal's growth include its landlocked geographic location, civil strife and labor unrest, and its susceptibility to natural disaster. Nepal ranks as one of the world's poorest countries with a per capita gross national product of Nepalese \$220 a year. Government statistics say 38 percent of population is below the poverty line but non –

governmental estimates say 50 percent poverty. The compositions of GDP by sector wise are agriculture: 33%, industry: 15% and services: 52%. 75% people of Nepal involve in agriculture, 7% in industry and rest of 18% are in service sector. The unemployment rate of Nepal is 46% (2008 est.) (Country comparison to the world: 191) and population below poverty line is 24.7% (2008) (CIA World Factbook). The inflation rate (consumer price) of Nepal is 8.6% (September 2010). Central bank discount rate of Nepal is 6.5% (31 December 2010). Commercial bank prime lending rate is 8% (31 December 2009 est.). Industrial production growth rate is 1.8% (FY08). The production of electricity is 2.6 billion kWh (2009 est.) (Country comparison to the world: 128) and its consumption is 2.243 billion kWh (2007 est.) (Country comparison to the world: 132). The imports of electricity is 213 million kWh (2008 est.) and exports is 0kWh (2009 est.). The main agricultural products are pulses, rice, corn, wheat, sugarcane, jute, root crops; milk, water. Industries of Nepal are tourism, carpets, textiles; small rice, jute, sugar, and oilseed mills; cigarettes, cement and brick production. Nepal used to import such as petroleum products, machinery and equipment, gold, electrical goods, medicine etc. and its major import partners are India 57%, China 13% (2009). The high poverty made Nepal's complicated to initiate proper development measures.

## **1.2 Emergence of Commercial Banks in the Economy**

Before 1848 BC the Goldsmith used to accept the gold and other valuable goods deposited by the people for safety and charge nominal amount for the deposit. That time people deposited their gold and valuable goods for the sake for security rather than earning interest. The term bank emerged in USA in 1848 BC. The bank means an institute, which deals with money. A bank performs several financial, monetary and economic activities, which are very essential for economic development of a country. Broadly speaking bank collects surplus money from the people who are not using it at

present and hoarding for future and supplies loan for the one who are in the position to use it for productive purpose. Basically banks perform various types of services such as collection of deposits from the public, supply loans to those investors who want to invest in business, industry and other sectors, and provides facilities like overdraft, letter of credit, bills discounting, promissory notes, selling of other shares to general public, agency function of tasks, guarantee against and disable of payment (guarantee services) etc.

The history of modern financial system began in 1937 A.D. in Nepal with the establishment of Nepal bank Ltd. as the first commercial bank of Nepal. The bank was established to render services to the people and for economic progress of the country. Prior to the establishment of Nepal Rastra Bank, it played the role of central bank also. With the establishment of NRB in 1956 A.D., the development of the financial system took a momentum. Realizing the importance of industrial development, HMG/N and NRB established Nepal Industrial Development Corporation (NIDC) in 1959 A.D. The NRB created Agriculture Credit Fund in 1959/60 A.D. and handed it over to HMG/N for the establishment of the co operative bank in 1963. The second commercial bank, the Rastriya Banijya Bank was established in the public sector in 1966, with the equity participation of HMG/N and the NRB. By endorsing the assets and liabilities of the co-operative bank did set up Agriculture Development Bank (ADB/N). HMG/N had established the Land Reform Saving Corporation in 1966 to make credit available to village communities and land reform saving corporation was merged into ADB/N in 1973. A large number of non- banking financial institutions were being set up between 1962 to 1977, such as, Employee Provident Fund Corporation (1962), National Insurance Corporation (1967), Nepal Insurance Company Ltd. (1968), Credit Guarantee Corporation (1974) and Securities Marketing Center (1977). The legislation of the Commercial Bank Act, 1974 set out regulations for licensing, supervision, and cancellation of license of commercial banks and encouraged the establishment of other

commercial banks in Nepal. The move towards financial liberalization encouraged the entry of joint venture and private commercial banks. Nepal Arab Bank Limited, the first joint venture commercial bank of Nepal was established in 1984. The Nepal Indo-Suez Bank Ltd. and Nepal Grindlays Bank Ltd were the two other joint venture commercial banks, established in 1986 and 1987 respectively.

As of October 2010, the financial system in Nepal is composed of 29 commercial banks, 68 development banks including 13 national level development bank, 79 financial companies, 45 non-governmental micro credit institution and 22 non governmental cooperative societies authorized to do limited banking activities. All these institution are under the regulatory framework of NRB. Beside these institutions, the financial system is composed of 171 postal banks, 15 insurance companies, Employee provident Fund, Citizen Investment Trust, Deposit Insurance and Credit Guarantee Corporation, Security Board, and Nepal Stock Exchange.

### **1.3 Joint Venture Commercial Banks**

An institution which accepts deposits makes business loans, and offers related services is known as commercial bank. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the Federal Reserve System. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses, ([www.investorswords.com](http://www.investorswords.com)). Nepal has adopted the policy of economic liberalization to develop the economic condition through the participation of private sector equally in the market in the area of industry, trade, business and banking. The government amended Commercial Banking Act in 1994 to increase the competitions among commercial banks, to develop their working capacity and also to open the foreign joint

venture banks. As per the provision made in this act the private sector, including foreign investor were given freedom in opening commercial banks. "A Joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investments, Production trade)". (Gupta, 1984: 15-25)

The three joint venture banks established after the amendment of Commercial Banks Act were as stated below:

Nepal Arab Bank (Nabil Bank)	1984
Nepal Indo-Suez Bank (Nepal Investment Bank)	1986
Nepal Grind Lays Bank (Standard Chartered Bank)	1987

The banks established after amendment of Commercial Bank Act can be grouped into commercial Banks with foreign capital investment and private sector commercial banks with national investment.

Table No: 01

<b>S.N</b>	<b>Commercial Banks</b>	16.	Kumari Bank Limited
1.	Nepal Bank Limited	17.	Laxmi Bank Limited
2.	Rastriya Banijya Bank	18.	Siddhartha Bank Limited
3.	Agriculture Dev. Bank	19.	Global Bank Limited
4.	NABIL Bank Limited	20.	Citizens Bank International Ltd.
5.	Nepal Investment Bank Ltd.	21.	Prime Commercial Bank Ltd
6.	Standard Chartered Bank Nepal Ltd.	22.	Sunrise Bank limited
7.	Himalayan Bank Ltd.	23.	Bank of Asia Nepal Ltd.
8.	Nepal SBI Bank Limited	24.	Development Credit Bank Ltd.
9.	Nepal Bangladesh Bank Limited	25.	NMB Bank Limited

10.	Everest Bank Limited	26.	Kist Bank Limited
11.	Bank of Kathmandu Limited	27.	Janata Bank Nepal Limited
12.	Nepal Credit and Commercial Bank Ltd.	28.	Mega Bank Nepal Limited
13.	Lumbini Bank Limited	29.	Commerz and Trust Bank Nepal Limited
14.	Nepal Industrial and Commercial Bank Ltd.	30.	Civil Bank Limited
15.	Machhapuchhre Bank Limited	31.	Century Commercial Bank Limited

(Source: Nepal Rastra Bank)

#### **1.4 Focus of the Study**

There are too many financial activities have been performed by bank and financial institutions. Whatever any activities done by these institutions, profit is the main key for their existence. Among the whole activities this study has focused on a comparative study on profitability among the selected commercial banks. Benefit of the study received primarily by potential investor including deposit holder, shareholder and stakeholder and researcher of master degree student will also benefited by this study.

#### **1.5 Statement of the problem**

Profit is the main objective of every business organization. Besides other tasks, they have to achieve the minimum objectives. The successful operation of any organization whatever the nature of it is largely depends upon the planning system that it adopts. So the planning for project is also the most important device to get success for a period. It plays a key role for the effective formulation and implementation of strategic plans. Profit planning system requires the effective coordination between various functional budgets. It is important not only for manufacturing industries but also for commercial

banks. Banks generate their profit by mobilizing its deposits by providing short term and long-term loans. Besides, this it can gain profit by investing productive resources mutilation. The Nepal SBI Bank Limited is one of the leading banks in Nepal, which is earning profit since its establishment. This study may answer these some questions.

1. Are the bank's operating profit is satisfactory?
2. Has the bank adopted the policy of making plan for deposit, mobilization?
3. Has the bank mobilized its investment in profitable sectors?
4. What step should be taken to improve the profit planning system in the bank so that overall profitability of the bank can be increased?

### **1.6 Objective of the study**

Profit plays a vital role in every business organization. It is equally important for commercial banks and other financial institutions. Banks are the institutions, which provide many facilities to develop the economic conditions for a country by providing facilities for trade, industry, business, agriculture, tourism etc. Without profit it cannot operate its functions and cannot provide banking facilities to the public. The main objective of commercial banks is to serve people as well as to maintain profitability position. This study is to appraise the profitability of the Nepal SBI Bank Ltd. with comparison to Nepal Bangladesh Bank Ltd. The main objective of the study is:

1. To appraise the profitability of Nepal SBI Bank Ltd. with comparison to Nepal Bangladesh Bank Ltd.
2. To evaluate the profitability and financial position.
3. To evaluate the impact of deposit on profit.
4. To evaluate the impact of loan and advance on profitability.

5. To suggest and recommend on the basis of major findings.

### **1.7 Significance of the study**

To get the maximum profit and to maintain the profitability every business firm has to follow the process of profit planning. It leads an organization ultimately success. Profit planning acts as a vital instrument for minimizing future risks and achieving its objective. The study of profitability of Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited will prove useful to all the parties interested on profit planning. It may give guideline to follow the profit planning process in any banking sector. It may also help the bank to develop future plan, to maximize profit and minimize risk as well. As profit is the main objective of every organization, profit plan is the most useful tools to improve profitability position.

### **1.8 Limitations of the study**

In this dynamic world nothing is free from limitations. This study also is not an exception. It has the following limitations:

1. The scope of research is only two banks. The profitability condition of the banking industry computed here therefore may not represent the whole commercial banking industry of the country.
2. The study covers seven years period from the fiscal year 2062/2063 to the fiscal year 2066/2067.
3. This research is depending on secondary data of the bank's balance sheet, profit and loss, web helps and other journals.
4. The study is done with the help of financial tools and few statistical tools.

## **1.9 Organization of the study**

The whole study is divided into five chapters. First chapter is the introductory chapter. It consists: General Background and importance of commercial banks, statement of the problem, Objectives, Need of the study and Limitations and organization for the study and methodology being used.

Second chapter deals with review of literature with concept of some terminologies used in the analysis part of the study. The second part of the chapter consists of review of books, previous study, research papers and review of unpublished thesis of various research students.

Third chapter is concerned with the research methodology used in this study. It consists of: Introduction, Research design, Sources of data, Population and data, Method of analysis.

Fourth chapter is the analytical chapter, which is the main chapter. This chapter is mainly concerned with the analysis of the different profitability ratios related to the financial statements of Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited and trend analysis of profit with forecast of trend line.

Fifth chapter is associated with the main findings, recommendation and suggestions. The bibliography and appendices are also included besides the above chapters. Further, thesis includes reference books, magazines, newspapers; previous dissertations are shown under bibliography.

## **CHAPTER - TWO**

### **2. Review of literature**

#### **2.1 Profit Planning**

Profit is the primary measure of business success. It is necessary to operate every organization for a long period. The main objective of every business organization is to maximize its profit as well as render service. Profit plays a key role for achieving the objective of an organization. It is the main test of the individual firm's performance. There is wide deal of controversy about profit. Some hold the view that entrepreneur is a special type of labor and profit is the special forms of wage. The entrepreneurs earn profit for organizing and coordinating the different factors of production for the purpose of production of goods and services. Profits are excess of income over cost of production. Profit is the excess of revenues over cost of doing business. On the other hand the accounting profit is the residual of sale revenue minus explicit or accounting cost of doing business. This Profit is the amount available for ownership or equity after payments are made to all other factors used by the firm.

Profit is the reward for entrepreneurship for risk taking. A manager may say it is the return of a good management. Without sufficient amounts of profit no firm can operate for a longer period. It cannot secure and retain other resources such as men, materials, machines etc. Thus, it is the life and blood for every firm.

"Profit planning is a part of an overall planning process and is an area in which the financial function plays major role. Profit plan is an important responsibility of financial manager, while an activity of this sort requires an accounting background. They also set heavily upon the knowledge of business principles, economics, statistics and mathematics. Hence from companies or firm's view profit and efforts to continue profit planning activities within the framework of accounting procedures would be determined

to the long range interest of the firm. Profit plan is a comprehensive and coordinated plan expressed in financial terms for the operations and resources of an enterprise for some specific period in future " .

### **Profit planning and control involves:**

- ✎ Development and application of board range objectives of the enterprises.
- ✎ Significances of enterprise goal.
- ✎ Development of a strategic long- range profit plan in board terms.
- ✎ Specification of a tactical short range profit plan detailed by assigned responsibility.
- ✎ Establishment of a system of periodic performance reports detailed by assigned responsibilities.
- ✎ Development of follow up procedures.

Profit planning is also important aspect for the banking sector to increase their profitability. The commercial banks are profit-orientated institutions, their main functions are to collect money, deposit from general public and lend it on profitable sector as a short- term loan and long–term loan. This study is focused on the analysis of a comparative study of the Profitability of Nepal SBI Bank Ltd. and Nepal Bangladesh Bank Ltd.

## **2.2 Profit and profitability**

Profit is the reward for entrepreneurship for taking the risk. In a simple term, profit means the residual balance of earning available with the firm that is obtain after deducting entire expenses, costs, charges, and provision of period of time. Profit is the resource left to the firm for future growth and expansion or reward to be distributed to the entrepreneurs in the form of dividends etc.

1. The economic concept of profit is the reward of the entrepreneur for risk taking and management.
2. Business operations, concept of profit is the gain from manufacturing, merchandising and selling expenses after all expenses are met. Since profit normally is added to net worth, it may be measured by increases in net worth.
3. The amount of concern's profit thus may be determined not only through the profit and loss but also by the comparison of the earned surplus or net worth in the balance sheet which, however, is the residual of profits after dividends and any other appropriations in and does not reveal details of source of income and expenditures, such as are found in profit and loss account.
4. "The speculative transactions, concept of profit are the excess of the net selling price over the costs (including all charges of the security or commodities traded in."
5. Profit is a motivating factor behind many managerial activities. Much has been written about the role (as opposed to the method of calculation) of profit. Profit plays three roles in the capitalistic society. Profit is the financial reward of risk taking, Profit is the financial reward for having monopoly power; profit is the financial reward for the efficient management.

The promise of profit provides a strong incentive to owners and managers to act efficiently. Therefore it is common in economic theory to hypothesize that the criteria for evaluate the action of the firm is profit maximization. The basic incentives for business are to produce goods and services. The profit motive is the engine for the free enterprise system. Under conditions of pure competition economic, profits are residual. Profit in this sense is revenue that remains after deduction of both explicit and implicit costs, including the nominal profit considered as a cost of the entrepreneur's service. "Profit is essential for every enterprise to survive in the long run as well as to maintain

capital adequacy through retain earning. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sectors". (Ronald, 1951: 21-2)

Profit is constantly changed in amount and among firms. Long run forces in the economy tend to reduce or eliminate economic profit. When losses prevail, Market forces tend to make adjustments that can result in profits. The other terms used for profit are surplus, reserves, income revenue, etc.

There is wide difference between profit in the accounting sense and profit in the economic sense. "Profit in the accounting sense is the excess of revenue receipts over costs incurred in producing this revenue. This concept of profit is also known as residual concept. But in economics, both implicit and explicit costs are deducted from total sales revenue in determining profits". (Cavery, 1997: 122-123)

Many financial analyses have recommended market value accounting for banks, because the results of financial ratio of bank condition based on the book values are unlikely to be timely predictions of bank risk. (Peter Rose, 1997: 127)

Profit in the accounting sense is the net figure or difference between all types of accountable (decodable) revenue and all accountable costs. In accounting, profit is expressed only in explicit and measurable accounting terms and on the book value basis. However, in economics, profit is measured in the realizable terms.

As per economic sense, all assets and liabilities are order in terms of their maturity or remaining terms of liquidity position, not on the book value. However, in real financial terms, this item if time deposit can be long term liability or current liability in accordance with its remaining term of maturity.

Multiple meaning of the word profits has always been troublesome. Accountant has made energetic efforts in recent years to discard the word for their purpose and to refer to the convention concept as business income a natural term that avoids any overlap

with economic theory. The important points of difference for determination of profit between the economists and accountant are as follows.

1. The inclusiveness of costs i.e., what should be subtracted from revenue to get profit.
2. Meaning of depreciation.
3. The treatment of capital gains and losses and perhaps most important
4. The price level basis of valuation of assets. (Joel Dean ,1992: 13)

### **2.3 Liquidity**

Liquidity refers to that state of position of a bank that refers its capacity to meet all of its obligations. In other words, it refers to the capacity of bank to pay cash against and upcoming obligations. Banking is a business of financial dealing whose major source of financing is the public-deposit. Liquidity means the ease with which an asset can be sold for cash. An asset is highly liquid if it comes in standard units that are traded daily in large amounts by many buyers and sellers. Among the most liquid of assets are Government Treasury securities. Another definition of liquidity is a measure of the ability of an individual, business, or institution to convert assets to cash without significant loss at a particular point in time.

As we know that a large part of bank deposits are withdrawn on demand and hence the bank must be prepared with sufficient degree of liquidity of its assets. Therefore liquidity generally refers to the cash or any assets that can be converted into cash immediately. On the other hand banking is a serious business. Once the confidence is lost in depositor's eye, they may withdraw all their deposits within a brief period without giving any chance the bank to manage since most of the assets of bank are attached in the loan and advances. Even the best bank can hardly survive in such situation.

Confidence depends upon the ability of the bank to meet the readily demands for cash made by customers. Hence, the liquidity position of a bank is such an important factor that is must e able to meet its cash requirement either by its cash in vault or by the help of converting its assets into cash in case of demand for such form its customers. There is no sense if the bank has adequate assets but not liquidity I.e. they cant serve the purpose so liquidity when required. "Commercial banks maintain liquidity in all or many forms of following:

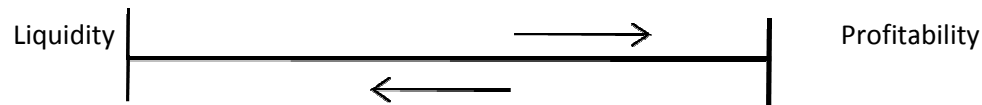
1. Cash in self vault and in other banks- specially in Nepal Rastra Bank (first line of Defense)
2. Overnight placements, money at call or short notice or any other very short term placements (second line of defense)
3. Investment on marketable securities like government. Securities, which can be easily sold and readily convertible into cash (third line of defense) (Sarita Dahal & Bhuwan Dahal ,1996:41)

## **2.4 Trade-off between profitability and liquidity**

As stated above, the profitability of commercial banks is highly dependant on the optimum utilization of available financial liquidity in the profit generating assets like loan, and advances and investments. However banks can not ignore the necessity of maintaining a portion of the deposits in their cash vault, or in the immediate approach like in the account of central banks or in any highly liquid assets like government treasury bills and other government bonds that can be easily sell without loosing and further value.

A sound liquidity position of the bank satisfies the demand of the deposit holder, which maintains the goodwill of the banks. Since banks are faithfully considered as the last

resort for monetary needs of the public, the incapability of fulfilling their demands will



lose the faith of the depositors/public. If any negative signaling effect perceived by the deposit holders, they tend to doubt in the banks dependability and that can consequent in the bank run. Further, banks must maintain the certain portion of deposits in the vault and in Nepal Rastra Bank.

How ever, liquid assets are almost all idle. They do not generate any returns. The cash in the vault meets any upcoming obligations immediately but banks will not be able to generate any returns in such a case. Further, banks do not get any interests or other returns in the accounts maintained in the central banks, Nepal Rastra Banks in our case.

“According to the above picture, "Liquidity" as being on one end of a straight line and "Profitability" on the other end of the line (Google search/glossary). If you are on the line and move toward one, you automatically move away from the other”. In other words, there is the trade-off between liquidity and profitability. Profitability and liquidity maintain a highly negative co–relation. Since both are equally important for commercial banks, banks cannot ignore any of them. So, the crucial decision for the management of the banks is to trade-off between them. The more liquidity the less will be the profitability and vice verse.

## **2.5 The financial statements of a commercial Bank**

Banks are simply the business forms selling different kinds of products. The product of a bank deals with the financial instrument representing various financial claims. The particular services a bank chooses to offer and the overall size of a banking organization are reflected in the financial statements. Two basic financial reports commercial banks have to submit to the regulatory authorities and the public each year are: The Report of condition (Balance Sheet) and Report of income (Statements of income and expenses or profit and loss account). These statements are viewed as the lists of inputs and outputs. As with and other firm's balance sheet, the sources of bank's fund must equal to total uses of bank's fund (i.e., Total assets = total liabilities +equity capital). The balance sheet (report of condition) reflects all assets, liabilities, and net worth of the bank on a particular day of a year. Assets represent used of funds /sources to generate revenue for the bank. Liabilities and net worth are sources of bank fund.

"One useful way to view a bank's balance sheet is to note that bank liabilities and equity capital represents accumulated sources of fund, which provide the needed spending power for the bank to acquire the assets. A bank's assets, on the other hand, are its accumulated uses of funds, which are made to generate income of its stockholders, pay interests to its depositors, and compensate the bank employees for their labor and skill" (Peter Rose,1997: 127)

### **2.5.1 Cash and Cash items**

The most liquid asset held by any commercial bank is cash. Since cash is an idle asset, a minimum level of cash is held by banks to ensure that the statutory requirement is at least fulfilled. Since cash is the most liquid asset, it is used to cover deposit withdrawals, handle credit demands form customers, and to meet all regular and emergency expenses. This item includes currency and coins in the bank vault, and cash balance

maintained in other banks and financial institutions and cash items in the process collections for clearing and this all composition is regarded as the first line of defense for meeting liabilities.

Cash items refer to the clearing checks, which are in the collection process, and written against deposit accounts of other banks. Eventually (not more than 2 or 3 days later) the bank sending these clearing items will receive credit for them, either in its reserve accounting maintained in the central bank (NRB in our case) or in the form of an increased deposits at a correspondent bank.

## **2.6 Money at call or Short notice & Overnight placements**

This is a bank to bank and account to account transaction for a very short period of between 1 to 7 days. As per the statutory requirements, banks are supposed to maintain a level of liquidity including the fund maintained in the central bank's account. Commercial bank may find a very hard time to retire a heavy liability, knowingly and unknowingly, and they feel shortage of liquidity. In such a situation, bank with deficit or fund may find another bank with excess reserves and debit, as per agreement between, Rastra Banks account and credit the account of their own maintained in the central bank for the very short position This is appeared on the balance sheet as the liquid asset and which can be used as the second line of defense for he bank granting the short time fund collectable at a call or a short time notice.

### **2.6.1 Investment in the securities**

As the third line of defense to meet demands for cash and reserve, as a quick source of funds is the bank's liquid security holdings, often called secondary reserves. These assets normally compose more than one third of total assets of banks. These typically

include holding of shorter- term government bonds like treasury bills; development bonds etc. and other securities purchased in the open market and readily convert into cash in the financial market. These security bear low risk, low return, but higher liquidity. The remaining securities banks invest in are investments, direct and indirect, in the sectors where by virtue the statutory requirements are imposed. for example , most or the Nepalese commercial banks feel continent to invest in the rural developments bank's share as this complies both NRB regulations for priority sector lending and also they get moderate return form them .

Investment securities mean the Securities that are purchase in order to be held for investment. This is in contrast to securities that are purchased by a broker-dealer or other intermediary for resale. Banks often purchase marketable securities to hold in their portfolios. Commercial banks invest their excess funds to purchase the shares and debenture of the other company. They generally do so when there is excess of funds than required and there is no alternative opportunity to make investment in the profitable sector. Now a days the commercial banks of Nepal Have purchased shares and debenture of regional development bank, NIDC and other development banks etc. These types are mainly held for their income- generating power and for other advantage like tax shelter etc. investments are recorded in their cost price, or markets value whichever is lower.

### **2.6.2 Loan and Advances**

We have seen that the commercial banks accept deposits and also lend money to the people who require it for various purposes. Lending of funds to traders, businessman and industrial enterprises is one of the important activities of commercial banks. The major part of deposits received by banks is lent out, and a large part of their income is earned from investment on such lending. There is a considerable difference between

the rate of interest which is commercial banks grants on deposit, and the rate they charge on loan and advances. It is this difference which constitutes the main source of bank earning. This is the primary source of income and most profitable asset to a bank. A bank is always willing to lend as more as possible since they constitute the larger part of revenue. This occupies the highest proportion of assets of any commercial banks bearing more than 40 % of the assets used. But a bank has to be more careful while providing loans and advances since they may not be realized at short period of time. And sometimes the May turn into bad debt. Therefore it is wise not to rely on them at the time of emergency for all banks.

A commercial bank hardly lends money for a long period of time. It lends money for a short period of time that can be collected at a short period of time. The commercial banks are never bounded to provide long –term loan because it has synchronize the loans and advances with the nature of deposits they receive. Loans and advances are provided against the personal security of the burrower or against the security of the immovable and movable properties. Banks provide the loans in the various forms; overdrafts, cash credit, direct loans and discounting bills of exchange.

## **2.7 Other Assets**

Other Assets means “The balance sheet classification that covers minor assets such as prepaid expenses and scrap value of obsolete equipment” (businessdictionary.com). The great majority of banks assets are financial claims. How ever, banks assets also include the value of bank buildings, vehicles, equipments, computer and other miscellaneous fixed assets like different revenue expenditures, leaseholds and freeholds, prepaid expenses and advances. However, only a small portion (2 to 5 percent) of total asset is covered in this category.

### **2.7.1 Deposits**

The principal liability of a commercial bank is its deposits collected from general public, business and government agencies. It is a direct claim of outsider to the bank. The total assets of banks are financed supported by more than 75% from the deposits. In case of Nepal SBI Bank Ltd. and Nepal Bangladesh Bank Ltd., both or the banks total assets were forum supported more then 75% from the deposits. Normally deposits are classified into three categories: Demand / checking deposits, saving deposits and fixed term /Time deposits.

Demand deposits are permitted for unlimited check writings, but they do not bear any interest liabilities. However, a minimum balance is fixed for the depositors. By the viewpoint of banks, these are the cost free deposits but banks are not confirmed to invest them for a longer period, since they can be demanded at any time. This is an easy mean for more circulating transaction and suitable for business concerns.

Saving deposits are normally meant for the individuals, non –profit making organizations and others who are for saving motive and also want to earn some interest from the deposits. However, there is a minimum balance fixed. Banks offer interest in the minimum monthly balance to the saving depositors and also permit withdrawal and deposits to these accounts. However, banks impose some constraints in the maximum one –time withdrawal.

If the maximum one time limit is exceeded and minimum balance is not maintained, no interest is offered to the depositors. These deposits are of some how stable and banks can feel confirmed to invest them in the medium term financings.

Fixed term deposits (also called time deposits) are the major sources for banks longer – term investments as these deposits bear a fixed maturity period. These deposits are offered a stipulated interest rate (normally higher then the savings rate,) a fixed denomination of amount and a prefixed maturity period. Banks tend to offer different

interest rates to these deposits according to the deposit amount and maturity time. Too large amount and too longer maturity period will meet the higher interest rates and vice versa.

Nowadays, Nepalese commercial banks have introduced a different type of deposit account: call deposit. Banks are happy to find the heavy corporate source of deposits stable in the time span. Banks are interested to find the single source of heavy deposits constable to invest it is the market. These types of deposits have various benefits. Banks can serve a single corporate depositor more carefully than various small accounts. The deposits are of constable nature and banks can invest them without hesitation. So, banks provide a special interest rate to such deposit, permit to write cheeks against them, but also fix a minimum balance for maintaining this account.

### **2.7.2 Borrowings from the non – Deposit sources**

A sizeable amount of funds stem from miscellaneous liability accounts. Bank assets are supported from other non – deposit liabilities with or without costs. Bank to bank borrowings, placements, overnight placements, borrowing from central banks, foreign banks are some examples for nominal cost bearing sources. However, these are short-term liabilities due to no obligation for banks to maintain reserve for them, these types of liabilities is also important for banks. Other cost free sources of liabilities are accrued interests payable, differed expenses, accounts payable, differed tax liabilities, obligations such as bankers acceptances bankers checks, matured time deposits, remittance awaiting disposals and other liabilities.

### **2.7.3 Stockholders Equity/ Internal financing sources**

“Shareholders equity means the portion of the balance sheet that represents the capital received from investors in exchange for stock (paid-in capital), donated capital and retained earnings. Stockholder equity represents the equity stake currently held on the books by a firm’s equity investors. It is calculated either firm’s total assets minus its total liabilities, or as share capital plus retained earnings minus treasury shares” (investopedia.com). Every new bank begins with a minimum amount owner's capital and borrows fund from the public to lever up its operations. There capital normally accounts less than 10% value of the total assets. So, banks are the institutions having the greatest financial leverage using from external sources of finance. Though relatively a small item, banks capital account typically includes value of paid up capital, share premium, statutory and other reserves and retained/ploughed back profits. Usually the largest item in the capital account is retained earnings, undivided profits, which include accumulated profit over each year after payments of dividends.

### **2.7.4 Contents of report of income/profit and loss account of commercial Banks**

#### **Operating income**

Operating income is the amount of profit realized from a business operation after taking-out operating expenses such as cost of goods sold (COGS) or wages- and depreciation. Operating incomes takes the gross income (revenue minus COGS) and subtract other operating expenses and then removes depreciation. These operating expenses are costs which are incurred from operating activities and include things such as office supplies and heat and power. It is known as earnings before interest and taxes (EBIT), operating profit or recurring profit. Operating income for a business entity is the

regular and prime source of revenue for that business. It is main identity of a business regarding what a business stands for.

#### **2.7.4.1 Interest Income**

Under operating income of a commercial bank, interest income is the primary source of income. Not surprisingly, interest and fees generated from loan account for most banks revenue account more than two thirds of total income. Under interest income, Nepalese banks report the income summed up as interest income from Loan, Advances and Overdrafts (LAO), income on investments from securities, interest from inter bank lending etc. Interest income is considered the main traditional income source of a commercial bank.

#### **2.7.4.2 Fees and Commission**

Banks have moved towards near banking business other than the traditional business of lending and investments. Banks create utility of services under various sources. They play various roles like agency role, guarantor's role mediator's role and so on. From these services banks earn fees and commissions. Banks earn from fees and commission from various sources such as letter of credit, bills purchase, share underwriting commission, discounts, remittance fees, etc. Nowadays, banks have taken these sources of income as operating income.

#### **2.7.4.3 Trading and Revaluation Gain**

Similarly, banks deal with foreign currencies. Foreign currencies are remitted outward and inward. Banks involve in trade while dealing this transaction. While selling and buying foreign currency, banks earn trading profits. Banks can maintain foreign currency

stocks for their trade. Banks also gain from revaluation the stock wherever the revaluation rates are their favor.

#### **2.7.4.4 Non-operating Income**

“Non-operating income means the portion of an organization’s income that is derived from activities not related to its core operation. Non-operating income would include such items as dividend income profit (and losses) from investment, gains (or losses) incurred due to foreign exchange, asset write-downs and other non operating revenues” (investopedia.com). Non-operating income is the casual sources, not the regular sources of revenue for business entity. These incomes are not from the regular course of business but from some other sources where the business entity can be involved legally as prescribed by the directives of related governing authority.

Nepalese commercial banks are allowed to invest in the shares of another entity like other commercial banks, rural development banks, financial institutions and other organized institutions. The investing bank receives dividend income and other income. Further banks receive various types of fees from safe deposit locker, credit cards, ATM cards issuance and renewals, consultancy fees and other non banking and casual incomes like gain form sale of assets, revaluation gain of assets etc.

#### **2.7.4.5 Operating Expenses**

Operating expenses of a business entity is the regular and prime item of cost and expenditure. It is the main identity of a business regarding what a business expenses for. This type of expenditure is directly attributable to the production / service that entity provides for.

#### **2.7.4.6 Interest Expenses**

Normally interest expenses are an expense for interest on a loan made to an individual, corporation or other entity. The main expenditure item for a commercial bank is interest expenses deposits. Normally this type of expenditure covers more than half of the total expenditure. Interest is regularly expensed off for various deposits; inter bank borrowings, central bank borrowings and other external obligations.

#### **2.7.4.7 Administrative Overheads**

“General and Administrative Overhead – These are costs related to the operation of a firm the stem form its general functions. It also applies to expenses related to any administrative functions. While these are necessary parts of a company’s overhead, it doesn’t necessarily mean any cost that are the result of the expenses need to develop or actually produce a given type of product. These are the expenses related primarily to whatever cost are need for the actually operation of a given company. And thus are normally treated and kept track in different ways from any development costs that happen to arise” (teenanalyst.com). Under non interest expenses bank has to bear the various fixed and variable administrative overheads like office occupancy expenses, depreciation expenses, amortization of deferred expenditures, personnel expenses and other general and administrative expenses like insurance, stationary, repair and maintenance, fuel, telephone, electricity rates and taxes and others expenses.

#### **2.7.4.8 Non-operating Expenses**

An expense incurred by activities not relating to the core operations of the business. Accountants may remove non-operating expenses or revenues in order to examine the performance of the business, ignoring effects of financing or irrelevant issues. Non-

operating expenses may take a variety of forms. The most common type relate to interest charges or other costs of borrowing. A firm may also categorize any costs incurred from restructuring or reorganizing, currency exchange, charges on obsolescence of inventory, as non-operating expenses. Expenses relating to employee benefits, such as pension contributions would also be considered as a non-operating cost. In addition to other expenditures, banks deduct from revenue any loss from revaluation of foreign currency, staff bonus, loan loss provision and income tax before arriving to net disposable income.

#### **2.7.4.9 Off-Balance Sheet Activities**

“Off balance sheet financing means a form of financing in which large capital expenditure are kept off of a company’s balance sheet through various classification method. Company will often use off balance sheet financing to keep their debt to equity (D/E) and leverage ratios low, especially if the inclusion of a large expenditure would break negative debt covenants” (investopedia.com). Investopedia.com explains that off balance sheet financing contrast to loans, debt and equity, which do appear on the balance sheet. Examples of off balance sheet financing include joint ventures, research and development, partnership and operating leases (rather than purchases of equipment). The massive expansion and growth of banking in the last couple decades and constant pressure on improving the rate of return have forced the banking sector to diversity from its traditional function of lending and deposit mobilization with deregulation of financial system, new financial institution mostly in the form of off-balance sheet commitment have increasingly figured in the financial operations, and banks have been placing increasingly emphasis on activities that generate income with increasing the assets in the balance sheet.

The banks, in their traditional function, increased lending and committed itself beyond the strength of the bank. Quality of the assets were questioned, i.e. lending became bad due to slow recovery, but banks continued lending and thereby increasing the portfolio and the balance sheet footling.

At this point of time the central banks and the regulatory bodies were forced to introduce control mechanism, in terms of capital adequacy ratios. The banks in order to come out of this difficult situation were forced to diversify activity in order to maintain the ratios and increase profitability thus the introduction of off – balance sheet transactions.

Off- balance sheet activities arise from the contingent commitments of banks in the present time, which can appear as real liabilities in the future. These activities are not recognized as asset and liabilities in balance sheet. These activities are very important, as they are the good source of profit to the bank, though they have risk. The off- balance sheet items are not included in the balance sheet until they are recognized as real liabilities. Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations that are not recognized as assets or liabilities on balance sheet.

Few typical off – balance sheet transactions are follows:

- Letter of credit
- Letter of guarantees
- Document negotiated under reserve
- Commitments
- Acceptance
- Bills of collation
- Performance bond
- Bid bond

- Forward foreign exchange transaction
- Currency exchange
- Option, etc

It is estimated that the joint venture banks generate more than one third of their total income funds from fee- based activities. The joint venture banks have been successful in harnessing the fee –based activity to the maximum possible extent so as to earn profits.

#### **2.7.4.10 Review of Previous Research**

Peter Rose in her book commercial book management (Peter Rose, 1999 169] says, " Achieving superior profitability for a bank depends upon several crucial factors:

- ✎ Careful use of financial leverage or the proportion of bank assets financed by debts as opposed by the shareholders equity capital.
- ✎ Careful use of operating leverage from fixed assets or the proportions of fixed cost input the bank uses to boost its operating earning before taxes as bank output grows.
- ✎ Careful control of operating expenses so that more dollars of sales revenue become net income.
- ✎ Careful control of the bank's exposure to risks so that the losses don't overwhelm its income and equity capital.

Michael R Baye and Dennis W. Jansen through their book Money, Banking and Financial Markets have tried to analyze a bank's profitability under and economic approach. They state," to maximize profits bank should attract the interest rate paid on deposits" (Michael R Baye, 1996: 47)

"Bank earn interest on loans and investments, they pay interest to the depositors. When interest rate sensitive assets and liabilities. If, for example, a bank holds more

rate sensitive assets than liabilities when interest rate rise, profits will be improved because the bank will receive more in increased interest revenue than it will pay out in rising costs. The reverse would be true during a period of falling interest rates". (LYN: 2002:24)

The interest gap is the difference between rate sensitive assets and liabilities; holding more rate sensitive assets than liabilities is called a positive Gap and an excess of rate sensitive liabilities over assets result in a Negative Gap. (LYN: 2002:33)

Emphasizing the bank's modern functions Meir Kohn says, "Banks now have steadily expanded their activities in payment related services, in delegation and trust services, in credit substitution and services, and in forward transactions. In doing so, they have pursued economics of scope, relatively uncontained by regulations". (Meir Kohn: 1999: 240)

Analyzing the behavior and future prospects for profitability of a financial institution is a complex task. Many factors affect each institution's profitability. Among the most important factors are the friskiness of loans and investments made; liquidity needs and the institutions provision for those needs ' the effectiveness of tax management practices' the level of efficiency in utilizing human and non-human resources; and the ability of management to control expenses. (Particularly interest expenses and employee costs)

(Rose, IRWIN, 1993: 124-125)

H.D Crosse puts in this way, "Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize risk inherent in any extension of credit. (Crosse H.D, 1993: 216)

In the other words of S.P & Sing & sing, " the investment (credit) Policies of banks are conditioned, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping, of course his banker's credit policy also in mind. Sing S.P &Sing s, financial analysis for credit management in banks. (SP Singh, 1993:45- 46)

#### **2.9.4.11 Review of Previous Thesis**

**Sharma, Suman Prakash (2005)**, entitled "A Study on Financial Performance of Commercial Banks (Nepal SBI Bank Ltd., NBBL, and EBL)"

Objectives of his researches were;

- To examine the profitability Situation of NSBL, NBBL and EBL.
- To analyze the profitability trend of NSBL, NBBL and EBL.
- To ascertain the comparative position of profitability of NSBL, NBBL and EBL.

Major findings of his researches were;

- Current ratio of three banks showed slightly fluctuating trend. The average of the ratios appeared Higher in NBBL, which signifies that NBBL is more capable of meeting immediate liabilities in contrast to NSBL and EBL.
- Average cash and bank balance to current deposit ratio of EBL appeared greater than NSBL and NBBL. Average liquidity position of NBBL and EBL is almost same during the study period. It indicates that the solvency position of NBBL and EBL is better than NSBL.
- The average cash and bank balance to current assets ratio remained higher in NSBL. The higher average ratio of NSBL showed that bank has held the greater position of most liquid assets than NBBL and EBL.

- Loans and advance to total deposits ratio appeared considerable higher in NBBL. It indicates that NBBL is more successful in utilizing the depositors fund to earn profit. The ratio of NSBL and EBL is almost same.
- The Earning per Share ratios of three banks seemed fluctuating. The average ratio of NBBL remained greater than NSBL remained lower among the banks.
- Higher ratio of investment to total deposits in EBL showed that it has more successfully allocated its deposits in investment portfolio. The ratio seemed to vary less in EBL.

Mr. Sharma has provided some recommendations to improve negative position of the banks.

- The sample banks should diagnosis the root cause of unsatisfactory liquidity.
- Debt assets ratios of the sampled banks show the aggressive use of debt capital by the banks the banks are recommended to invest such debts in profitable assets.
- NSBL should utilize its total deposit for the investment purpose more efficiently as total investment to total deposit ratio of the bank shows lower position among the sampled banks.
- NSBL and NBBL are recommended to decrease their non performing loans position. On the hand, they should strictly study the viability of the projects before disbursing the loans. On the other hand, they should strengthen the loan recovery process. Likewise, EBL should keep non performing loans in the constant positions. It will create problem if non performing loan position of the EBL increases.
- The sampled banks should go on to state of the art technologies in order to give quick services to their customers on one hand and to gain competitive advantages on the other hand.

**Adhikari, Bhojraj (2006)**, entitled "Comparative Study of The Profitability of Nepal SBI Bank and Nepal Bangladesh Bank" with the objectives of,

- To analyze profit plans of the banks.
- To analyze the income and expenditure, cost and profit trends of the banks

Major findings of his researches are summarized as bellows;

- The mean ratio of return on equity of NBBL is nearly too five times of NSBL. The variability of return on overall equity of NBBL is very higher than that of NSBL Bank. It shows that inconsistency in return on equity.
- The mean ratio of return on total assets of NBBL is less than NSBL. It shows that inconsistency in return on equity.
- The ratio of Net profit margin of NBBL is remarkably low compared to NSBL. The bank is not able to control operating expenses and other leakage. The mean of the both banks show that NSBL has higher mean ratio of net profit margin 7.40 than that of NBBL 6.09.
- The CV of NSBL is higher than that of Nepal Bangladesh Bank.
- It can be concluded that the profitability position of NBBL is comparatively worse than that of NSBL. The bank must maintain its high profit margin for the well being in future.
- Average cash and bank balance to total deposit ratio of NSBL remained greater than that of NBBL. It indicates that better liquidity position of NSBL.

Further Mr. Adhikari recommended that,

- Both the banks should be established after proper diagnosis of the root cause of unsatisfactory liquidity. In this regard, NBBL should be more serious than NSBL.

- Both banks should attract more non-interest bearing amount deposit for increase profit margin. The share of fixed deposit on its total deposit is very high. So it is recommended to reduce its fixed deposit.
- Both banks must formulate the strategy to control unnecessary expenses using modern technology, computer networks, and experts and well trained personnel which also increase the operating efficiency of the bank.
- The Earning per Share and Dividend per Share attract the investors. So higher cash dividend strategy should be adopted for the better growth of shareholders worth.
- Need to invest on small entrepreneurs development programs.
- NBBL and NSBL Bank are suggested to make modern banking technologies accessible to there all kind of depositors as far as possible.
- An emphasis should be given on planning research and development for the proper planning and controlling purpose. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

**Shrestha, Prem Kriashna (2006)**, conducted a research entitled "Profitability Analysis of standard Chartered Bank Nepal Ltd. and Nabil Bank Ltd." Specific objectives of the study were;

- To evaluate the soundness of profitability and operating effectiveness of NABIL comparison with that of SCBNL.
- To compare and analyze fund based interest income with fee based income of NABIL bank, in common comparison with SCBNL in light of interest earning assets.

Major findings of his thesis are;

- The profitability in relation to investment of SCBNL is higher than Nabil Bank. Both of the sample bank's interest income to total earning assets is decreasing. Similarly, net profit margin is decreasing every year. Earning spread rate of both banks are also decreasing and negative sign to the bank's performance.
- Both of the banks weight average cost of deposit ratio is decreasing every year. EPS is the main tool to use to see the bank's performance. Nabil Bank has lower EPS than SCBN. It indicates that the performance of SCBN is better.
- Main income source of the banks are interest. In comparison, Nabil Bank is earning more amounts from interest and SCBN is earning more from fees and commission. Nabil Bank's earning fewer amounts from foreign exchange than SCBN.

Recommendations of his research are;

- The banks are suggested to adopt cost management strategy to reduce the various costs and increase profitability and it should be follow the strict investment policy to avoid the non-performing assets.
- Fees based activities are recommended to enhance the off balance operation as it is very profitable and immediate realizable.
- To cope up the changing environment, Nabil Bank is suggested to enhance its existing facility.
- An emphasis should be given on planning research and development for the proper planning and controlling purpose. For the survival of long run, bank should not be profit oriented ignoring their social responsibility.

**Bhandari, Anjan (2008)**, has conducted his study on "Financial Performance Analysis of Himalayan Bank Limited" with the objectives;

- To analyze, examine and interpret the financial performance of HBL.
- To evaluate financial performance of HBL in terms of liquidity, efficiency of assets and cost management and providing recommendation on the basis of research findings using financial ratios.

Findings of his research are as follows;

- The bank is able to maintain liquidity position to meet the daily cash requirement or meet its short term.
- Profitability position of HBL seems good but the bank can't use efficiently its assets to generate profit.
- Turnover ratio of HBL indicates that HBL is more efficiently utilizing the outsider's fund in extending credit for profit generating sectors.

Recommendations of his thesis are;

- HBL has to invest some amount to less risky investment alternatives.
- To provide different types of services, it is recommended to HBL to formulate new schemes and technologies.
- The bank should try to collect more non-interest bearing deposit.
- Though HBL has been able to gain the confidence of people living urban areas, it should also start its services in rural areas.

**Dahal, Yashoda (2010)** entitled "A Comparative Study of Profitability analysis (A case study of Nepal SBI Bank Ltd and Himalayan Bank Ltd.) has the following objectives;

- To evaluate the profitability, financial position, the impact of deposit on profit and the impact of loan and advance on profitability.
- To analysis the income and expenditure, cost and profit trends of the banks.

- To provide suggestion, recommendation and practical idea for improving competitiveness.

#### Findings:

- The liquidity position of HBL Bank is comparatively not better than that of NSBL Bank. It has the lowest current ratio, cash and bank balance to the deposit ratio. The liquidity ratio of HBL Bank which indicates the stable policy of Himalayan Bank has not made enough cash and bank balance while NSBL bank has not good deposit collection in comparison to HBL.
- The profitability position of NSBL is comparatively not better than that of HBL. The bank has followed moderate position in comparison to other banks.
- Through the trend analysis it is found that the deposit collection position, lending position, investment position and net profit position of HBL is better than NSBL except in the case of EPS. Because the trend value of EPS of HBL Bank is declining.
- The interest spread is the difference between the buying and selling rates of the fund. The rate of interest spread has significant importance in the aspect of profitability. Interest spread of NSBL was found marginally higher than that of HBL bank. It can be concluded that interest expenses covered more portion in NSBL compared in HBL Bank. It may be the result of their success to attract the depositors due to higher rate of interest.
- Organization itself does nothing but their success or failure is mainly based upon their employee, efficient and well motivated staff is the ornaments of any organization. HBL Bank's staff expense per employee is very higher than that of NSBL. Moreover, there are more staffs working in HBL Bank. In this way staff expenses includes as the expenses made upon their employees such as salary and allowances, training, uniform and other contribution to provident fund, intensive fringe benefit etc. NSBL should care more to its staff in future.

Recommendations of her thesis are as follows;

- Both the banks should be established after proper diagnosis of the root causes of unsatisfactory liquidity. In this regards, HBL should be more serious than NSBL.
- Both banks should attract more non-interest bearing amount deposit to increase profit margin. Moreover, this should be invested for earning of interest. So it is recommended to reduce its fixed deposit.
- Both bank must control their unnecessary expenses and introduce modern technology to increase the operation efficiency of the bank.
- Both banks should adopt higher dividend strategy to attract the investors.
- Most of the joint venture banks concern their business with the big clients and groups. Both banks also ignoring to invest in small entrepreneur. So it is recommended to invest into small business, which increase the number of clients, development entrepreneurship, diversify its business with the large number of small investors and come forward to meet the national objective of privatization and more entrepreneurs.
- An emphasis should be given on planning, research and development for the proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

### **2.9.5 Research Gap**

There is a vast gap between the present research and previous researches. Most of the previous researches of account have been conducted on profit planning and control by convening the budgeting practices in manufacturing companies, especially PEs. They were either a case study of particular company or a comparative study of two different companies. A few numbers of researches have been also made in the area of receivable management inventory management, CVP analysis, financial performance analysis,

capital expenditure planning and so on. But these all are only a part of management account, which can't represent the overall practices of management accounting in Nepalese companies. Most of the dissertations have been prepared based on secondary data and all of the findings are similar to each other.

This is a comparative study of the two joint venture banks research entitled "A Comparative Study of the Profitability of Nepal SBI Bank with Nepal Bangladesh Bank ". The study is completely based on secondary information.

The previous researches can't represent the overall practices of management account in Nepalese companies, especially to service sector. These studies can't identify financial and statistical tools are practicing and which financial tools are not practicing till now. What might the reasons behind the non-practicing of Financial tools as well as statistical in Nepalese joint ventures companies. To fulfill these gaps, this research has been done. This research has clearly describes, which of financial tools and techniques are practicing and which are not practicing till now. The research also discloses the major difficulties for the proper application of statistical tools in Nepalese companies. The study has conducted by dividing the PEs different joint ventures organization. This includes manufacturing, trading, service, social service, public utility and financial sector done by the corporation coordination division, government of Nepal. It also helps to identify the business sector, where statistical tools can apply to strength the Nepalese PEs. The research has also suggested and recommended to apply its statistical tools and to overcome the difficulties for the proper application of financial tools and techniques in Nepalese companies. Probably this might be the first research work carried on the mentioned topic. It can become a milestone in the context of Nepalese joint ventures companies.

## **CHAPTER – THREE**

### **3. Research Methodology**

#### **3.1 Introduction**

Research methodology refers to the various sequential steps that to be adopted by a researcher during the course of studying a problem with certain objectives. It tends to solve the search problem in a systematic way. Hence, overall research method adopted by the researcher is mentioned. The research methodology is the process of arriving to the solution of the problem through planed and systematic dealing with the collection, analysis and interpretation of fact and figure research is a systematic method of finding out solution to a problem where as research methodology refers to the various sequential steps to adopt by a researcher in studying the problem with certain objective in view. It covers quantitative methodologies in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools.

#### **3.2 Research design**

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combined relevance to the research purpose with economy in procedure.

The research design is the conceptual structure within research is conducted. Research design is the plan, structure and strategy of investigation conceived so as to obtained answers to research questions and to control variance (Kerlinger, 2004, 275). To achieve the objective of this study, descriptive cum analytical research design has been used.

Financial tools along with statistical tools have been applied to examine and evaluate the profitability of Nepal SBI bank limited and then to compare with the Nepal Bangladesh bank Ltd.

### **3.3 Sources of data**

The studies basically focus on the secondary data. The data required for the analysis is directly obtained from the balance sheet and the profit and loss account of the concerned bank and the other publications. Supplementary information is collected from the number of institutions and authorities like NRB, Security Exchange Board, Nepal Stock Exchange, Ministry of Finance and economic surveys. Like wise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents form various sources. The secondary sources of data are as follows:

- Annual report and other publication of concerned company.
- Newspaper and magazines.
- Financial statement of listed companies published by Nepal stock exchange.
- Booklet published by Rastra Bank and HMG.
- From the websites of concern companies.

### **3.4 Population and Sample**

#### **Population**

Population is the aggregative or totality of statistical data forming a subject of investigation. Population having finite number of items is an item is called finite population and population having infinite number of items is called infinite population.

The No. of commercial banks licensed by NRB is one of the examples of finite population. Total populations of the Commercial Banks are as follow:

- I. Nepal Bank Limited
- II. Rastriya Banijya Bank
- III. Agriculture Dev. Bank
- IV. NABIL Bank Limited
- V. Nepal Investment Bank Ltd.
- VI. Standard Chartered Bank Nepal Ltd.
- VII. Himalayan Bank Ltd.
- VIII. Nepal SBI Bank Limited
- IX. Nepal Bangladesh Bank Limited
- X. Everest Bank Limited
- XI. Bank of Kathmandu Limited
- XII. Nepal Credit and Commercial Bank Ltd.
- XIII. Lumbini Bank Limited
- XIV. Nepal Industrial and Commercial Bank Ltd.
- XV. Machhapuchhre Bank Limited
- XVI. Kumari Bank Limited
- XVII. Laxmi Bank Limited

- XVIII. Siddartha Bank Limited
- XIX. Global Bank Limited
- XX. Citizens Bank International Ltd.
- XXI. Prime Commercial Bank Ltd
- XXII. Sunrise Bank limited
- XXIII. Bank of Asia Nepal Ltd.
- XXIV. Development Credit Bank Ltd.
- XXV. NMB Bank Limited
- XXVI. Kist Bank Limited
- XXVII. Janata Bank Nepal Limited
- XXVIII. Mega Bank Nepal Limited
- XXIX. Commerz and Trust Bank Nepal Limited
- XXX. Civil Bank Limited
- XXXI. Century Commercial Bank Limited

(Source: [www.nrb.com.np](http://www.nrb.com.np))

## **Sample**

A sample is portion of the population which is examined with a view to estimate the characteristics. There are 31 Commercial Banks liscensed by NRB which can be regarded as the size of population of this study. Because of various limitations, analysis of whole

population is not possible. Thus, following Commercial Banks are selected as the sample for research purpose:

- Nepal SBI Bank Ltd.
- Nepal Bangladesh Bank Ltd.

### **3.5 Re-Organization of Data**

Crude data gathered from various sources are reorganized into graphs, tables, diagrams, charts and figure to make them presentable for analysis.

### **3.6 Data Analysis Tools**

Several tools and techniques used to analyse the primary and secondary data collected from various sources for obtaining the logical conclusion. Following statistical and financial tools will be used in this thesis to analyse the data:

### **3.7 Financial Tools**

#### **1. Return on Equity:**

"Return on Equity means a measure of how well a company used reinvested earnings to generate additional earnings. Equal to fiscal years after tax income (after preferred stock dividends but before common stock dividends) divided by book value, expressed as a percentage. It is used as a general indication of the of the company's efficiency; in other words, how much profit it is able to generate given the recourses provided by its stockholders. Investors usually look for companies with return on equity that are high and growing."(Investorswords.com). the shareholders are true owner of the bank and

thus the profit belongs to them. This ratio display the returns earned on the shareholder's equity. The shareholder's equity involves share capital and all other reserves including the retained earnings.

$$\text{Returned on Equity} = \frac{\text{Net Profit}}{\text{Shareholder's Equity}} \times 100$$

Where, shareholder's equity = Share Capital + Reserve + Retained Earning

## 2. Earnings Per Share:

The definition of EPS is "The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability. It is calculated as:

$$\text{Earnings per Share} = \frac{\text{Net Income} - \text{Dividends on Preferred Stock}}{\text{Average Outstanding Shares}} \times 100$$

When calculating, it is more accurate to use a weighted average number of shares outstanding over the reporting term, because the number of shares outstanding can change over time. However, data sources sometimes simplify the calculation by using the number by using the number of shares outstanding at the end of the period". (investopedia.com). the performance and achievement of the bank can be identified with the earning power of the bank. The higher ratio displays the more profit of the bank. This ratio displays the earning made by each share of the bank. It is one of the major tools used by investor to access the performance of their investment.

$$\text{Earning per Share} = \frac{\text{Net Profit}}{\text{No. of Share}} \times 100$$

### 3. Net Profit margin:

"Net profit divided by net revenues, often expressed as a percentage. This number is an indication of how effective a company is at cost control. The higher the net profit margin is the more effective a company is at converting revenue into actual profit. The net profit margin is a good way of comparing companies in the same industry, since such companies are generally subject to similar business conditions, however, the net profit margins are also a good way to compare companies in different industries in order to gauge which industries are relatively more profitable is also called net margin."(investorwords.com). the income generated by the bank, are put to various expenses of the bank to be dealt with. So, surplus comes into picture if the income of the bank exceeds the expenses, which is called a profit. The net profit margin displays the proportion of net profit over the income of the bank.

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Total Income}} \times 100$$

### 4. Income Expense ratios

#### a. Components of income:

The income of the banks comprises of interest income, commission income and other income.

Where,

Interest income = It includes income from loans and advances, investment, agency balance, money at call and inter bank lending.

Commission Income = It includes Income from Bills Purchase, L/C, remittance income, collection of shares etc.

Other income = It includes exchange income, income from sale of assets, other Miscellaneous income like safe locker rentals, credit cards, service charges etc.

#### **b. Components of expenses**

Unlike income, the expenses of the bank can be broadly categorized into interest expenses, staff expenses, operating expense and other expenses.

Where,

Interest Expense = it includes the Interest expense on deposit and borrowings

Staff Expense = it includes salary, allowance, bonus, pension and gratuity, provident fund etc.

Operating Expense =it includes rent, water, electricity, power, telephone charges, repair and maintenance, depreciation on fixed assets, legal charges, advertisement expenses, newspaper and periodicals etc.

Other Expenses =it includes loss on sale of assets, write off of bad debts, additional loan loss provision etc.

#### **5. Interest Payout ratio**

The main function of a bank is to collect deposits and provides loans. The bank pays interest on the deposits and charges interest on the loans and advances. It also realizes income from the investments and call deposits. Similarly the bank has to pay interest on its borrowings. Thus this ratio provides the proportion of interest payment of the bank as compared to the interest income generated by the bank.

$$\text{Interest Payout Ratio} = \frac{\text{Interest Expenses}}{\text{Interest Income}}$$

Where,

Interest Expense = Expense on deposit and borrowings

Interest Income = Income on loans and advances + investment + money at call + interbank lending etc.

## 6. Loan Loss Provision to Total Income

"A non-cash expense for banks to account for future losses on loan defaults. Banks assume that a certain percentage of loans will default or become slow-playing. Banks enter a percentage as an expense when calculating their pre-tax incomes. This guarantees a bank's solvency and capitalization if and when the defaults occur. The loan loss provision allocated each year increase with the riskiness of the loans given bank makes. A bank making a small number of risky loans will have a low loan loss provision compared to a bank taking higher risks."(Free online dictionary). The risk allocated with the lending cannot be completely eradicated. However, it can be minimized though creating a buffer in case of losses. Thus, NRB directive requires the banks to create a certain level of position for loan loss. The requirement depends on the quality of the assets of the bank with provision rate ranging from 1% to 100%. Thus this comparison provides an impact of the loan loss provision on the income of the bank.

$$\text{Loan Loss Provision to Income} = \frac{\text{Additional Loan loss Provision}}{\text{Total Income}} \times 100$$

Where,

Additional loan loss Provision=Additional provision created in the period

Total Income=Total sum of the credit side of profit and loss account

## 7. Operating expenses to total income

"The operating expense ratio also known as the OER is the ratio between the total operating expenses and the effective gross income for an income producing property. Operating expenses are costs associated with the operation and maintenance of income producing properties. They include such items as property taxes, property management fees, accounting fees, insurance, wages, utilities, repairs and maintenance, supplies, advertising, attorney fees, trash removal, pest control, etc. the following are not operating expenses; loan payments, personal property, and capital improvements.

The effective gross income for a property is the actual yearly income from all sources. It is equal to the yearly gross rents possible plus other income such as laundry receipts, vending machines, parking fees, etc. less the yearly vacancy amount.

The operating expense ratio shows the percentage of a property's income that is being used to pay maintenance and operational expenses. Let's take a look at an example. An income producing property has potential rents of \$78,000 plus \$2,000 of other income for a total of \$80,000. The property has \$4,000 of lost income due to vacancies. The yearly operating expense is \$30,400. The effective gross income for a property is \$80,000-\$4,000 or \$76,000. The operating expense ratio is calculated like this;

$$\text{Operating Expense Ratio} = \frac{\text{Operating Expenses}}{\text{Effective Gross Income}} \times 100$$

$$\frac{30,400}{76,000} \times 100$$

**=40%**

The operating expense ratio for the property indicates that 40% of the property's income is being spent on maintenance and operational expenses. To establish a benchmark OER, you would calculate the operating expenses ratio of similar income properties."(Google search/innovative real estate software solutions).

The bank during its operation has to incur various expenses. Some of the expenses are rent, insurance, depreciation, and postage, telephone, electricity, advertisement etc. this ratio shows the proportion of operating expenses on the total revenue of the year.

$$\textit{Operating Expenses to Total Income} = \frac{\textit{Operating Expenses}}{\textit{Total Income}} \times 100$$

Where,

Operating expenses = Expenses on rent, water, electricity, power, telephone charges, repair and maintenance, depreciation on fixed assets, legal charges, advertisement expenses, newspaper and periodicals, board meeting expenses etc.

Total Income = Total sum of the credit side of profit and loss account.

## **8. Staff Expenses per Employee**

In a service industry, the importance of the human element cannot be ignored. The service organizations have to keep their employees satisfied. Although cost minimization is one way to maximize the profits, the minimum level of staff expense can work other way round. Unmotivated and unsatisfied workforce shall be highly inefficient

and unproductive in their work there by affecting the profitability of the organization. Thus, the perks and benefits should be designed at an appropriate level keeping both the organization and staff unaffected. This ratio provides the average spending of the bank on its employee during the year including the bonus payments.

$$\text{Staff Expenses per Employee} = \frac{\text{Total Staff Expenses}}{\text{No. of Staff}}$$

Where,

Staff expenses = Expense on salary, allowances, bonus, medical expenses, provident fund, pension and gratuity, training expense etc.

No. of staff= Total number of staff on a payroll or the end of the fiscal year.

### **9. Credit to Deposit ratio**

According to "word web online.com", the proportion of loans generated by banks from the deposits received is known as credit-deposit ratio. The bank cannot invest all the resources. It has to apportion to certain amount of resources for the liquidity purposes. So, the banks normally do not invest all their deposits.

$$\text{Credit to Deposit Ratio} = \frac{\text{Total Credit}}{\text{NO. of Deposit}} \times 100$$

Where,

Credit = loans and advances + bills purchased

Total Deposit = Sum of all forms of deposits in the bank.

## **10. NPA to Credit**

In order to identify lending, the NRB has designed certain criteria for the classification of loans with respect to the risks involves. There are four classifications pass, substandard, doubtful and loss. The loans and advances falling under other categories except pass are called NPA. The NPA can be a result of many factors like poor credit appraisals, poor credit management or the economic slowdown. The probability of default will be high as the credit move into the next category except pass category. This ratio provides the proportions of good loans and advances in the total portfolio.

$$\text{NPA to Total Credit} = \frac{\text{NPA}}{\text{Total Credit}} \times 100$$

NPA = Loans and advances + Bills purchased

## **11. Loan loss Provision to NPA**

In order to protect the banks from financial difficulty in case of default, the banks are required to create loan loss provisions according to the quality of their lending. The NPA refer to the part of the credit, which has likelihood of default. The NPA of the banks are identified as per the criteria laid down by the NRB directive. The NPA are also of three types substandard, doubtful and bad. The rate of provision required is higher as the loans degrade from one classification to another. This ratio helps to ascertain the amount of cover available to the banks to absorb the financial impact in case all the NPA are immediately defaulted. It also shows the quality of lending portfolios.

$$\text{Loan Loss Provision to NPA} = \frac{\text{Loan Loss Provision}}{\text{NPA}} \times 100$$

Where,

Loan Loss Provision = Sum of loan loss provision after the current year adjustments

NPA Loans and advances, which due for more than 3 months and 90 days incase of bills purchased.

## 12. Interest Spread

“The interest rate spread is used to compensate for risks associated with future unknowns. As uncertainties about the future increase, investors and financial institutions expect more interest as compensation. Long-term loans involve a greater time-span into the future, with corresponding greater uncertainties and greater risks than short-term loans. This is why long-term loans have higher interest rates” (eHow.com).

The banks pay interest to its depositors and collect interest on the loans and advances. The banks collect at higher interest rate than at what they provide. This margin is the profit of the banks. The interest spread is the difference in rates between the loans/advances and deposits. So, higher the margin, greater is the likelihood of larger profit. The comparisons of spread of different banks provide an analysis of the different contribution margins. Spread is calculated as follows.

Interest spread= Interest income- Interest expense

Where,

$$\% \text{ of interest income} = \frac{\text{Interest Income}}{\text{Credit} + \text{Money at call} + \text{Lending} + \text{Investment}} \times 100$$

$$\% \text{ of Interest Expenses} = \frac{\text{Interest Expense}}{\text{Deposits} + \text{Borroings}} \times 100$$

### 13. Net Profit of Commercial Banks

A comparison of the net profit of joint venture banks over the years helps to evaluate comparative profit. The comparison of profit of various banks over the years is useful to understand and evaluate the performance of the bank.

#### 3.8 Statistical Tools

##### 1. Standard Deviation ( $\sigma$ ) and Coefficient of Variation (C.V):

Standard Deviation refers to the difference of the performance from the average mean. Like wise the coefficient of variation provides the relative measurement of consistency of the series. The series which higher homogeneity has lower C.V. As such, the standard deviation and coefficient of variation of the net profits are calculated to identify their respective degree of deviation of profitability from their average.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{N} \sum x^2}$$

Where,

N= No. of observations

$\Sigma$ =sign of summation

$$x = (X - \bar{X})^2$$

X = actual value

$\bar{X}$  = arithmetic mean of the observation

$$\text{Coefficient of Variation (C.V):} = \frac{\sigma}{\bar{X}} \times 100$$

Where,

$\sigma$  = standard deviation of the observation

$\bar{X}$  = arithmetic mean of the observation

## 2. Correlation of Net Profit

Correlation explains the relationship between two series, whether they are related or not and if yes, in what manner? So, the relationship between the profitability of NBBL with the industry average will be calculated. For this purpose the Karl Pearson's Coefficient of Correlation.

$$\text{Correlation coefficient } (\rho) = \frac{\Sigma XY}{N \sigma_x \sigma_y}$$

Where,

$\rho$  = correlation between x and y

$\Sigma$  = sign of summation

N = Numbers of variables

X = Variable of X

Y = Variable of Y

$\sigma$  = standard deviation of the observation

## 3. Regression

Regression analysis is used to estimate the likely value of one variable from the known value of the other variable. It is an average irreversible functional relationship between two variables. In other words regression analysis is a mathematical measure of the average relationship between two or more variables in terms of original units of data. Regression analysis clearly indicates the cause and effect relationship than by correlation analysis. In the regression analysis there are two types of variables these are

dependent variable and independent variable. In simple regression, mathematical regression equation is developed to describe the functional relationship that exists between the two variables.

Regression equation of Y on X is given by  $Y = a + bx \dots \dots \dots (i)$

Where,

Y = Dependent variable

X = Independent variable

a = Intercept of the line of regression  $(\frac{\sum Y}{N})$

b = Slope of the line of regression / regression coefficient of Y on X  $(\frac{\sum Y}{\sum Y^2})$

The ability to predict the future with accuracy would be extremely valuable. So, the trend analysis is used to detect patterns of changes in the values of variable over regular periods of time. These patterns are then used to estimate for the future. Thus, estimation for the future of the banks with reference to their respective past performances will be made. Out of the various methods available, the analysis is based on the least squares method.

As per the least squares method, the straight line of trend is given by;

$Y = a + bX$  and, X = No. of years from the average (mid year)

## **CHAPTER – FOUR**

### **4. Data Presentation & analysis**

#### **4.1 Introduction**

The main functions of commercial bank are collection of deposits and efficient utilization of the deposits so collected. Deposit collection shows a bank's efficiency in performance and efficient utilization indicates its success and profitability. Banks have to pay interest on deposits and pay dividends to their shareholders. Therefore, earning interest through deposit utilization is very crucial task of every bank.

This chapter comprises detail data of two joint venture Banks, listed in NEPSE, over different time frames. The data are arranged into tables, diagrams, graphs and figures as per its nature. The arranged data are scrupulously analyzed and interpreted to serve the purpose of study using the various statistical and non statistical tools and techniques. In order to analyze, various tools like ratio analysis, comparisons and trend analysis have been used.

#### **4.2 Net Profit Ratio**

##### **4.2.1 Return on Equity**

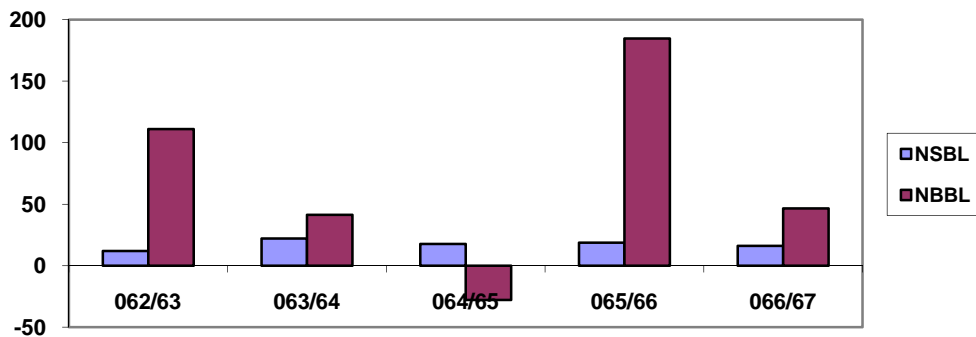
The equity is the wealth of shareholders. The bank is liable to provide a good return on the wealth of the shareholders. Return on shareholders equity basically measures the company's return on the investment made by owner of the company. This ratio helps us to judge whether the firm has earned satisfactory return for its equity holders or not. The return on equity of the banks over a period of 5 years is given below:

**Table No: 02 Return on equity ratio (%)**

Banks	062/63	063/64	064/65	065/66	066/67	Mean	SD	C.V
<b>NSBL</b>	12.04	22.10	17.64	18.58	16.05	17.282	3.287	19.019
<b>NBBL</b>	110.96	41.35	-27.95	184.57	46.62	71.11	71.78	100.94

(Source: Annex-1)

**Figure No: 01 Return on equity ratio**



In the year 062/63 and 063/64, NBBL had negative net profit as well as negative shareholders equity so its return on equity also become in positive firm. The coefficient of variation ratio of return on shareholders equity of the NBBL is to some extent greater than the NSBL i.e., 100.94% > 19.019%. Less the C.V, more will be the uniformity; consistency and more the C.V less will be the uniformity. Higher is an indication of future of utilizing the shareholders' fund. The company's returns on shareholders fund reflect that the future investment is sound and prospective investors will get attraction. Return on shareholders fund also reflects the market value of share.

#### 4.2.2 Return on total Assets (ROTA)

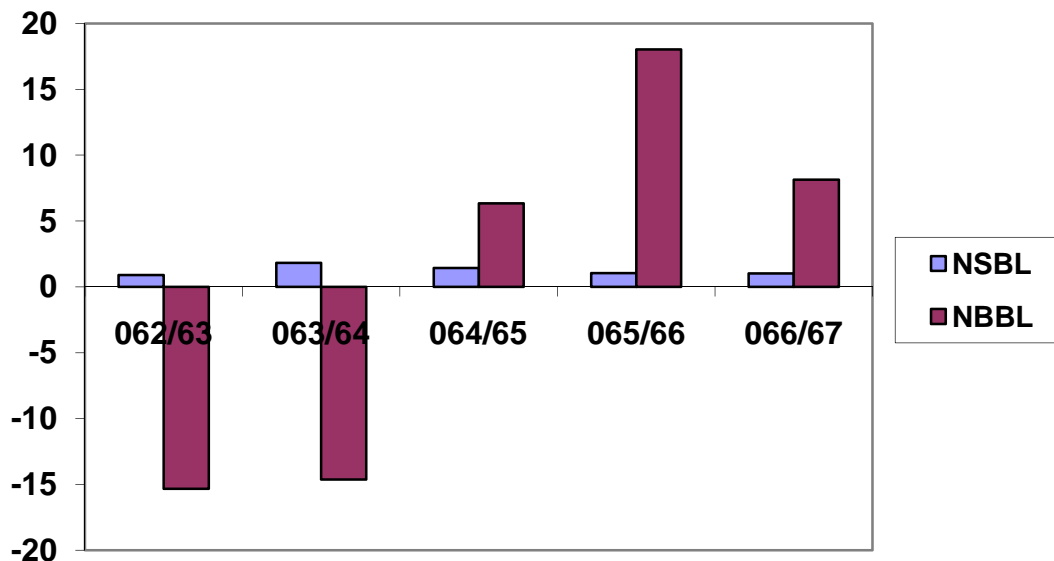
The ratio is a primary indicator of managerial efficiency. It indicates how effectively all the assets have been utilized by the management. The ratio measures how far the management has utilized all the assets of the bank for profit generation. Returns on total Assets (ROTA) indicated efficiency of the utilization of the total assets and vice versa.

**Table No: 03 Return on total assets (%)**

Banks	062/63	063/64	064/65	065/66	066/67	Mean	SD	C.V
NSBL	0.90	1.83	1.44	1.05	1.03	1.25	0.3416	0.2734
NBBL	(15.34)	(14.63)	6.35	18.03	8.15	0.512	13.265	25.908

(Source: Annex-2)

**Figure No: 02 Return on total assets**



The table shows that the ratio appeared 0.90%, 1.83%, 1.44%, 1.05%, 1.03% in NSBL and -15.34%, -14.63%, 6.35%, 18.03% and in fiscal year 066 /67 it is 0.05%. The ratio showed

highly fluctuating trend in NBBL. The NSBL was better position only in the fiscal year 063/64, i.e. 1.83%. The NPAT of NSBL is slightly fluctuating till the year 064/65 and then after it is in increasing trend. Whatever the NPAT of NBBL in the year 062/63 and 063/64 are negative it is in increasing trend till 065/66 then after it is decreasing form. But the total assets of both the banks are in rising trend.

The mean ratio of NSBL is higher than that of NBBL i.e. 1.25 and 0.512 respectively. The C.V of the both banks show that the earning on total assets utilized is more consistent in case of NSBL 0.2734 than that of NBBL 25.908. Although both banks do not seem to be utilizing their assets more efficiently, NSBL is more capable than NBBL.

#### 4.2.3 Earning Per Share (EPS)

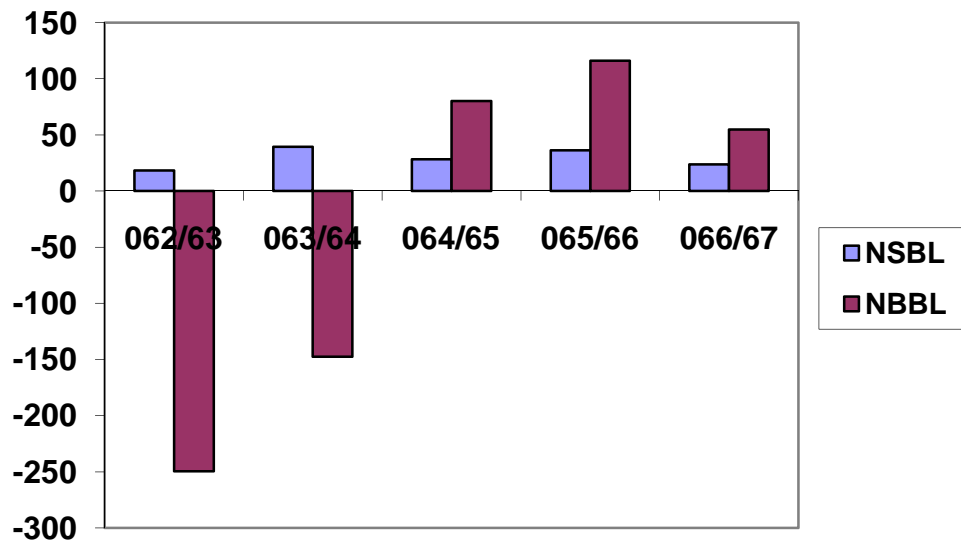
The performance and achievement of a bank can be identified with the earning power of the bank. In general case, higher earning implies the strength of the bank. Earning per share (EPS) is the widely quoted statistics in every investor's world. Every shareholder is much interested in the return on the share. A company is investing when the capital invested can earn adequate return per share. The ratio of earning available to the common shareholders to their outstanding share capital is expressed.

**Table No: 04 Earning Per Share (in Rs)**

Banks	062/63	063/64	064/65	065/66	066/67	Mean	SD	C.V
NSBL	18.27	39.35	28.33	36.18	23.69	29.164	7.7758	0.267
NBBL	-249.60	-147.44	80.16	116.01	54.90	-29.186	143.29	-4.91

(Source: Annex-3)

**Figure No: 03 Earning Per Share (in Rs)**



The earning per share of Nepal NSBL was 18.27 during the year 062/63. The trend of EPS of NSBL is like as sea wave or trade cycle because it is increased in the year 063/64 then decreased in 064/65 after then increased and decreased in the year 065/66 and 066/67 respectively. The EPS of NBBL was -249.60 and -147.44 in the year 062/63 and 063/64. It is due to the negative figure of net profit. Whatever the financial report shows that unavailability of EPS in those years, EPS have been calculated with the help of its negative net profit. The maximum EPS of NBBL is in the year 065/66 i.e.116.01. The reason for the massive decline of NBBL ltd is constant in the number of shares in the year 066/67 and on the hand while the net profit has significantly declined on the NBBL. The mean ratio of Nepal NSBL is higher then NBBL i.e. 29.164 and -29.186 respectively. The C.V of NSBL, 0.267 is higher then that of Nepal Bangladesh Bank, -4.91.

#### **4.2.4 Net profit margin**

The profit is the universal measurement tools of the performance of any institution. Likewise, it also serves as an important yardstick to measure the performance of the

banks. Profit is important to various parties like management, employees, customer and the government for their own reason. Management may use it to measure their performance; employees may use it to validate their claim for better remunerations; customer may use it to invest their fund and the government to receive taxes.

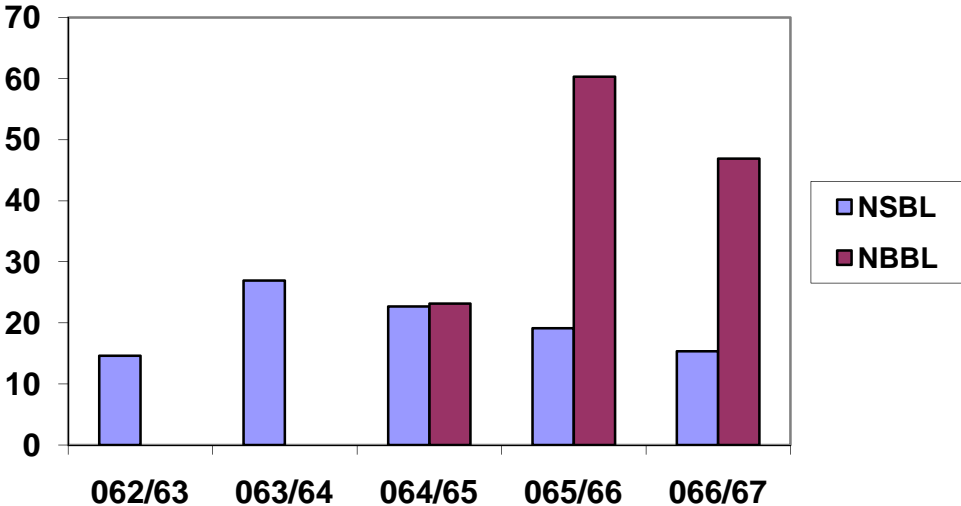
The ratio signifies the effectiveness of expenses management and cost control and gives the direction to management for service pricing policies. It means how much of total revenue has been declared as net profit after all the charges are covered up. The higher ratio means the management has been able to control its operational costs and maintain efficiency.

**Table No: 05 Net profit margin (in %)**

Banks	062/63	063/64	064/65	065/66	066/67	Mean	SD	C.V
<b>NSBL</b>	14.63	26.95	22.67	19.14	15.36	19.75	4.6092	0.2333
<b>NBBL</b>	-	-	23.15	60.30	45.87	25.864	24.212	0.9361

(Source: Annex-4)

**Figure No: 04 Net profit margin (in %)**



The net profit margin of NSBL, at its highest, was 26.95 % in the year 063/64 which has fallen to a low of 22.67 in the 064/65. In simple terms it means that out of revenue of Rs 100, NSBL is only able to convert to a net profit of 26.95 in the year 063/65. In the other hand the financial report of NBBL shows o net profit margin in the year 062/63 and 063/64 respectively. It is happening due to negative net profit in those years. But in the year 065/66 NBBL had progress to increase its net profit margin to 60.30. It means out of 100 revenues, NB can convert it to just 60.30 to net profit. Mean and CV of NBBL also greater than NSBL i.e.25.864>19.75 and 0.9361>0.233. Whatever the net profit margin in the year 062/63 and 63/64 of NBBL is zero, its overall performance is better than NSBL.

### 4.3 Income Expenses Ratios

#### 4.3.1 Components of Income

The revenue of the bank results from various sources like interest, commissions etc. Here we look at the mix of various sources of income namely interest, commission, other and exchange gain. The table and pie chart below provides the components of income for the last fiscal year i.e. 2066/2067.

**Table No: 06 Components of income (%)**

<b>Banks</b>	<b>Interest</b>	<b>Commission</b>	<b>Other</b>	<b>Exchange Gain</b>	<b>Total</b>
<b>NSBL</b>	88.99	5.16	3.09	2.76	100
<b>NBBL</b>	82.59	10.31	3.57	3.53	100

(Source: Annex-21, 22)

Figure No: 05 Components of income (%)

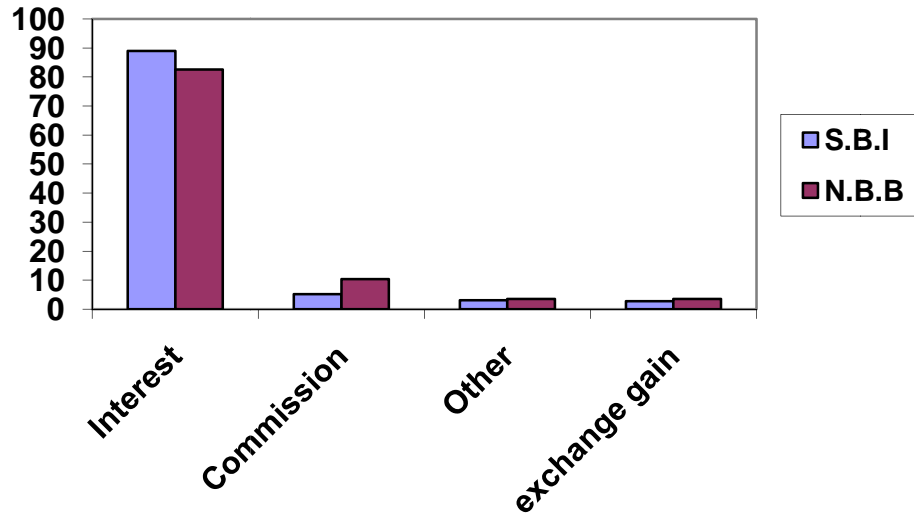


Figure No: 06 Components of income of NSBL (%)

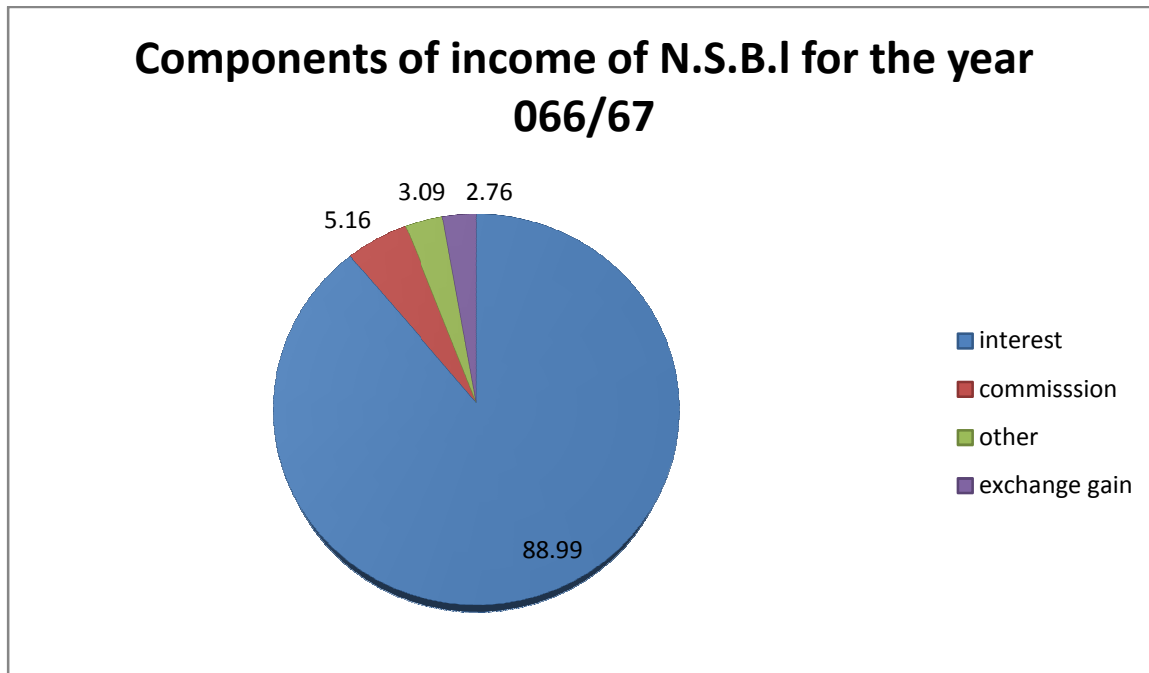
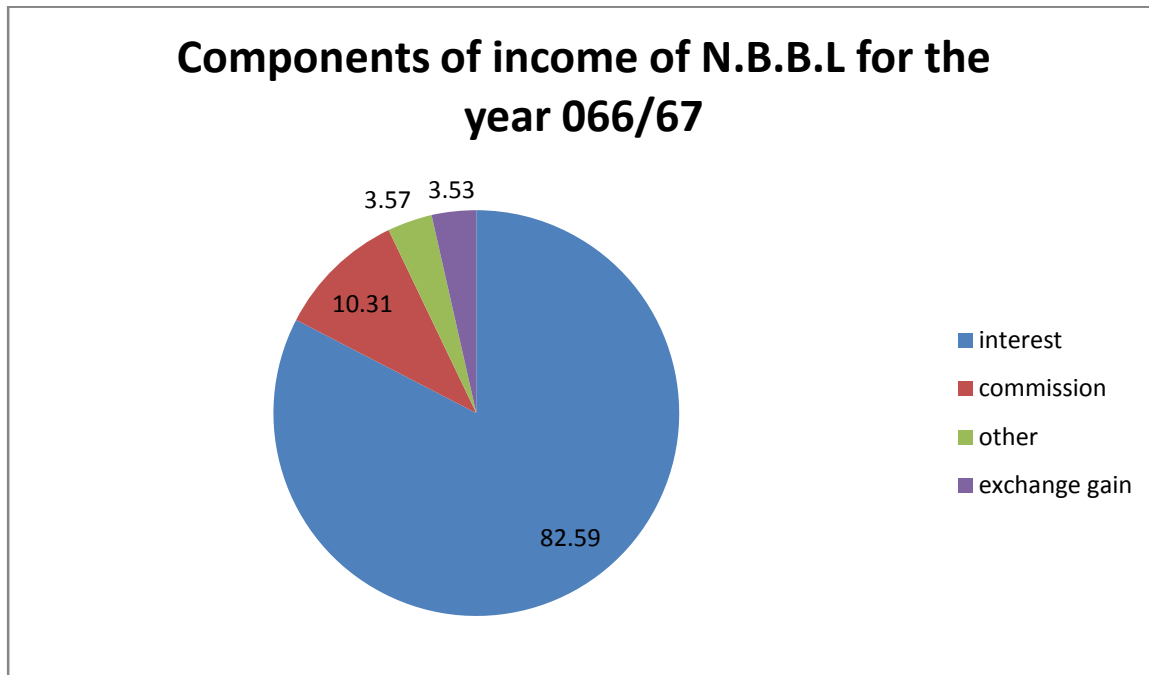


Figure No: 07 Components of income of NBBL (%)



The major sources of income of banks are interest, commission, exchange gain and rest is from other sources. The ratio of 88.99 of NSBL and 82.59 of NBBL shows that both bank fully dependent on interest income to generate total income. Exchange gain income and others income of both bank is quite similar but commission income of NBBL is two times greater than NSBL.

#### 4.3.2 Component of Expenses

Like the sources of income, the expense of the bank can be broadly categorized into interest expense, staff expense, operating expense and other expenses. The components of expenses of the year 2066/067 of the banks are tabulated as:

**Table No: 07 Components of expenses (%)**

<b>Banks</b>	<b>Interest</b>	<b>Staff</b>	<b>Operating</b>	<b>Others</b>	<b>Total</b>
<b>NSBL</b>	75.27	6.80	14.36	3.57	100
<b>NBBL</b>	63.39	19.49	12.93	4.19	100

(Source: Annex-23, 24)

**Figure No: 08 Components of expenses (%)**

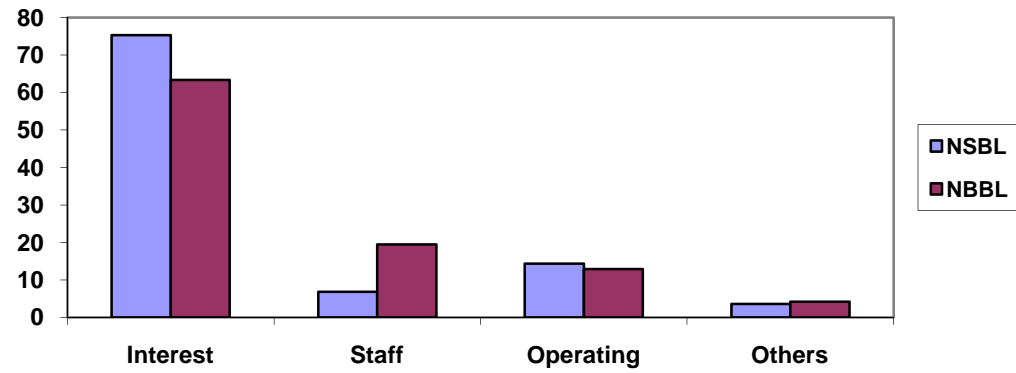


Figure No: 09 Components of expenses of NSBL (%)

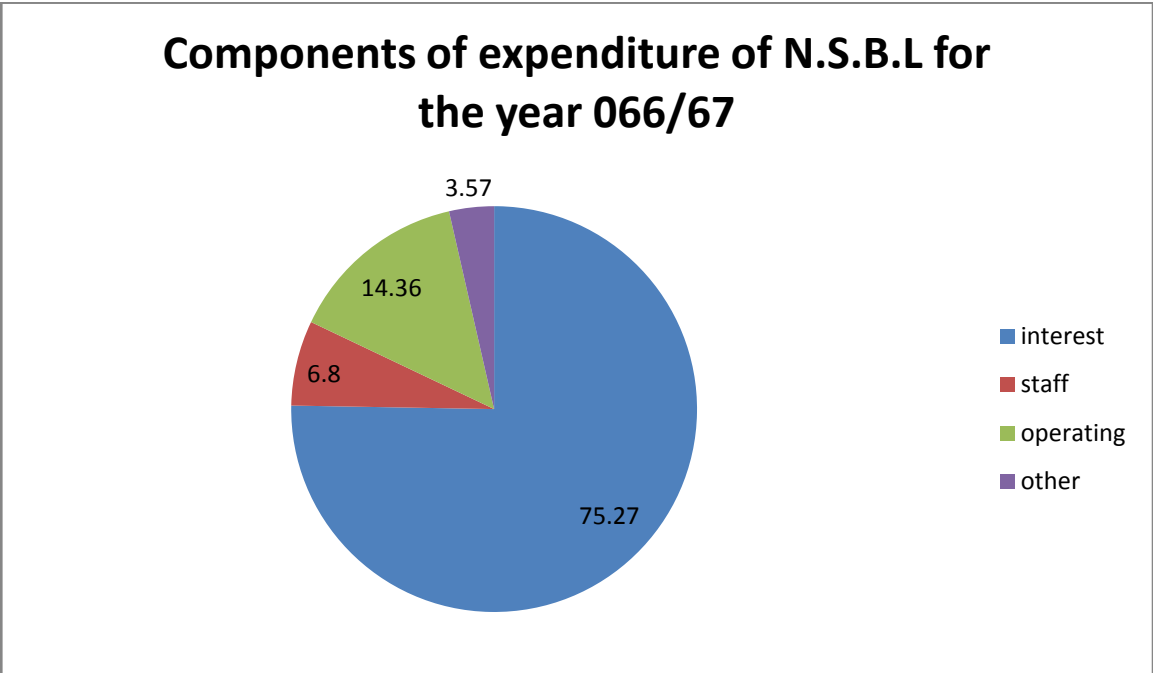
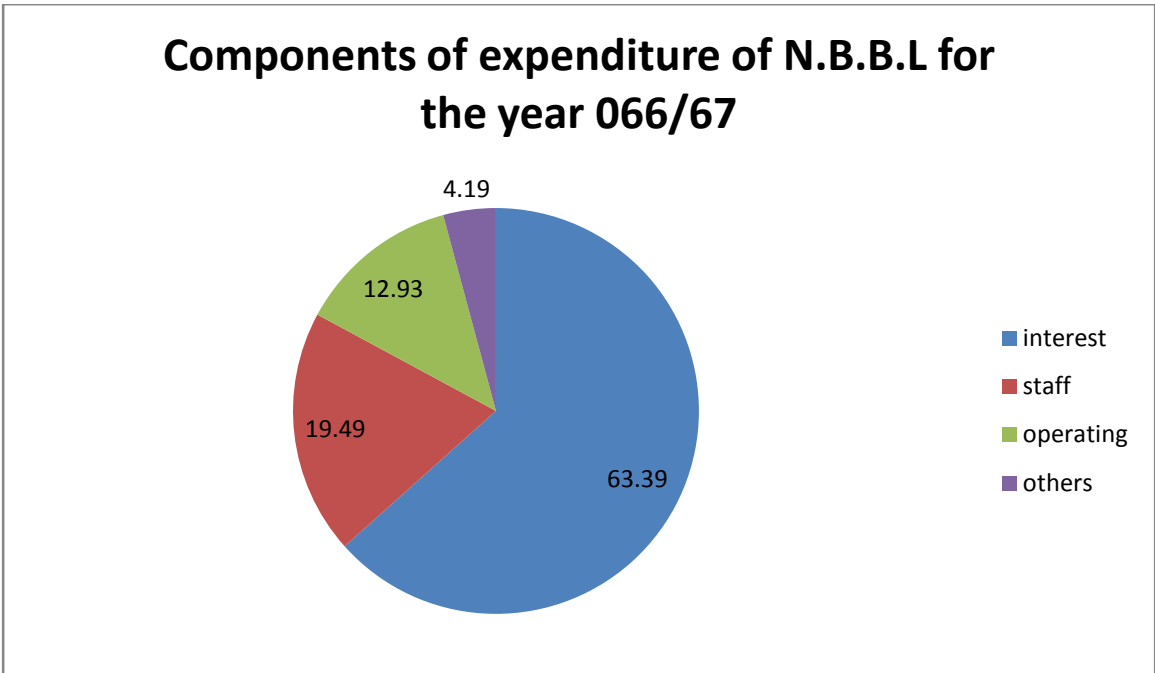


Figure No: 10 Components of expenses of NBBL (%)



The comparison of NSBL with N.B. Bank reveals that the banks have slightly balanced composition of operating expenses while interest expenses of NSBL. bank is significant high with 75.27% of total income. May be the low interest rate on deposit product of NB rather than NSBL its expenses on interest is less than NSBL i.e. 63.39 and 75.27 respectively. However the no. of staff of NBBL is less than NSBL for the year 066/67 i.e. 358 and 465 respectively, The Staff expenses of NBBL is three times greater than NSBL i.e. 19.49 and 6.8 respectively.

### 4.3.3 Interest payout ratio

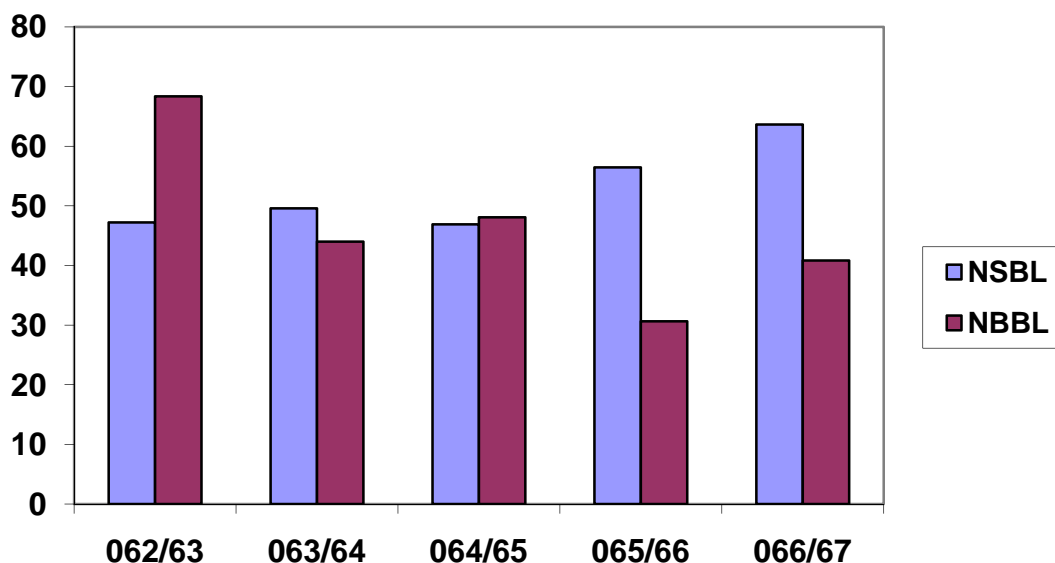
Interest income is the main source of any bank and financial institution. In other hand interest expenses also the main things for the expenditure side. In the above table we found that the percentage of interest income of NSBL and NBBL is 88.99 and 82.59 respectively. In other hand the percentage of interest expenses of NSBL and NBBL is 75.27 and 63.39 respectively. Higher volume of credit and higher the interest rate on it, higher will be the interest income and vice versa. We can find that how percentage of amount may have been utilized as interest expenses from interest income.

**Table No: 08 Interest Payout Ratios (%)**

Banks	062/63	063/64	064/65	065/66	066/657	Mean	SD	C.V
<b>NSBL</b>	47.24	49.60	46.87	56.47	63.61	52.758	6.43	0.1218
<b>NBBL</b>	68.34	44.01	48.05	30.65	40.83	46.37	12.40	0.2674

(Source: Annex-12)

**Figure No: 11 Interest Payout Ratios (%)**



From the above table interest payout ratio of NSBL is 47.24, 49.60, 46.87, 56.47, 63.61 and NBBL is 68.34, 44.01, 48.05, 30.65, and 40.83 for the year 062/63, 063/64, 064/65, 065/66, 066/67 respectively. NSBL have the highest ratio in the year 066/67, it implies that interest on deposit is increased rather than interest on loan. In other hand NBBL has the ratio i.e. 40.83 in the fiscal year 066/67. It means interest on deposit scheme is ignored by NBBL rather than interest on loan.

#### **4.3.4 Loan Loss provision to Total Income**

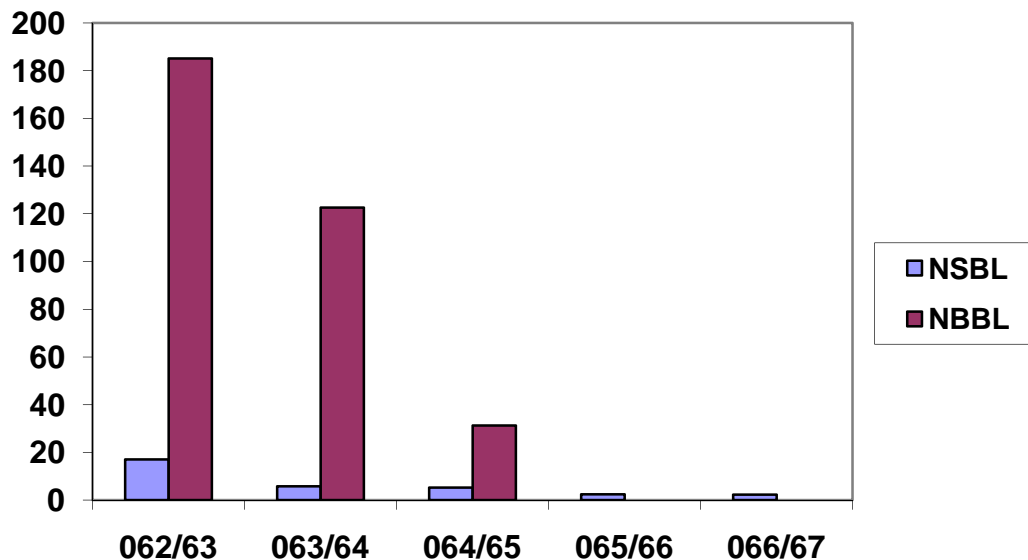
The ratio provides an insight of the proportion of revenue that has to be siphoned off as the provision of loan loss as per the directive of NRB. The ratio of the banks is tabulated below. Loan loss ratio describes the preparation of provision for loss to the total income. Greater loan loss provisions are required to allow in income statement if high loss is expected. This leads to low profit and possible losses that produce low increase or decrease in the capital.

**Table No: 09 Loan loss provision to total income (%)**

Banks	062/63	063/64	064/65	065/66	066/67	Mean	SD	C.V
<b>NSBL</b>	17.10	5.80	5.18	2.44	2.33	6.57	8.69	0.83
<b>NBBL</b>	185.14	122.57	31.23	-	-	67.788	73.89	1.09

(Source: Annex-5)

**Figure No: 12 Loan loss provision to total income (%)**



The above table shows that higher this ratio indicates that the performance of the bank in term of recovery of loan loss provision is low in the beginning year. The additional provision of NBBL for the year 065/66 and 066/67 is zero so the loan loss provision to total income also zero in those years. Provision for loan loss against the mean of 6.57 of NSBL but the mean of NBB Bank has 67.788. The CV of ratios of NBBL is 1.03% that is comparatively higher than NSBL 0.83%. It indicates the loan loss provision to total income of the NBBL is less consistent.

### 4.3.5 Operating Expenses to Total Income

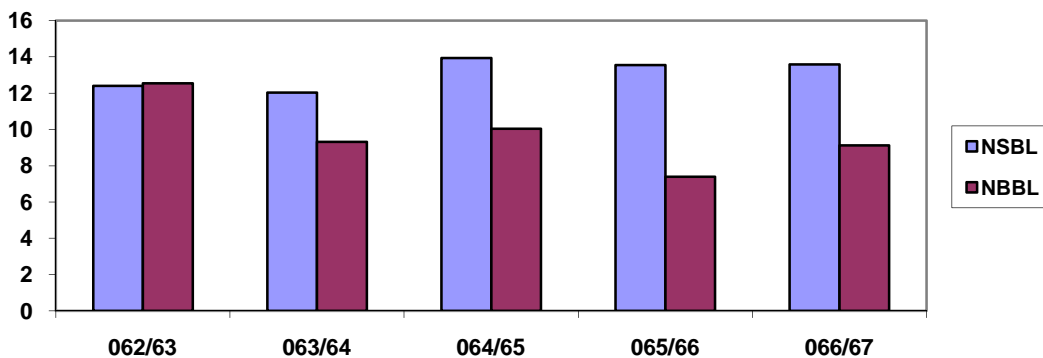
The bank to carry out its normal activity has to undergo various costs. There are called operating costs. Some of the examples are electricity, insurance, telephone, water etc. These kinds of expenses use for daily operation for to maximize profit. These expenses dilute a significant amount of the revenue. The proportion of such expenses in total income is tabulated below:

**Table No: 10 Operating expenses to total income (%)**

Banks	062/63	063/64	064/65	065/66	066/67	Mean	SD	C.V
<b>NSBL</b>	12.41	12.03	13.94	13.54	13.58	13.1	0.7417	0.0566
<b>NBBL</b>	12.55	9.32	10.03	7.4	9.12	9.684	1.6738	0.1728

(Source: Annex-6)

**Figure No: 13 Operating expenses to total income (%)**



The operating expense of NSBL has greater mean 13.91 than of NBBL 9.684. Both the banks Percentage of operating expenses data is fluctuate. But the ratio of NSBL is in

same range between 12 and 14. The CV of ratios of NBBL is 0.17728 that is slightly higher than NSBL 0.0566. It indicates the operating expenses to total income ratio of the NBBL is less consistent.

#### 4.3.5 Staff Expenses per Employee

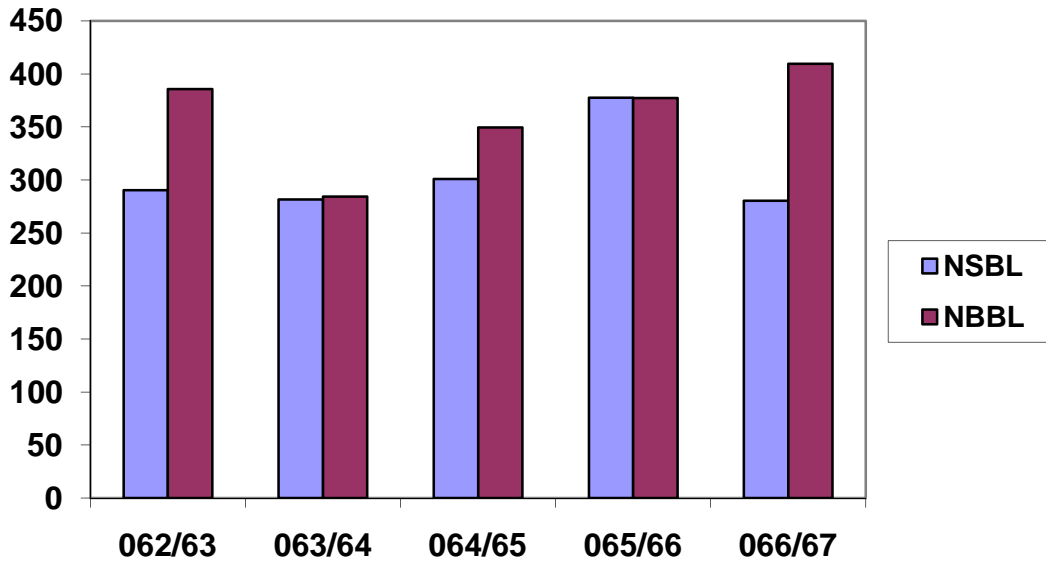
The human resource of any organization is a very important aspect. The organization needs to keep its human element satisfied and motivated. Organization should spend on salary, allowance, additional provident fund, training expenses, medical expenses, insurance, pension etc for the motivation and satisfaction of the staff. The spending of the banks on its human resources is as follows:

**Table No: 11 Staff expenses per employee (Rs in '000)**

Banks	062/63	063/64	064/65	065/66	066/67	Mean	SD	C.V
<b>NSBL</b>	290.46	281.65	300.76	377.67	280.29	306.166	36.49	0.1192
<b>NBBL</b>	385.58	284.21	349.47	377.18	409.61	361.17	43.0084	0.1191

(Source: Annex-7)

**Figure No: 14 Staff expenses per employee (Rs in '000)**



The above table demonstrates that the NSBL has follow the cost minimize method to per employee. Although this is good from the cost aspect, other influences like staff motivation cannot be ignored. The reason of higher ratio in expenses may be attributed to the total number of employees employed in the banks. In NSBL, there is 465 staff at the end of 066/67. But in NBBL there are 358. The more number of the staff are in NBBL thus; it shows that NBBL spends more amounts in staff expenses. The mean ratios form the above table are observed, it is found that NSBL has a lower ratio of 36.49 that of NSBL 43.08. The CV of ratios of both banks is slightly equal. It indicates the total staff expense to per employ ratio of the both banks is less consistent. Form the above experiment we found that higher the staff higher will be the expenses in this category.

#### **4.4 Other Ratios**

##### **4.4.1 Credit to Deposit Ratio**

The major source of resource of a bank is deposit and the major outlet of resource is the credit. So, this ratio provides the ratio of efficiency with which the resources are

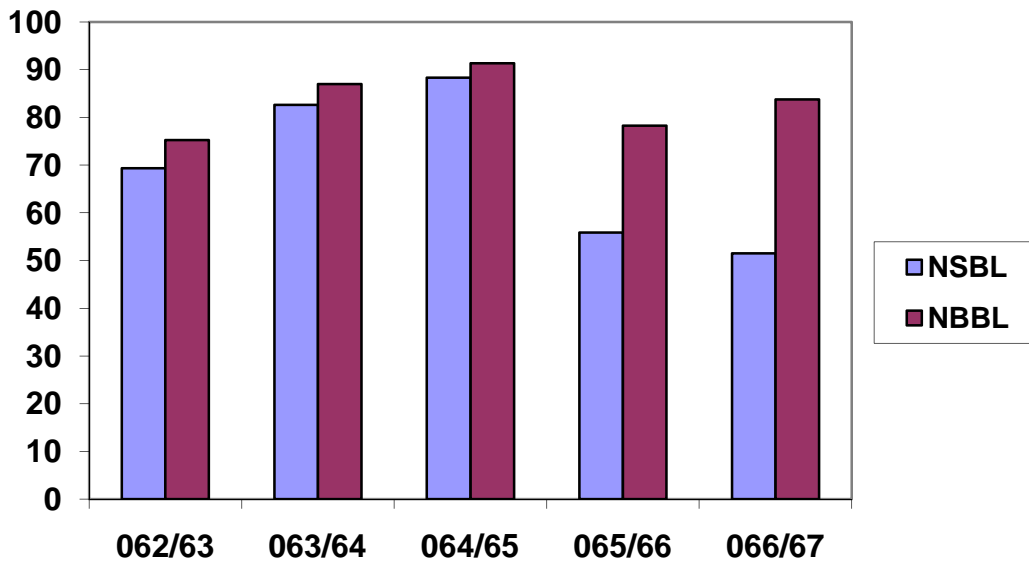
mobilized. Credit always depends upon deposit. Higher the deposit higher will be the credit and vice versa. Following table displays the deposit collected by the banks and their subsequent mobilization as at the end of corresponding fiscal year.

**Table No: 12 Credit to deposit Ratio**

Banks	062/63	063/64	064/65	065/66	066/67	Mean	SD	C.V
<b>NSBL</b>	69.32	82.66	88.32	55.84	51.48	69.524	14.41	0.2072
<b>NBBL</b>	75.27	87.01	87.01	91.33	78.26	83.776	6.0126	0.0718

(Source: Annex-8)

**Figure No: 15 Credit deposit Ratio**



The NSBL had higher credit ratio in the year 064/65. It indicates that NSBL had spent high volume of credit in those years. It may be creating the CRR and liquidity problem. In the year 066/67, the ratio of NSBL is decreasing to 51.48. It means the total deposit i.e. 34896424201 of just 51.48% i.e. 17963641179 have been invested in credit. In the other

hand the NBBL had the highest ratio i.e. 91.33 in the year 065/66. The CV of ratios of NSBL is 0.2072% that is comparatively higher than NBBL 0.0718%, i.e. it is less consistent. Thus the bank should look to lower the ratio by either decreasing the credit volume or increasing the deposit base of the bank.

#### 4.4.2 Interest Spread

The spread is the difference between the buying and selling rates of the fund. The major source of income in a bank is from the interest on loans and advances. Thus, the rate of interest spread is of significant importance in the aspects of profitability. The spread can be increased either by acquiring funds of lower costs or lending at higher rates of interest. Both these choices have drawbacks as acquiring funds at low cost is difficult to achieve while lending at high rates means taking higher risk of default. However, spread should be within 5% as per Nepal Rastra Bank. As per NRB, interest spread is expressed as:

Rate of return on total earning assets- int. cost on average deposit

Where,

$$\text{Rate of Return on Total Earning Assets} = \frac{\text{Total Interest Income}}{\text{Average LAO, Investments, Call Money Placements} + \text{Total Deposits}} \quad \text{And,}$$

$$\text{Cost on Average Deposits} = \frac{\text{Total Interest Expenses}}{\text{Average Deposits}}$$

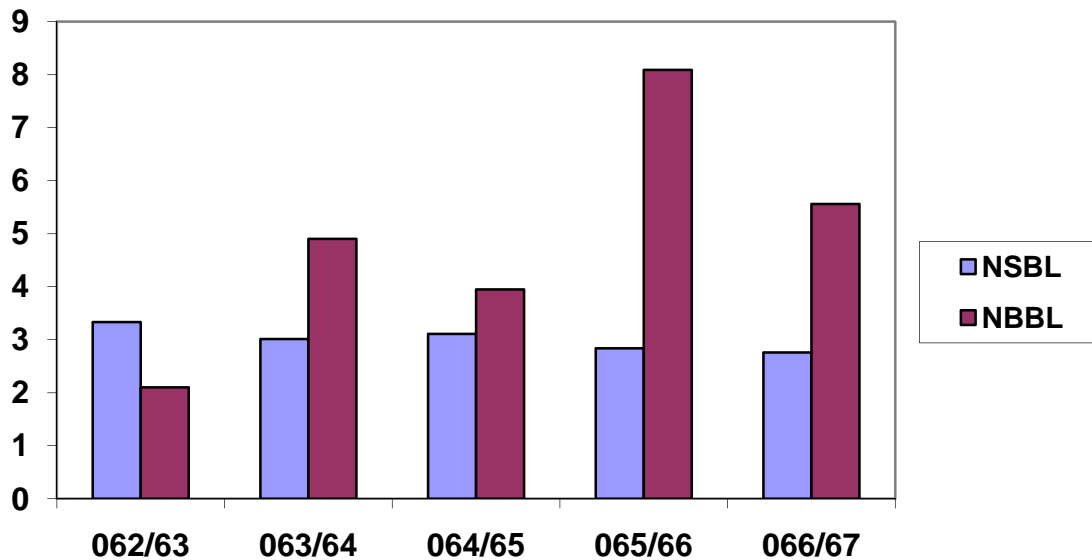
The interest spread of banks for the last five years is tabulated below.

**Table No: 13 Interest spread**

Banks	062/63	063/64	064/65	065/66	066/67	Mean	SD	C.V
<b>NSBL</b>	3.33	3.01	3.11	2.84	2.76	3.01	0.2019	0.0671
<b>NBBL</b>	2.1	4.9	3.95	8.09	5.56	4.92	1.9673	0.3998

(Source: Annex-9)

**Figure No: 16 Interest spread**



The above table shows that the ratio of NSBL has ranged below the 4.00. The mean ratio of NBBL is higher than that of NSBL. However the ratio of NBBL in some year is greater than 5, the average interest spread for five years of both banks is less than 5. The C.V of NSBL is less than NBBL which indicates that it is more consistent rather than NBBL.

#### **4.4.3 NPA to Credit**

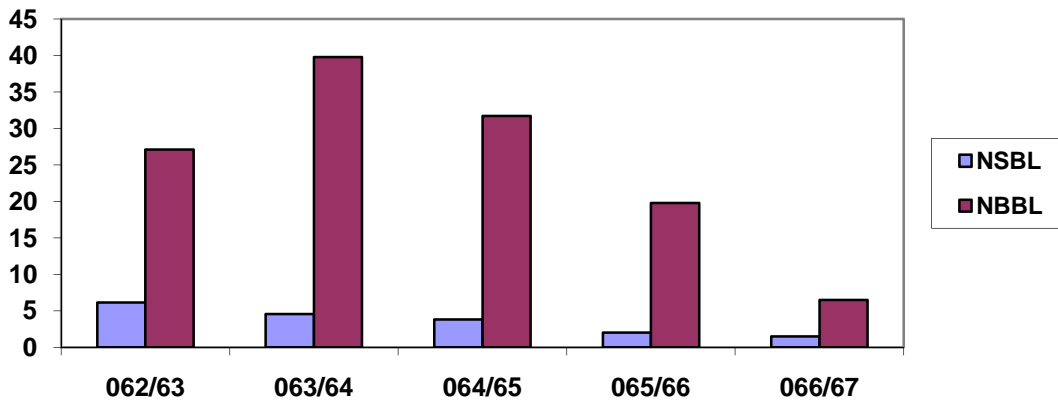
The loans and advances classified as NPAs have high potential for default. This ratio thus provides the proportion of such lending in the credit portfolio of the bank.

**Table No: 14 Proportion of NPA in Credit portfolio**

Banks	062/63	063/64	064/65	065/66	066/67	Mean	SD	C.V
<b>NSBL</b>	6.13	4.56	3.83	2.02	1.48	3.604	1.6950	0.4703
<b>NBBL</b>	27.12	39.76	31.73	19.8	6.47	24.976	11.29	0.4523

(Source: Annex-10)

**Figure No: 17 Proportion of NPA in Credit portfolio**



The financial report shows that NSBL has the ratio 6.13, 4.56, 3.83, 2.02 and 1.48 for the year 062/63, 063/64, 064/65, 065/66 and 066/67 respectively. In other hand, NBBL has 27.12, 39.76, 31.73, 19.8 and 6.47 for the last five year. However NBBL Has greater ratio than NSBL, both banks has decreasing trend from beginning to the last five year except the year 062/63 of NBBL. Higher the ratio higher will be the reason for low profit and vice versa. In the beginning, financial report of NB shows poor profit, it is due to the high ratio of NPA out of Total Credit. The mean ratio of NSBL and NB is 3.604 and 24.976 respectively. The CV of ratios of NSBL is comparatively higher than NBBL. It indicates NPA to credit ratios of the NSBL is less consistent.

#### 4.4.4 Loan loss Provision to NPA

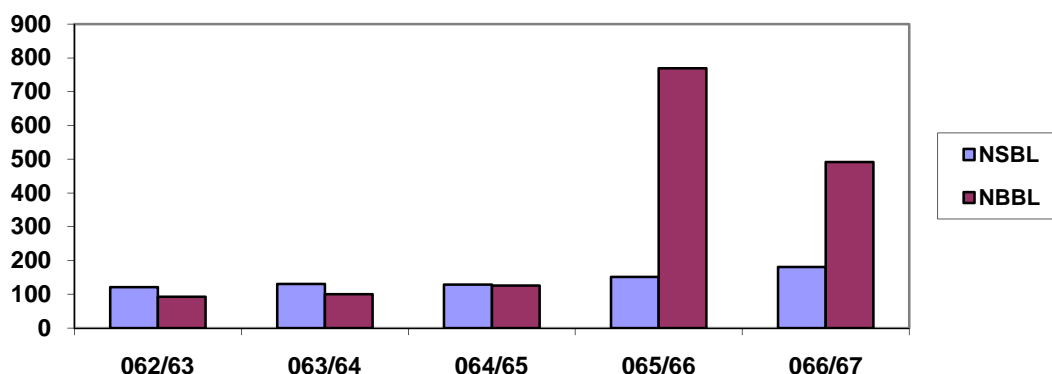
Loan loss provision includes five things, pass, restructured, sub-standard, loss and doubtful. In other hands NPA includes substandard, doubtful and loss. In order to protect banks from financial difficulty, they are required to create a buffer to absorb the financial impact of credit default. The provision varies according to the quality of lending. This ratio shows the proportion of cover available to the banks.

**Table No: 15 Loans loss provision to NPA (%)**

Banks	062/63	063/64	064/65	065/66	066/67	Mean	SD	C.V
<b>NSBL</b>	121	131	129	152	182	143	22.03	0.1540
<b>NBBL</b>	93	100	126	769	492	316	271.54	0.8593

(Source: Annex-11)

**Figure No: 18 Loans loss provision to NPA (%)**



The loan loss provision to NPA of NBBL is increasing trend till 065/66 then decreased to the ratio 492. In other hand NSBL have increasing trend except the year 064/65. Mean of NBBL is higher than NSBL. Higher the loan loss provision higher will be the ratio and higher the ratio higher will be the negative signaling effect to its financial report and to

its own organization as well. CV of NSBL is lower than NBBL which illustrates that the NSBL is more consistent.

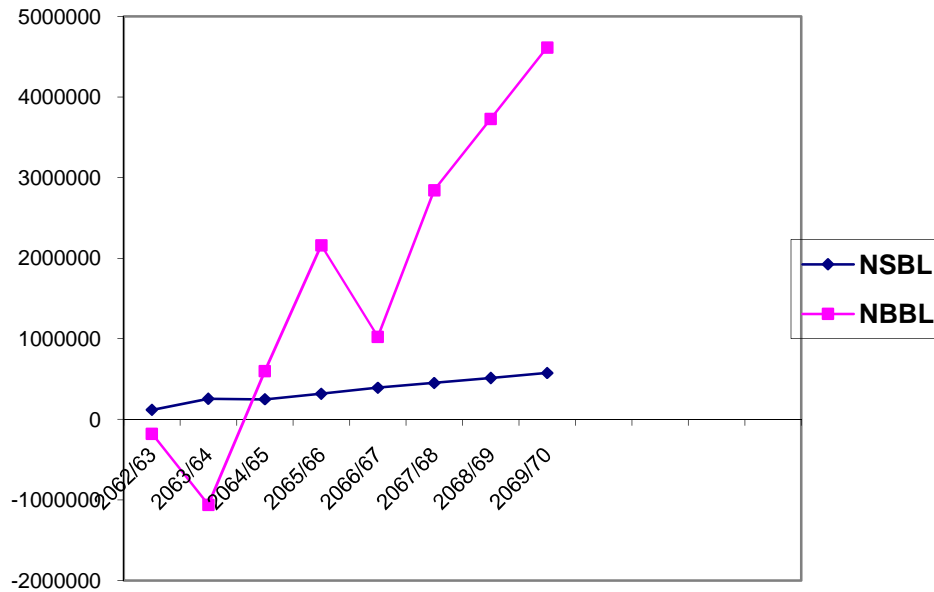
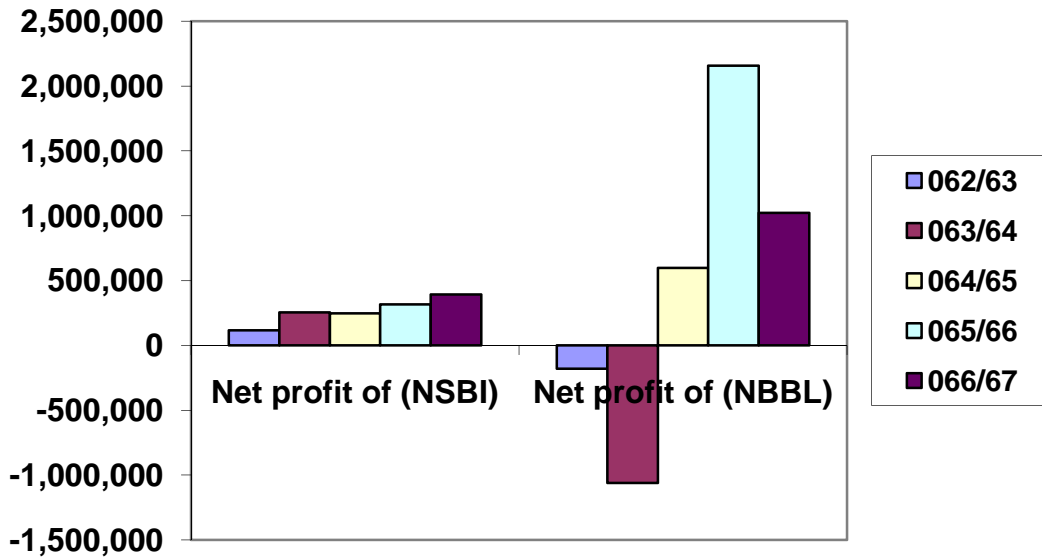
#### **4.5 Trend analysis of Net profit**

This statistical tool is very important in the planning process as it helps to estimate a considerably reliable future with the help of past performances. Here we look to estimate the profitability of the banks for the next 3 years. The analysis is based on the least squares method. According to the calculations, the profitability of the NSBL and NBBL will be as follows:

**Table No: 16 Net Profits of NSBL and NBBL (Rs in 10000)**

<b>Years</b>	<b>Net profit of NSBL</b>	<b>Net profit of NBBL</b>
2062/63	117,002	-179715
2063/64	254,909	-1061579
2064/65	247,771	596487
2065/66	316373	2158104
2066/67	391742	1021380

**Figure No: 19 Trend of Net Profit Analysis**



(Source: Annex-13, 14)

According to the trend analysis, the net profit of the NSBL has an increasing trend. It will grow in the coming 3 years. If other things remain the same, the total net profit of the NSBL will be Rs 45,07,32,000, 51,26,37,000 and 57,45,41,000 respectively for the coming

three years. In other hands the net profit of NBBL in the year 062/63 and 063/64 is in negative figure and the profit for the year 065/66 is too much higher than the overall period. If other things remaining the same, the total net profit of NBBL will be Rs 2840474000, 3726151000 and 4611827 respectively for the coming three years.

#### **4.6 Major Findings**

The major findings of the studies are summarized below:

1. Return on Equity signifies how management has employed the equity of shareholders in generating profit. The mean ratio of return on equity of NBBL is nearly 4.17 times of NSBL. It has failed to maintain the higher ratio as NSBL. The variability of return on overall equity of NBBL is very higher than that of NSBL. It shows the inconsistency in return on equity.
2. The mean ratio of return on total assets of NBBL is less than NSBL. It is due to negative profit in first two years. But in current three years NBBL improves to utilize its total assets and its ratio also higher than NSBL. According to mean ratio, it has failed to maintain the higher ratio as NSBL. The variability of return on overall assets of NSBL is comparatively higher than that of NBBL. It shows the inconsistency in return on Assets.
3. The ratio of net profit margin of NBBL is remarkably highly compared to NSBL (25.86 VS 19.75). It is due to unavailability of net profit in the beginning two years. According to its mean, NSBL is able to produce only 19.75 net profits. Negative profit margin is the reason of not able to control operating expenses and other leakage. The net profit margin of NSBL, at its highest, was 26.95 % in the year 063/64 which has fallen to a low of 14.63 in the 062/63. In simple terms it means that out of revenue of Rs 100, NSBL is only able to convert to a net profit of 26.95 in the fiscal year 063/64. In the other hand NBBL net profit margin has going to continue increasing trend with plus figure. The mean ratios of the both

banks show that NSBL has lower mean ratio of net profit margin 19.75 than that of NBBL 25.86.

4. The earning per share of Nepal NSBL rose to a 39.35 during the year 063/64. In fiscal year 062/63 has 18.27 and it is going to increase smoothly. In other hand, NBBL rose to a maximum of 116.01 in the year 065/66 and its falls the earning per share up to -249.60 in 062/63. The reason for the massive decline of NBBL Ltd is increase in the number of shares on the hand while the net profit has significantly declined rather than the NSBL. As the negative profit in the beginning two years the mean ratio of Nepal Bangladesh Bank is too much low than NSBL i.e. -29.16 and 29.18 respectively. It shows the effective unused of NBBL owner's equity than NSBL in the first two years. The ratio of NBBL is faster increasing trend but ratio of NSBL is fluctuating trend so that the future of NBBL is may be bright. The C.V of NSBL (0.267) is higher then that of Nepal Bangladesh Bank. (-4.91)
5. The earning spread is a main measurement of way of earning from operation in commercial banking. It is the difference between weighted average revenue from earning and weighted average cost for all cost. However the ratio in the year 065/66 and 066/67 of NBBL is more than 5% i.e. 8.01 and 5.56 respectively. NSBL and NBB both have maintained nearly the same level of earning spread in average, however, the both banks have been able to maintain a stable ratio. (5% > 3.01, 4.92)
6. Interest payout ratio of NSBL is comparatively higher than NBBL in an average. In fiscal year 066/67, interest payout ratio of NSBL is 63.47. It indicates that out of total interest income, only 63.61% have been paid as interest on deposit. In other hand, NBBL ratio is 46.37, which is lower than NSBL. It means NBBL had followed unattractive marketing policy for deposit collection to the potential customer.

7. Average cash and bank balance to total deposit of NSBL remained greater than that of NBBL, i.e. cash balance, balance in NRB and balance in other financial institution is Rs.81,56,79,624, Rs.1,84,28,02,239 and Rs. 78,27,79,614 respectively in the fiscal year 066/67. In other hand NBBL has Rs.42,20,08,026, Rs. 1,42,32,57,127 and Rs.21,30,33,642 respectively. It indicates the better liquidity position of NSBL.
8. The main important sector for the decline of Net profit of NSBL in the year 2062/63 is because of not proper investment. In that year its credit to deposit ratio is just 69.32%. NBBL has negative net income in the fiscal year 062/63 and 063/64. During that period the executive management Mr. Indira Prasad Rajbhandari was replaced by Amrit Nath Regmi. This frequent change might have hampered the performance of the organization. In that year NBBL was also under controlled by Nepal Rastra Bank act 2058 dafa 86(ga) (1) so the negative signaling effective in the market may cause of decreasing profit.
9. The NBBL had been unable to provide sufficient additional services like ATM, ABBS, credit card services, e-banking etc like provided by the competitors i.e. NSBL. NSBL has 43 branches, 6 extension counters with 50 ATM networks. In other hands NBBL has just 18 branches with 12 ATM networks.
10. From the above result it can be concluded that the profitability position of NBBL is comparatively worse than that of NSBL. And the market valuation of its share also about 4.28 times low than NSBL. The bank must maintain its high profit margin for the well being in future. However, from the above analysis, it can be concluded that higher portion of interest earning assets with consistency and lower portion of interest paying liabilities with inconsistency in case of NBBL shows that it has more chances of increasing interest income by decreasing costs attached with it.

## CHAPTER - FIVE

### 5. Summary, Conclusions and Recommendations

#### 5.1 Summary

The prosperity of every developing country can be ensured by its economic growth. The role of commercial banks in the economic growth can be fairly estimated to be very prominent. By mobilizing the scattered idle resources from the savers, commercial banks pool up the fund in a sizable volume in order to feed the fund requirement of productive sector of the economy. To remain as the major contributing factor to the growth of the nation's economy, they themselves have to have sustainable existence and growth of themselves for which profitability is a must.

Therefore the profit for commercial organization has been defined as the lifeblood for the organization. A commercial Bank also, being a commercial institution has to plan for the reasonable profit earnings. Thus this study is conducted to examine the profitability position of the Nepal SBI Bank LTD and Nepal Bangladesh Bank limited. The review of one specific institution can only say so much as compared to the conclusion that can be drawn from the comparisons with the competitors and the industry. Thus, the study makes use of comparison with other similar foreign joint venture banks and their average in order to gauge (measure) the performance of the bank.

The history of the foreign joint venture banks in Nepal is short. They only came in existence in the late 80's after the government reforms the Commercial Bank Act. Before the liberalization, the Nepalese economy was fully dependent on the Nepal Bank Ltd. and Rastriya Baniija Bank. The presence of these two banks, were not sufficient to sustain the economic development. The main logic in the HMG's policy of allowing foreign JVB to operate in Nepal was encourage traditionally run commercial banks to enhance their banking capacity through competition, efficiency and modernization.

The first Joint Venture Bank of the lot to operate in Nepal was the Nepal Arab Bank Ltd, in collaboration with Dubai Bank followed by Nepal Indosuez Bank Ltd, Nepal Grindlays bank Ltd, Himalayan Bank Ltd, Nepal SBI Bank Ltd, Nepal Bangladesh Bank Ltd, Everest Bank Ltd, Bank of Kathmandu Ltd and Nepal bank of Ceylon, out of these, the ownership of Nepal Arab bank Ltd , the Indosuez bank Ltd , Nepal Grind lays Bank Ltd, Bank of Katmandu and Nepal Bank of Ceylon has changed hands likewise, names of various banks have been changed. Nepal Arab bank Ltd is changed to NABIL Bank Ltd, Nepal Indosuez bank Ltd to Nepal investment Bank Ltd, Nepal Grindlays Bank Ltd to standard chartered bank Nepal Ltd and Nepal bank of Ceylon to Nepal credit and commerce Bank Ltd.

Nepal SBI Bank Ltd. is a public limited company incorporated with the Office of Company Registrar (OCR), Kathmandu Nepal on April 28, 1993 under regd. No. 17-049/50 and licensed by Nepal Rastra Bank on July 6, 1993 under license no. NRB/L.Pa./7/049/50 and classified as 'A' class licensed institution on April 26, 2006 under licensed no.NRB/l.Pra.Ka.7/062/063. The bank is currently providing its services from 43 branches with total staff 465. The authorized capital of the bank is RS 2000 million. It is divided into twenty million ordinary shares of RS 100 each. The bank has fully paid up 16536238.77 ordinary shares of RS 100 each and partly paid up shares are nil. Authorized capital is 2, 00, 00,000 shares @100 each and issued capital of 16616028.96 @ 100 each. (Annual Report 066/67)

Nepal Bangladesh Bank Ltd was established in June 1994 with an authorized capital of Rs. 240 million and paid capital of Rs. 60 million as a Joint venture bank with IFIC Bank Ltd of Bangladesh. The authorized capital of the bank is 3000 million. It is divided into 30 million ordinary shares of Rs. 100 each. The bank has fully paid up capital 18603150 ordinary shares of Rs. 100 each and issued capital is 20000000 @100 each. The bank is

currently providing its services from 18 branches, total staff with a force of 358 around. The bank has gained considerable popularity in the market with a less than a decade of operation.

The study is concentrated on the financial performance of two second generation joint venture banks, namely Nepal SBI Bank Ltd, and Nepal Bangladesh bank Ltd to provide valuable insights observation regarding how they are performing financially. The first chapter contained details about the growth of commercial banks in general and gave a brief profile of two joint venture banks considered under study. In 2<sup>nd</sup> chapter, relevant studies nature have been carefully made to have a grasp of what others have said made on the topic. In 3<sup>rd</sup> chapter suitable research methodology has been used covering use financial tools. The available data have been analyzed according the need to portray the overall financial performance of commercial banks. Certain issues and findings have been materialized from analysis of data fallowed by a package of suggestion and recommendation.

## **5.2 Conclusions**

The effectiveness of intermediation role-played by the banking sector ultimately contributes to the economic development of a country. No doubt, the monetary and regulatory measure adopted by central banks to regulate and supervise the banks and financial institutions determine the extent of banking sector development. The trend thus far has been towards a more open and liberal policies that help the banking sector to grow and flourish. Results visualized are increased competition, internationalization of banking business, economic cooperation and innovation in financial instruments. Banking is no longer a national phenomenon now. The banking business has crossed the national boundaries and this has created more risks and challenges to the regulatory

framework in the SAARC countries and this call the needs for harmonization for banking policies to manage the banking business in this globalize world.

From the studies conducted following points has been concluded.

- The profitability position of Nepal Bangladesh bank is comparatively not better than that of Nepal SBI Bank limited. The bank has followed moderate position in comparison to other banks. But the recent three years NBBL able to maximize its profit in positive figure.
- In the beginning years, NBBL has not maintained adequate capital in relation to the nature and condition of its assets, its deposit liabilities and other corporate liabilities. Therefore the degree of capital risk in NBBL is higher and its risk ratios are highly volatile. But the recent three years NBBL is trying to reduce such risks by utilizing its overall capital.
- Through the trend analysis, it is found that the deposit collection position, lending position, investment position and net profit position of NBBL is not better than Nepal SBI Bank Ltd. but it has better position in NPA.
- The interest spread is the difference between the buying and selling rates of the fund. The rate of interest spread is significant importance in the aspect of profitability. Nepal Bangladesh Bank average interest to total deposits ratio was found marginally higher than that of Nepal SBI Bank Ltd. It reveals both bank have managed its assets properly to earn interest.
- It can be concluded that interest expenses covered more portion in NSBL compared in NBBL. It may be result of their success to attract the depositors due to higher rate of interest.
- Organization itself does nothing but their success or failure is mainly based upon their employees. efficient and well motivated staff are the ornaments of any

organization Nepal Bangladesh bank staff expenses ratio is very high than that of NSBL . The main case is that high numbers of staff are working in NBBL. In this way staff expenses includes all the expenses made upon their employees such as salary and allowance, training, uniform and other contribution to provident fund , intensive fringe benefit etc. We can say that NBBL will motive its staff in coming days also by providing above mentioned facilities and benefits.

- The operating expenses of NSBL are more than NBBL in an average. It is due to the reason of more branches and extra given facilities to the customer.

### 5.3 Recommendations

On the basis of analysis, findings, issues and gaps following suggestion an be made

1. **Liquidity:** Both the banks should be established after proper diagnosis of the root causes of unsatisfactory liquidity. The liquidity position of NSBL is more satisfactory as the position of NBBL. In this regard, NBBL should be more serious than NSBL.
2. **Profit margin:** Both banks should attract more non –interest bearing amount deposit for increase profit margin. Higher the current account with adequate amount higher will be the opportunity of generating more profit. Moreover this should invest for earning of interest. The share of fixed deposit on its total deposits is very high i.e. Rs. 22148948329 for the year 066/67 of NSBL, which is 1.27 times more than previous year. In other hand NBBL has Rs.5357320658, which is 6.58 times more than previous year. In case NSBL, Assume the rate on fixed deposit is 10%, the result of payable amount as interest on it is Rs. 2214894832.9. It is too greatly expenses out of total payable interest. So it recommended for both banks to reduce either its fixed deposit amount or the rate of interest on it.
3. **Loan and advances:** The average credit to deposit ratio of NBBL is higher than NSBL i.e. 83.77>69.52. Out of deposit Rs. 10,05,21,82,377, Rs. 9,11,90,92,822 is taken as

total credit for the year 066/67, which is 78.26% of total deposit. So It is recommended that to NBBL is required to sustain its enhance is provision for possible losses due to excessive loan and advances is order to prevent form the threat of insolvency.

**4. Control expenses:** Both banks have to control in its expenses, which are unnecessary, and burden for the bank. In case of staff expenses, NBBL has 2.86 times more expenses than of NSBL. In other hand, operating expenses of both bank slightly similar in ratio i.e. 14.36 of NSBL and 12.93 of NBBL. Both banks must formulate the strategy to control such expenses using modern technology, computer networks, and experts and well trained personal which also increase the operating efficiency of the bank.

**5. Earning per share:** The earning per share and dividend per share attract the investors to invest their parts of account. So increasing the profit generating activities or decreasing the no. of share will increase earning per share. The bank is also not generating sufficient return for the equity. So higher cash dividend strategy should be adopted for the better growth of shareholders worth.

**6. Need to invest on small entrepreneurs development programs :**joint venture banks like NBBL and NSBL are at present concentrating its business with big clients like big groups in trade and industry, manufacturers, exporters of garments and carpets, service related to tourism industry, subsidiaries of multinational companies operating in Nepal. The minimum level of balance should be invested for the small entrepreneurs and others as a deprived sector loan, agricultural loan, self-employed package etc. So the bank should come forward to increase the no of clients, develop entrepreneurship, diversify its business with the large numbers of small investors and come forward to meet the national objective of privatization of more entrepreneurs.

**7. Training of the Employees:** it is suggested that the commercial banks of Nepal have to use well-trained personnel. Well-trained personnel will provide better services to the bank and peoples. They will increase the operating efficiency of the banks. Thus, the banks have to conduct Training School of their personnel if necessary the banks have to be ready to train its personnel on abroad.

**8. Introducing to foreign investors for National Development:** The Joint Ventures Banks are suggested to promote the foreign investors for making their investment for the development of country. The foreign investors and industrialists are unfamiliar with the local rules, regulations, customs and practices. So, the JVBs should try as far as possible to promote for foreign investment of foreigner investors and industrialists that creates more productive assets, more jobs, more opportunities, more economic transaction which leads to national development of country by solving a great unemployment problem of nation. If they can introduce foreign investors, they can create employment opportunity with various productions, foreign currency, fashion, education, ideas, technologies etc. which helps to improve our life style as well as our income level. Higher the incomes level and higher the production higher will be the chance of reduce the cost of production as well as inflation rate.

**9. Mobilizing the deposits funds in productive sector:** The joint venture banks basically not concentrating to mobilize their deposit funds in productive sector. So they are suggested to come forward to meet government obligations by financing in the priority sector developments programs such as poverty alleviation programs, women development programs, income generating programs, generating new services, agriculture related business i.e. poultry farming, fish ponds, domestic animal keeping, bee keeping, flower planting etc. Mobilized of this kinds funds helps to contribute in national level development scheme. It helps to increase the lifestyle, ability and confidence of related people.

**10. Should grant more priority to local staffs:** These days, these JVBs, have seconded staffs. They are here for the short period and are highly costly than local staffs. So there banks should come forward to develop the banking capacity in their local staffs. Banking capacity in their staffs can be developed by training and development programs and by allocating more authority and responsibility to them. These banks can achieve its goals in minimum cost by providing expert oriented training and granting more priority to the local staffs. This will ultimately increase its profits. It is well known from working staffs that Nepalese Degree Holders are highly neglected on higher posts by the management of Joint Venture Banks. In past, only the foreign degree holder, MBA or BBA only can involve in this kinds of JVBs. The concept of negligence about to Nepalese degree holders should be changed because they are comparatively not inferior to that of them. The management of all Joint Venture Banks should think seriously about matter emphasis should be given to Nepalese degree holders on the higher posts by allocating more authority and responsibility. But now a day's joint venture banks as well as Nepalese commercial banks are being involving Nepalese degree holder like BBS and MBS also.

**11. Banking technology:** it is found that the modern banking technologies followed by joint venture Banks in Nepal are mostly beneficial to the high level depositors. NBBL and NSBL are suggested here to make these technologies accessible to there all kinds of depositors as far possible. It should introduce mobile-banking system and credit cards to boost its transactions as well as to capture more market of financial service industry. Not only this, it should adopt efficient and latest market strategy to make its transaction more capable as well as fulfill growing demand of new financial service and facilities. In case of NSBL, it has been introducing so many technologies i.e. increasing number of ATM machine, sms banking, mobile banking, fake notes detector machine, limited insurance facility to its deposit holder, remittance facility etc.

**12. Market segmentation:** market segmentation is the process of dividing total heterogeneous market into sub markets or small markets. Both banks should have lunch such products by considering the physical condition, economic transaction, social adaptation, political condition as well as fashion, demand, age, profession etc. to cover the market. Market segmentation is that kinds of tools and techniques, from which we can attract too many customer from different sectors for to maximize target profit.

**Planning Research and Development:** research and development is that kinds of technology, which helps to prevent certain risks. So each organization should established such a department like R & D for to lunching new product, increasing facility, either maximizing profit or to minimizing cost. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

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## Annexure

### Annex-1

#### Mean, Standard Deviation and Coefficient of Variance from ROE

##### NSBL

Year	ROE	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	12.04	-5.242	27.478564		
63/64	22.1	4.818	23.213124		
64/65	17.64	0.358	0.128164		
65/66	18.58	1.298	1.684804		
66/67	16.05	-1.232	1.517824		
<b>TOTAL</b>	<b>86.41</b>		<b>54.02248</b>		
<b>MEAN</b>	<b>17.282</b>	<b>1/N=</b>	<b>10.804496</b>	<b>3.287</b>	<b>19.01978938</b>

##### NBBL

Year	ROE	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	110.96	39.85	1588.0225		
63/64	41.35	-29.76	885.6576		
64/65	-27.95	-99.06	9812.8836		
65/66	184.57	113.46	12873.1716		
66/67	46.62	-24.49	599.7601		
<b>TOTAL</b>	<b>355.55</b>		<b>25759.4954</b>		
<b>MEAN</b>	<b>71.11</b>	<b>1/N=</b>	<b>5151.89908</b>	<b>71.7767</b>	<b>100.9375615</b>

### Annex-2

#### Mean, Standard Deviation and Coefficient of Variance from ROTA

##### NSBL

Year	ROTA	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	0.9	-0.35	0.1225		
63/64	1.83	0.58	0.3364		
64/65	1.44	0.19	0.0361		
65/66	1.05	-0.2	0.04		
66/67	1.03	-0.22	0.0484		
<b>total</b>	<b>6.25</b>		<b>0.5834</b>		
<b>mean</b>	<b>1.25</b>	<b>1/n=</b>	<b>0.11668</b>	<b>0.3416</b>	<b>0.27328</b>

**NBBL**

Year	ROTA	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	-15.34	-15.852	251.285904		
63/64	-14.63	-15.142	229.280164		
64/65	6.35	5.838	34.082244		
65/66	18.03	17.518	306.880324		
66/67	8.15	7.638	58.339044		
<b>total</b>	<b>2.56</b>		<b>879.86768</b>		
<b>mean</b>	<b>0.512</b>	<b>1/n=</b>	<b>175.973536</b>	<b>13.265</b>	<b>25.90820313</b>

**Annex-3**

**Mean, Standard Deviation and Coefficient of Variance from EPS**

**NSBL**

Year	EPS	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	18.27	-10.894	118.679236		
63/64	39.35	10.186	103.754596		
64/65	28.33	-0.834	0.695556		
65/66	36.18	7.016	49.224256		
66/67	23.69	-5.474	29.964676		
<b>Total</b>	<b>145.82</b>		<b>302.31832</b>		
<b>mean</b>	<b>29.164</b>	<b>1/n=</b>	<b>60.463664</b>	<b>7.7758</b>	<b>0.266623234</b>

**NBBL**

Year	EPS	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	-249.6	-220.414	48582.3314		
63/64	-147.4	-118.214	13974.5498		
64/65	80.16	109.346	11956.54772		
65/66	116.01	145.196	21081.87842		
66/67	54.9	84.086	7070.455396		
<b>Total</b>	<b>-145.93</b>		<b>102665.7627</b>		
<b>mean</b>	<b>-29.186</b>	<b>1/n=</b>	<b>20533.15254</b>	<b>143.29</b>	<b>-4.90954567</b>

### Annex-4

#### Mean, Standard Deviation and Coefficient of Variance from Net Profit Margin

NSBL					
Year	N.P margin	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	14.63	-5.12	26.2144		
63/64	26.95	7.2	51.84		
64/65	22.67	2.92	8.5264		
65/66	19.14	-0.61	0.3721		
66/67	15.36	-4.39	19.2721		
<b>Total</b>	<b>98.75</b>		<b>106.225</b>		
<b>mean</b>	<b>19.75</b>	<b>1/n=</b>	<b>21.245</b>	<b>4.6092</b>	<b>0.233377215</b>

NBBL					
Year	N.P margin	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	0	-25.864	668.946496		
63/64	0	-25.864	668.946496		
64/65	23.15	-2.714	7.365796		
65/66	60.3	34.436	1185.838096		
66/67	45.87	20.006	400.240036		
<b>Total</b>	<b>129.32</b>		<b>2931.33692</b>		
<b>mean</b>	<b>25.864</b>	<b>1/n=</b>	<b>586.267384</b>	<b>24.212</b>	<b>0.936127436</b>

### Annex-5

#### Mean, Standard Deviation and Coefficient of Variance from Loan Loss Provision to Total Income

NSBL					
Year	llp to total income	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	17.1	10.53	110.8809		
63/64	5.8	-0.77	0.5929		
64/65	5.18	-1.39	1.9321		
65/66	2.44	-4.13	17.0569		
66/67	2.33	-4.24	17.9776		
<b>Total</b>	<b>32.85</b>		<b>148.4404</b>		
<b>mean</b>	<b>6.57</b>	<b>1/n=</b>	<b>29.68808</b>	<b>5.45</b>	<b>0.829528158</b>

**NBBL**

Year	llp to total income	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	185.14	117.352	13771.4919		
63/64	122.57	54.782	3001.067524		
64/65	31.23	-36.558	1336.487364		
65/66	0	-67.788	4595.212944		
66/67	0	-67.788	4595.212944		
<b>Total</b>	<b>338.94</b>		<b>27299.47268</b>		
<b>mean</b>	<b>67.788</b>	<b>1/n=</b>	<b>5459.894536</b>	<b>73.89</b>	<b>1.090015932</b>

**Annex-6**

**Mean, Standard Deviation and Coefficient of Variance from Operating Expenses to Total Income**

**NSBL**

Year	op. exp. to total income	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	12.41	-0.69	0.4761		
63/64	12.03	-1.07	1.1449		
64/65	13.94	0.84	0.7056		
65/66	13.54	0.44	0.1936		
66/67	13.58	0.48	0.2304		
<b>Total</b>	<b>65.5</b>		<b>2.7506</b>		
<b>mean</b>	<b>13.1</b>	<b>1/n=</b>	<b>0.55012</b>	<b>0.7417</b>	<b>0.056618321</b>

**NBBL**

Year	op. exp. to total income	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	12.55	2.866	8.213956		
63/64	9.32	-0.364	0.132496		
64/65	10.03	0.346	0.119716		
65/66	7.4	-2.284	5.216656		
66/67	9.12	-0.564	0.318096		
<b>Total</b>	<b>48.42</b>		<b>14.00092</b>		
<b>mean</b>	<b>9.684</b>	<b>1/n=</b>	<b>2.800184</b>	<b>1.6738</b>	<b>0.172841801</b>

### Annex-7

#### Mean, Standard Deviation and Coefficient of Variance from Staff Expenses per Employee

##### NSBL

Year	staff exp. Per employee	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=σ/mean
62/63	290.46	-15.706	246.678436		
63/64	281.65	-24.516	601.034256		
64/65	300.76	-5.406	29.224836		
65/66	377.67	71.504	5112.822016		
66/67	280.29	-25.876	669.567376		
<b>Total</b>	<b>1530.83</b>		<b>6659.32692</b>		
<b>mean</b>	<b>306.166</b>	<b>1/n=</b>	<b>1331.865384</b>	<b>36.49</b>	<b>0.119183711</b>

##### NBBL

Year	staff exp. Per employee	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=σ/mean
62/63	385.38	24.21	586.1241		
63/64	284.21	-76.96	5922.8416		
64/65	349.47	-11.7	136.89		
65/66	377.18	16.01	256.3201		
66/67	409.61	48.44	2346.4336		
<b>Total</b>	<b>1805.85</b>		<b>9248.6094</b>		
<b>mean</b>	<b>361.17</b>	<b>1/n=</b>	<b>1849.72188</b>	<b>43.0084</b>	<b>0.119080765</b>

## Annex-8

### Mean, Standard Deviation and Coefficient of Variance from Credit to Deposit Ratio

NSBL					
Year	credit to deposit ratio	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=σ/mean
62/63	69.32	-0.204	0.041616		
63/64	82.66	13.136	172.554496		
64/65	88.32	18.796	353.289616		
65/66	55.84	-13.684	187.251856		
66/67	51.48	-18.044	325.585936		
<b>Total</b>	<b>347.62</b>		<b>1038.72352</b>		
<b>mean</b>	<b>69.524</b>	<b>1/n=</b>	<b>207.744704</b>	<b>14.41</b>	<b>0.207266555</b>

NBBL					
Year	credit to deposit ratio	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=σ/mean
62/63	75.27	-8.506	72.352036		
63/64	87.01	3.234	10.458756		
64/65	87.01	3.234	10.458756		
65/66	91.33	7.554	57.062916		
66/67	78.26	-5.516	30.426256		
<b>Total</b>	<b>418.88</b>		<b>180.75872</b>		
<b>mean</b>	<b>83.776</b>	<b>1/n=</b>	<b>36.151744</b>	<b>6.0126</b>	<b>0.071769958</b>

## Annex-9

### Mean, Standard Deviation and Coefficient of Variance from Interest Spread

NSBL					
Year	interest spread	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=σ/mean
62/63	3.33	0.32	0.1024		
63/64	3.01	0	0		
64/65	3.11	0.1	0.01		
65/66	2.84	-0.17	0.0289		
66/67	2.76	-0.25	0.0625		
<b>Total</b>	<b>15.05</b>		<b>0.2038</b>		
<b>mean</b>	<b>3.01</b>	<b>1/n=</b>	<b>0.04076</b>	<b>0.2019</b>	<b>0.067076412</b>

**NBBL**

Year	interest spread	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	2.1	-2.82	7.9524		
63/64	4.9	-0.02	0.0004		
64/65	3.95	-0.97	0.9409		
65/66	8.09	3.17	10.0489		
66/67	5.56	0.64	0.4096		
<b>Total</b>	<b>24.6</b>		<b>19.3522</b>		
<b>mean</b>	<b>4.92</b>	<b>1/n=</b>	<b>3.87044</b>	<b>1.9673</b>	<b>0.399857724</b>

**Annex-10**

**Mean, Standard Deviation and Coefficient of Variance from NPA to Credit**

**NSBL**

Year	NPA to Credit	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	6.13	2.526	6.380676		
63/64	4.56	0.956	0.913936		
64/65	3.83	0.226	0.051076		
65/66	2.02	-1.584	2.509056		
66/67	1.48	-2.124	4.511376		
<b>Total</b>	<b>18.02</b>		<b>14.36612</b>		
<b>mean</b>	<b>3.604</b>	<b>1/n=</b>	<b>2.873224</b>	<b>1.695</b>	<b>0.470310766</b>

**NBBL**

Year	NPA to Credit	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	27.12	2.144	4.596736		
63/64	39.76	14.784	218.566656		
64/65	31.73	6.754	45.616516		
65/66	19.8	-5.176	26.790976		
66/67	6.47	-18.506	342.472036		
<b>Total</b>	<b>124.88</b>		<b>638.04292</b>		
<b>mean</b>	<b>24.976</b>	<b>1/n=</b>	<b>127.608584</b>	<b>11.2964</b>	<b>0.452290199</b>

## Annex-11

### Mean, Standard Deviation and Coefficient of Variance from Loan Loss Provision to NPA

#### NSBL

Year	loan loss provision to NPA	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	121	-22	484		
63/64	131	-12	144		
64/65	129	-14	196		
65/66	152	9	81		
66/67	182	39	1521		
<b>Total</b>	<b>715</b>		<b>2426</b>		
<b>mean</b>	<b>143</b>	<b>1/n=</b>	<b>485.2</b>	<b>22.03</b>	<b>0.154055944</b>

#### NBBL

Year	loan loss provision to NPA	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=6/mean
62/63	93	-223	49729		
63/64	100	-216	46656		
64/65	126	-190	36100		
65/66	769	453	205209		
66/67	492	176	30976		
<b>Total</b>	<b>1580</b>		<b>368670</b>		
<b>mean</b>	<b>316</b>	<b>1/n=</b>	<b>73734</b>	<b>271.54</b>	<b>0.859303797</b>

## Annex-12

### Mean, Standard Deviation and Coefficient of Variance from Interest Payout Ratio

#### NSBL

Year	Interest payout ratio	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=σ/mean
62/63	47.24	-5.518	30.448324		
63/64	49.6	-3.158	9.972964		
64/65	46.87	-5.888	34.668544		
65/66	56.47	3.712	13.778944		
66/67	63.61	10.852	117.765904		
<b>Total</b>	<b>263.79</b>		<b>206.63468</b>		
<b>mean</b>	<b>52.758</b>	<b>1/n=</b>	<b>41.326936</b>	<b>6.4286</b>	<b>0.121850715</b>

#### NBBL

Year	Interest payout ratio	X-x	(X-x) <sup>2</sup>	S.D= $\sqrt{\frac{1}{N} \sum x^2}$	CV=σ/mean
62/63	68.34	21.964	482.417296		
63/64	44.01	-2.366	5.597956		
64/65	48.05	1.674	2.802276		
65/66	30.65	-15.726	247.307076		
66/67	40.83	-5.546	30.758116		
<b>Total</b>	<b>231.88</b>		<b>768.88272</b>		
<b>mean</b>	<b>46.376</b>	<b>1/n=</b>	<b>153.776544</b>	<b>12.4007</b>	<b>0.267394773</b>

## Annex-13

### Trend Analysis of NSBL from Net Profit

Trend Analysis		Profit in Rs.(000)		
Year(X)	Profit(Y)	XY	X <sup>2</sup>	
1	117002	117002	1	
2	254909	509818	4	
3	247771	743313	9	
4	316373	1265492	16	
5	391742	1958710	25	
<b>ΣX=15</b>	<b>ΣY=1327797</b>	<b>ΣXY=4594335</b>	<b>ΣX<sup>2</sup>=55</b>	<b>n=5</b>

least square equations are,

$$Y=a+bX \quad \dots\dots(i)$$

$$\Sigma Y=na+b\Sigma X \quad \dots\dots(ii)$$

$$\Sigma XY=a\Sigma X+b\Sigma X^2 \dots\dots(iii)$$

we substitute the values in equations ii and iii, we get:

$$1327797=5a+15b \quad \dots\dots(iv)\times 3$$

$$4594335=15a+55b \quad \dots\dots(v)$$

To solve above equations we multiply equation iv by 3 and subtracting these equation,

we get:

$$4594335=15a+55b \quad \dots\dots(v)$$

$$3983391=15a+45b \quad \dots\dots(vi)$$

$$610944=10b$$

$$b=61904.4$$

$$\text{and, } a=79306.2$$

now putting these values in equation i, we have

$$Y=79306.2+61904.4X$$

thus, the required regression equation be:

$$Y=79306.2+61904.4X$$

let the year 067/68,068/69 and 69/70 be 6,7 and 8 respectively

For the year 067/68, 068/69 and 069/70

$$067/68 \quad Y=79306.2+61904.4\times 6$$

$$068/69 \quad Y=79306.2+61904.4\times 7$$

$$069/70 \quad Y=79306.2+61904.4\times 8$$

year	a	bX	Expected net Profit
067/68	79306.2	371426.4	450732.6
068/69	79306.2	433330.8	512637.0
069/70	79306.2	495235.2	574541.4

## Annex-14

### Trend Analysis of NBBL from Net Profit

Trend Analysis		Profit in Rs.(000)		
Year(X)	Profit(Y)	XY	X <sup>2</sup>	
1	-1797159	-1797159	1	
2	-1061579	-2123158	4	
3	596487	1789461	9	
4	2158104	8632416	16	
5	1021380	5106900	25	
<b>ΣX=15</b>	<b>ΣY=917233</b>	<b>ΣXY=11608460</b>	<b>ΣX<sup>2</sup>=55</b>	<b>n=5</b>

least square equations are,

$$Y=a+bX \quad \dots\dots(i)$$

$$\Sigma Y=na+b\Sigma X \quad \dots\dots(ii)$$

$$\Sigma XY=a\Sigma X+b\Sigma X^2 \dots\dots(iii)$$

we substitute the values in equations ii and iii, we get:

$$917233=5a+15b \quad \dots\dots(iv)\times 3$$

$$11608460=15a+55b \quad \dots\dots(v)$$

To solve above equations we multiply equation iv by 3 and subtracting these equation,

we get:

$$11608460=15a+55b \quad \dots\dots(v)$$

$$2751699=15a+45b \quad \dots\dots(vi)$$

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$$8856761=10b$$

$$b=885676.1$$

$$\text{and, } a=-2473581.7$$

now putting these values in equation i, we have

$$Y=-2473581.7+885676.1X$$

thus, the required regression equation be:

$$Y=-2473581.7+885676.1X$$

let the year 067/68,068/69 and 69/70 be 6,7 and 8 respectively

For the year 067/68, 068/69 and 069/70

$$067/68 \quad Y=-2473581.7+885676.1\times 6$$

$$068/69 \quad Y=-2473581.7+885676.1\times 7$$

$$069/70 \quad Y=-2473581.7+885676.1\times 8$$

Year	a	bX	Expected net Profit
067/68	-2473581.7	5314056.6	2840474.9
068/69	-2473581.7	6199732.7	3726151
069/70	-2473581.7	7085408.8	4611827.1

## **Annex-15**

### **Profile of Nepal NSBL Bank Ltd.**

Nepal NSBL Bank Limited is the first Indo-Nepal Joint Venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employee Provident Fund and Agricultural Development Bank through a memorandum of understanding signed on 17<sup>th</sup> July 1992. NSBL was established on 7<sup>th</sup> July 1993 with an Authorized Capital of Rs. 12 Crore and commenced operation with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 174. The Authorized and Issued Capital have been increased to Rs. 100 Crore and Rs. 65 Crore, respectively, while the Paid-up Capital stands at Rs. 64.02 Crore.

The bank received registration from the registrar of company of Ministry of commerce and Industry, HMG on the 25<sup>th</sup> April 1993 and commenced its first board meeting on the 25<sup>th</sup> May 1993 to cover the way for operationalizing the bank with in the quickest possible time. The bank received certificate of commencement of business on the 30<sup>th</sup> June 1993. With the restoration of democracy in the country, the liberalization process has gained even more impetus, and as a result, more and more foreign investment found their way as joint ventures in the economy of the country. The authorized capital of the bank is Rs 240 million. It is divided into two million four hundred thousand ordinary shares of Rs 100 each and Fully paid up 840,000 ordinary shares of Rs 100 each. Authorized capital 24, 00,000 shares @100 each and issued capital 12, 00,000 @ 100 each.

## Annex-16

### Deposit of NSBL Bank for the period of five-year. (062/63 to 066/67)

Particular	062/63	063/64	064/65	065/066	066/67
<b>A) Non Interest Bearing Accounts</b>					
<b>Current Deposits</b>	<b>1,40,82,97,158</b>	<b>1,93,04,32,984</b>	<b>1,73,81,01,358</b>	<b>2,86,47,33,204</b>	<b>2,86,18,77,958</b>
1.Local Currency	1,35,97,97,924	1,88,43,02,643	1,69,48,01,132	2,67,18,55,699	2,52,04,09,399
2.Foreign Currency	4,84,99,234	4,61,30,341	4,33,00,226	19,28,77,505	34,14,68,559
<b>Margin Deposits</b>	<b>7,97,90,114</b>	<b>9,79,82,890</b>	<b>12,24,38,261</b>	<b>18,65,24,335</b>	<b>12,30,87,392</b>
<b>Others</b>	-	-	-	-	-
1.Local Currency	-	-	-	-	-
2.Foreign Currency	-	-	-	-	-
<b>Total Of Non Interest Bearing Account (I)</b>	<b>1,48,80,87,272</b>	<b>2,02,84,15,874</b>	<b>1,86,05,39,619</b>	<b>3,05,12,57,539</b>	<b>2,98,49,65,350</b>
<b>B) Interest Bearing Accounts</b>					
<b>Saving Deposits</b>	<b>2,83,26,39,222</b>	<b>3,27,46,90,124</b>	<b>4,17,11,75,548</b>	<b>5,82,22,93,866</b>	<b>7,34,89,69,807</b>
1.Local Currency	2,76,48,26,238	3,17,56,20,248	4,10,37,14,143	5,75,15,89,090	7,25,99,69,075
2.Foreign Currency	6,78,12,984	9,90,69,876	6,74,61,405	7,07,04,776	8,90,00,732
<b>Fixed Deposits</b>	<b>6,11,61,72,567</b>	<b>5,51,74,66,903</b>	<b>6,85,48,84,456</b>	<b>17,43,84,04,928</b>	<b>22,14,89,48,329</b>
1.Local Currency	5,97,03,92,849	5,35,49,48,768	6,83,48,16,456	7,47,29,86,587	10,40,84,84,131
2.Foreign Currency	14,57,79,718	16,25,18,134	2,00,68,000	9,96,54,18,341	11,74,04,64,198
<b>Call Deposits</b>	<b>56,51,41,572</b>	<b>62,47,13,129</b>	<b>82,87,95,337</b>	<b>1,64,52,64,461</b>	<b>2,41,35,40,715</b>
1.Local Currency	56,48,34,519	62,06,00,337	82,64,35,946	1,60,47,98,442	2,38,63,66,289
2.Foreign Currency	3,07,053	41,12,792	23,59,391	4,04,66,019	2,71,74,426
<b>Certificate of Deposits</b>		-	-	-	-
<b>Total Of Interest Bearing Accounts (II)</b>	<b>9,51,39,53,361</b>	<b>9,416,870,156</b>	<b>11,85,48,55,341</b>	<b>24,90,59,63,255</b>	<b>31,91,14,58,851</b>
<b>Total Deposit (I+II)</b>	<b>11,00,20,40,633</b>	<b>11,445,286,030</b>	<b>13715394960</b>	<b>27,95,72,20,794</b>	<b>34,89,64,24,201</b>

## Annex-17

### Investment of NSBL Bank for the period of five year. (062/ 63 to 066/67)

<b>Particular</b>	<b>062/63</b>	<b>063/64</b>	<b>064/65</b>	<b>065/66</b>	<b>066/67</b>
<b>1.HMG Securities</b>	<b>3,59,17,73,064</b>	<b>2,34,55,79,516</b>	<b>3,03,55,53,586</b>	<b>3,30,65,73,660</b>	<b>4,31,33,17,315</b>
a. Treasury Bills	3,47,35,98,064	2,22,74,04,516	2,76,28,28,586	2,93,38,48,660	3,72,05,92,315
b. Developments Bonds	-	-	-	-	-
c. National Saving Bonds	-	-	-	-	-
d. Other securities	11,81,75,000	11,81,75,000	27,27,25,000	37,27,25,000	59,27,25,000
<b>2. Foreign Govt. Securities</b>	-	-	-	-	-
<b>3. Nepal Rastra Bank Bond</b>	-	-	-	-	-
<b>4.Shares Debentures and Bonds</b>	<b>1,95,39,000</b>	<b>3,19,39,000</b>	<b>3,28,21,500</b>	<b>3,29,46,500</b>	<b>3,70,21,500</b>
<b>5.Other Investments</b>	<b>14,82,00,000</b>	<b>28,19,34,403</b>	<b>2,05,11,832</b>	<b>9,94,66,61,500</b>	<b>11,95,52,94,000</b>
a. Certificate of Deposits	-	-	-	-	-
b. Mutual Fund	-	-	-	-	-
c. Local Banks	-	-	-	-	5,05,00,000
d. Foreign Banks	14,82,00,000	28,19,34,403	2,05,11,832	9,94,66,61,500	11,90,47,94,000
e. Others	-	-	-	-	-
<b>Total Investment</b>	<b>3,75,95,12,064</b>	<b>2,65,94,52,919</b>	<b>3,08,88,86,918</b>	<b>13,28,61,81,660</b>	<b>16,30,56,32,815</b>
<b>Provision</b>	<b>5,36,580</b>	-	-	-	-
<b>Net Investment</b>	<b>3,75,89,75,484</b>	<b>2,65,94,52,919</b>	<b>3,08,88,86,918</b>	<b>13,28,61,81,660</b>	<b>16,30,56,32,815</b>

## **Annex-18**

### **Profile of Nepal Bangladesh Bank LTD**

Nepal Bangladesh Bank Ltd. was established in June 1994 with an authorized capital of Rs. 240 million and Paid up capital of Rs. 60 million as a Joint Venture Bank with IFIC Bank Ltd. of Bangladesh. Its Head Office is situated at New Baneshwore, Bijuli Bazar, and Kathmandu. The prime objective of this Bank is to render banking services to the different sectors like industries, traders, businessmen, priority sector, small entrepreneurs and weaker section of the society and every other people who need Banking Services. During the period of 10 years of its operation, it has accommodated a large number of clients and has been able to provide excellent services to its clients. With a network of 17 branches and a corporate office, the Bank commands the largest network amongst the joint venture commercial banks in Nepal. The bank has introduced its first ATM facility at Kathmandu Plaza, Putali Sadak Branch to give 24 hours 365 days banking services to their valued costumers. Bank has developed Agency and Correspondent relationship with more than 200 prominent Foreign Banks in the world. With the continuous support of our valued customers the Bank has made all round progress in every sphere of its operation. The Bank Has mobilized deposit to the extent of Rs. 13015.14 million and advances loan to the extent of Rs. 9796.38 million as on Ashad end 2063 (16 July, 2006). The shareholders of the Bank are as follows:

1. IFIC Bank , Bangladesh , 50% share holder
2. Nepalese promoters, 20% share holder
3. Public share issue, 30% shareholder.

## Annex-19

### Deposit of Nepal Bangladesh Bank for period of five year. (062/ 63 to 066/67)

Particular	062/63	063/64	064/65	065/066	066/67
<b>A) Non Interest Bearing Accounts</b>					
<b>Current Deposits</b>	<b>88,42,42,243</b>	<b>1,13,85,79,542</b>	<b>1,05,85,65,063</b>	<b>1,08,29,19,320</b>	<b>1,24,75,76,919</b>
1.Local Currency	83,60,30,979	1,05,82,51,447	92,95,08,631	98,07,02,806	1,06,87,04,463
2.Foreign Currency	4,82,11,264	8,03,28,095	12,90,56,432	10,22,16,514	17,88,72,456
<b>Margin Deposits</b>	<b>26,78,14,840</b>	<b>29,13,61,298</b>	<b>25,57,45,810</b>	<b>19,13,17,843</b>	<b>23,10,49,592</b>
<b>Others</b>		-	-	<b>40,99,02,503</b>	<b>11,34,486</b>
1.Local Currency	-	-	-	40,99,02,503	11,34,486
2.Foreign Currency	-	-	-		
<b>Total Of Non Interest Bearing Account (I)</b>	<b>1,15,20,57,083</b>	<b>1,42,99,40,840</b>	<b>1,31,43,10,873</b>	<b>1,68,41,39,666</b>	<b>1,47,97,60,997</b>
<b>B) Interest Bearing Accounts</b>					
<b>Saving Deposits</b>	<b>2,94,37,84,900</b>	<b>4,24,53,40,885</b>	<b>5,47,49,95,014</b>	<b>6,69,22,50,206</b>	<b>59,67,40,4,904</b>
1.Local Currency	2,92,06,44,824	4,21,26,14,743	5,45,41,36,032	6,64,63,61,787	5,93,83,59,308
2.Foreign Currency	2,31,40,076	3,27,26,142	2,08,58,982	4,58,88,419	2,90,45,596
<b>Fixed Deposits</b>	<b>5,03,15,82,970</b>	<b>48,75,73,686</b>	<b>3,53,66,32,360</b>	<b>81,32,21,061</b>	<b>1,35,73,20,658</b>
1.Local Currency	4,99,03,05,470	4,83,32,97,186	3,44,47,87,547	807613990	1,35,65,73,158
2.Foreign Currency	4,12,77,500	4,24,36,500	9,18,44,813	56,07,071	7,47,500
<b>Call Deposits</b>	<b>1,45,27,17,741</b>	<b>2,24,78,14,712</b>	<b>1,79,14,79,370</b>	<b>80,80,86,497</b>	<b>1,24,76,95,818</b>
1.Local Currency	1,44,65,37,983	2,21,53,14,283	1,71,45,35,360	78,12,15,703	1,19,58,29,136
2.Foreign Currency	61,79,758	3,25,00,429	67,69,94,003	2,68,70,794	5,18,66,682
<b>Certificate of Deposits</b>	<b>10,93,839</b>	<b>85,46,202</b>	<b>81,60,642</b>	-	-
<b>Total Of Interest Bearing Accounts (II)</b>	<b>9,42,91,79,450</b>	<b>6,98,92,75,485</b>	<b>10,81,12,67,386</b>	<b>8,31,35,57,764</b>	<b>8,57,24,21,380</b>
<b>Total Deposit (I+II)</b>	<b>10,58,12,36,533</b>	<b>8,41,92,16,325</b>	<b>12,12,55,78,259</b>	<b>9,99,76,97,430</b>	<b>10,05,21,82,377</b>

## Annex-20

### Investment of Nepal Bangladesh Bank for the period of five year. (062/ 63 to 066/67)

Particular	062/63	063/64	064/65	065/66	066/67
<b>1.HMG Securities</b>	<b>2,04,04,49,095</b>	<b>2,57,88,57,702</b>	<b>2,21,25,35,720</b>	<b>1,71,58,29,213</b>	<b>1,87,92,18,895</b>
a. Treasury Bills	1,82,58,90,095	2,31,88,23,702	1,91,19,44,200	1,31,71,74,440	1,52,18,31,260
b. Developments Bonds	21,45,59,000	26,00,34,000	30,05,91,520		
c. National Saving Bonds	-	-	-	39,86,54,773	35,73,87,635
d. Other securities	-	-	-		
<b>2. Foreign Govt. Securities</b>	-	-	-	-	-
<b>3. Nepal Rastra Bank Bond</b>	-	-	-	-	-
<b>4.Shares Debentures and Bonds</b>	<b>3,84,14,000</b>	<b>3,84,14,000</b>	<b>6,27,67,000</b>	<b>5,11,18,500</b>	<b>5,47,32,500</b>
<b>5.Other Investments</b>	<b>9,00,60,000</b>	<b>8,18,95,000</b>	<b>13,79,17,350</b>	<b>47,79,50,000</b>	<b>20,48,50,000</b>
a. Certificate of Deposits	-	-	-	-	-
b. Mutual Fund	-	-	-	-	-
c. Local Banks	-	-	-	40,00,00,000	13,00,00,000
d. Foreign Banks	9,00,60,000	8,18,95,000	13,79,17,350	7,79,50,000	7,48,50,000
e. Others	-	-	-	-	-
<b>Total Investment</b>	<b>2,16,89,23,095</b>	<b>2,69,91,66,702</b>	<b>2,41,32,20,070</b>	<b>2,24,48,97,713</b>	<b>2,13,88,01,395</b>
<b>Provision</b>	-	-	<b>15,00,000</b>	<b>2,24,66,000</b>	<b>2,60,50,000</b>
<b>Net Investment</b>	<b>2,16,89,23,095</b>	<b>2,69,91,66,702</b>	<b>2,41,17,20,070</b>	<b>2,22,24,31,713</b>	<b>2,11,27,51,395</b>

## Annex-21

### Components of income of NSBL for the year 2066/67

<b>Components of Income</b>	<b>Amount</b>	<b>Ratio to Total Income</b>
Interest income	2269704291	88.98981739
Commission and disc.	131692149	5.163342352
Other income	78796662	3.08943354
Exchange gain	70328247	2.757406717
<b>Total</b>	<b>2550521349</b>	<b>100</b>

## Annex-22

### Components of income of NBBL for the year 2066/67

<b>Components of Income</b>	<b>Amount</b>	<b>Ratio to Total Income</b>
Interest income	1167627965	82.5902207
Commission and disc.	145796590	10.31267913
Other income	50496339	3.571774493
Exchange gain	49839664	3.52532568
<b>Total</b>	<b>1413760558</b>	<b>100</b>

### Annex-23

#### Components of Expenditure of NSBL for the year 2066/67

Components of Expenditure	Amount	Ratio to Total Expenditure
interest exp.	1443693573	75.27547556
staff exp.	130336536	6.795863689
operating exp.	275424262	14.36086763
other exp.	68426004	3.567793116
<b>Total</b>	<b>1917880375</b>	<b>100</b>

### Annex-24

#### Components of Expenditure of NSBL for the year 2066/67

Components of Expenditure	Amount	Ratio to Total Expenditure
interest exp.	476787872	63.38620808
staff exp.	146641430	19.49513555
operating exp.	97259905	12.93014554
other exp.	31505768	4.188510831
<b>Total</b>	<b>752194975</b>	<b>100</b>