

CHAPTER I

INTRODUCTION

1.1 Background of the Study:

In any economy, the importance of financial sector in general and banking sector in particular cannot be undetermined. Banking sector definitely plays a pivotal role in the overall developmental of any economy. Commercial banks are one of the vital aspects of this sector which channelizes the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. All the economic activities are directly or indirectly channeled through these banks. People keep their surplus money as deposit in the banks and banks can provide such funds to finance the industrial activities in the form of loans and advances.

Commercial banks come into existence mainly with the objective of collecting the ideal funds, mobilizing them into the productive sector and causing overall economic development. The bankers play the role of safeguarding the interest of the deposits and at the same time take care of the shareholders and the society they are serving. A sound banking system is important because of the key role played in the economy, intermediation, maturity transform, facilitating payments flows, and credit allocation and maintaining financial discipline among borrowers. Bank does the work of saving, gathering, resource allocation, liquidity supply and payment of services.

It is said that banking sector is a mirror of large economy. Its link with all the sectors makes it a proxy for what is happening in the economy as whole.

Indeed, the Nepalese banking sector today has both, opportunities and threats. Nepal's economic progress is being declined, unstable political condition and agriculture production is not sufficient, the number of financial intuition is being increased day by day.

The economic reform was initiated more than a decade ago when the government had changed the landscape of several sectors of the Nepalese economy. This sector is going through major changes as a consequence of economic reforms. The changes affect the ownership patter of banks, regulatory aspects availability of funds, the cost of funds as well as opportunities to earn, range of services (fee based and fund base) and management of priority sector lending. As consequences of liberalization in interest rates and cutthroat competition bank is operation on reduced spread. Development financial institutions (DFIs) will have a lesser impact on the Nepalese economy. Consumerism is here to stay. Non – banking companies like insurance companies are giving tremendous opportunities to banking sector.

Main motive of bank is to earn maximum profit with minimum risk. Effectiveness of any bank can not only determine through analyzing their profit as it is associated with risk also. Effectiveness of any company is seen through the combination of risk and profit. If profit is yield with by high risk, it is not termed as effectiveness of the company. So to measure effectiveness of any company is mean to analyze the position of risk and the profit generated through bearing the risk.

There are different definitions of risk for each of several applications. The widely inconsistent and ambiguous use of the word is one of several current criticisms of the methods to manage risk. In one definition, "risks" are simply future issues that can be avoided or mitigated, rather than present problems that must be immediately addressed. In risk management, the term "hazard" is used to mean an event that could cause harm and the term "risk" is used to mean simply the probability of something happening. Financial risk is

often defined as the unexpected variability or volatility of returns and thus includes both potential worse-than-expected as well as better-than-expected returns. References to negative risk below should be read as applying to positive impacts or opportunity unless the context precludes this interpretation.

In statistics, risk is often mapped to the probability of some event seen as undesirable. Usually, the probability of that event and some assessment of its expected harm must be combined into a believable scenario (an outcome), which combines the set of risk, regret and reward probabilities into an expected value for that outcome.

In finance, risk is the probability that an investment's actual return will be different than expected. This includes the possibility of losing some or all of the original investment. Some regard a calculation of the standard deviation of the historical returns or average returns of a specific investment as providing some historical measure of risk. Financial risk may be market-dependent, determined by numerous market factors, or operational, resulting from fraudulent behavior. Recent studies suggest that testosterone level plays a major role in risk taking during financial decisions. In financial markets, one may need to measure credit risk, information timing and source risk, probability model risk, and legal risk if there are regulatory or civil actions taken as a result of some "investor's regret". Knowing one's risk appetite in conjunction with one's financial well-being is most crucial.

A fundamental idea in finance is the relationship between risk and return. The greater the potential return one might seek, the greater the risk that one generally assumes. A free market reflects this principle in the pricing of an instrument: strong demand for a safer instrument drives its price higher (and its return proportionately lower), while weak demand for a riskier instrument drives its price lower (and its potential return thereby higher)."For example, Nepal Treasury bond is considered to be one of the safest investments and, when compared to a corporate bond, provides a lower rate of return. The reason for this is that a corporation is much more likely to go bankrupt than the Nepal

government. Because the risk of investing in a corporate bond is higher, investors are offered a higher rate of return."

Profitability is a deviation of the term profit, which explains the ability to make the profit. Profit is primary a measuring rod of a success of a business enterprises. Profit is essential for the survival of the business. It is the difference between revenue generated and expenses occurred over the period of time but the term profit has several different interpretations. It is a basic test of the performance of any business concern. Without profit a firm could not attract the outside capital. Moreover, the owners and creditors would become concerned about the company's future and attempt to recover their funds. Owner creditors and management pay close attention for boosting profit due to the great importance placed on earning the market place.

Profitability is a technical term, used to compare performances analysis of different trading systems or different investments within one system. This is computed for each system or investments being compared over the same period long enough to include significant "ups" and "downs". So analysis of the profitability of the business is very essential which can be used to measure the overall efficiency of the business. Profitability of the business can be analyzed through the financial analysis which refers to the assessment of the viability and stability of the business.

Profitability of a company is usually based on the income statement. A properly conducted profitability analysis provides invaluable evidence concerning the earnings potential of a company and the effectiveness of management. While analyzing profitability different profitability ratios are calculated. Profitability ratios provide a definitive evaluation of the overall effectiveness of management based on the returns generated on sales and investment. The most widely used profitability measurements are profit margin on sales, return-on-investment ratios, and earnings per share.

1.1.1 Banking in Nepal

In the context of Nepal, the history of modern banking system is not very lengthy. This becomes explicit when one compares Nepalese banking system with the banking system of other countries of the world but this doesn't mean that there was the complete absence of banking activities in Nepal in ancient period. The banking in the form of money lending can be traced back in the reign of Gun Kam Dev towards the end of eighth century. According to the historical evidence in 723 Gun Kam Dev, the King of Kathmandu had borrowed money to rebuild and to rule Kathmandu.

Another historical example as to the pre-modern banking system is found when Rana Prime minister Randip Singh was administering Nepal in 1880 AD. During his regime one financial institution name by 'Tejarath Adda' was establish to give loan facilities to the governmental staff and to afford loan facilities to the public in general in the term of 5% interest. 'Tejarath Adda' may be regarded as the father of modern banking institution in Nepal. During the Prime Minister ship of Juddha Shamsheer in 1994 B.S. the 'Tejarath Adda' was replaced by a commercial bank, 'Nepal Bank Ltd.' which marked the beginning of the new era in the history of modern banking in Nepal. NepalRastra Bank was established in 2012 B.S. to do the function of a central bank. Rastriya Banijya Bank, as a second commercial bank, was established in 2022 B.S.

After the establishment of Nepal Arab Bank Ltd. in 2041 B.S. under the commercial bank act 2031 B.S., with the allocation of 50% share of Emirates Bank Ltd., Dubai, 20% share of Nepalese financial institutions and 30% share of general public, the new phase of development of the commercial bank started. Nepal Indosuez Bank Ltd. (now Nepal Investment Bank) emerged in 2042 BS. as the second and Nepal Grindlays Bank Ltd. (now Standard Chartered Bank Nepal Ltd.) established in 2043 B.S. as the third joint venture bank in the country.

After that, there was a gradual increase in the number of joint venture commercial banks in Nepal. Now, there are 32 commercial banks in Nepal. The open and liberal policy in the financial sector has helped in establishment of commercial and financial institutions in the country.

1.1.2 Commercial Banks

Commercial banks are those financial institutions which collect the scattered passive financial resources for mobilizing activities like deposit collection, loan investment, issue of shares and debentures, hire purchase financing, housing finance, leasing finance, investment in government securities, etc.

Their main objective is to earn maximum profit by helping the business sector, industrial sector & agricultural sector development. In Nepal, commercial banks play vital role by providing different facilities and services. Hence, this type of bank provides loans to such sectors at a very reasonable interest rate. However, at present a bank performs numerous functions that generate income for the bank. The key success of a commercial bank lies in its ability to raise funds & use it for investing purpose, acting as an intermediary between debtors & creditors.

In order to operate the commercial banks incorporated in Nepal, various laws have been consolidated. Commercial Bank Act 2031 B.S. (1947 A.D.) has also been amended quite several times in accordance to the need. After 1955 A.D., HMG/N & NRB permitted the establishment of other Commercial Banks, Finance Companies, Gramin Bikas Banks, Co-operative Societies & NGOs. Established under those regulations, we have 32 commercial banks in Nepal.

List of Commercial Banks

As of Mid July, 2012 (Licensed by NRB)

Class: "A" (Commercial Banks)

(Rs in Million)

S.No.	Names	Operation Date (A.D.)	Head Office	Paid up Capital
1	Nepal Bank Ltd.	1937/11/15	Dharmapath, Kathmandu	380.38
2	Rastriya Banijya Bank Ltd.	1966/01/23	Singhadurbarplaza, Kathmandu	1172.30
3	Nabil Bank Ltd.	1984/07/16	Kantipath, Kathmandu	2029.77
4	Nepal Investment Bank Ltd.	1986/02/27	Durbarmarg, Kathmandu	3012.92
5	Standard Chartered Bank Nepal Ltd..	1987/01/30	Nayabaneswor, Kathmandu	1610.17
6	Himalayan Bank Ltd.	1993/01/18	Thamel, Kathmandu	2400.00
7	Nepal SBI Bank Ltd.	1993/07/07	Hattisar, Kathmandu	2093.99
8	Nepal Bangladesh Bank Ltd.	1994/06/05	Nayananeswor, Kathmandu	2009.40
9	Everest Bank Ltd.	1994/10/18	Lazimpat, Kathmandu	1391.57
10	Bank of Kathmandu Ltd.	1995/03/12	Kamaladi, Kathmandu	1604.19
11	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupandehi	1400.00
12	Lumbini Bank Ltd.	1998/07/17	Narayangadh, Chitawan	1430.00
13	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biaratnagar, Morang	1311.55
14	Machhapuchhre Bank Ltd. ¹	2000/10/03	Prithwchowk, Pokhara, Kaski	2478.79
15	Kumari Bank Ltd.	2001/04/03	Durbarmarg, Kathmandu	1603.80
16	Laxmi Bank Ltd.	2002/04/03	Adarsanagar, Birgunj, Parsa	1694.08
17	Siddhartha Bank Ltd.	2002/12/24	Kamaladi, Kathmandu	1619.24
18	Agriculture Development Bank Ltd.	1968/01/02	Ramshahpath, Kathmandu	9474.30
19	Global IME Bank Ltd. ²	2007/01/02	Birgunj, Parsa	2184.50
20	Citizens Bank International Ltd.	2007/06/21	Kamaladi, Kathmandu	2101.84
21	Prime Commercial Bank Ltd	2007/09/24	Newroad, Kathmandu	2245.75
22	Bank of Asia Nepal Ltd.	2007/10/12	Tripureshwor, Kathmandu	2000.00
23	Sunrise Bank Ltd.	2007/10/12	Gairidhara, Kathmandu	2015.00
24	Grand Bank Nepal Ltd.	2008/05/25	Kamaladi, Kathmandu	2000.00
25	NMB Bank Ltd.	2008/06/05	Babarnahal, Kathmandu	2000.00
26	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu	2000.00
27	Janata Bank Nepal Ltd.	2010/04/05	New Baneshwor, Kathmandu	2000.00
28	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu	1631.00
29	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu	1400.00
30	Civil Bank Ltd.	2010/11/26	Kamaladi, Kathmandu	1200.00
31	Century Commercial Bank Ltd.	2011/03/10	Putalisadak, Kathmandu	1080.00
32	Sanima Bank Ltd.	2012/02/15	Nagpokhari, Kathmandu	2016.00

(Source: NRB)

1.1.3 Functions of Commercial Bank

Capital formation, Monetization of economy, Price stability, Control in interest rate ,Availability of credit , Development of neglected and deprived sectors , Promotion of saving ,Implementation of monetary policy, Long term loan , Transfer of funds etc are the main roles of commercial banks. In order to play such roles, commercial banks must do various functions properly. The major functions of commercial bank are as follows.

1. Accept custody of the funds with or without interest and open fixed account and saving accounts in the name of depositions.
2. Supply loans (short-term debt as well as long term debts whatever necessary for trade and commerce) or make investment.
3. Help to issue shares and debentures of any company or any others corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but not become a managing agent.
4. Conduct transactions in bonds, provisionary notes or bills of exchange foreign Grant overdraft.
5. Issue letter of credit, draft and traveler's cheque.
6. Remit or transit fund to different place within or outside the kingdom. Purchase, sell or accept the securities of Government of Nepal. And besides this, foreign trade transactions are facilitated through the issuance of letter of credit.

Bank also provides locker facilities to the customers to keep valuable ornaments and documents. Bank also makes payments, pays and collects rent, pay insurance premium, etc. on behalf of its clients. In case of joint venture commercial bank, it issues internationally valid credit cards, ATM cards, E-banking etc.

1.1.4 Brief Introduction of Nepal Bank Limited

Nepal Bank Limited, the first commercial bank of Nepal, was established in November 15, 1937 A.D. (Kartik 30, 1994 B.S.). It was formed under the principle of Joint Venture (Joint Venture between govt. & general public). NBL's authorized capital was Rs 10 million & issued capital Rs 2.5 million of which paid-up capital was Rs 842 thousand with 10 shareholders. In that era, very few understood or had confidence in this new concept of formal banking. Raising equity shares were not easy and mobilization of deposits was also found rarely. The inception of the bank helped to remove dual currency system and circulating the Nepalese currency throughout the country gradually. The bank has been providing banking through its branch offices in the different geographical locations of the country with the vision statement of "To remain the leading financial institution of the country."

The bank has experienced many ups and downs, but still it has remained the leading financial institution in Nepal. It has helped vastly in by accumulating the scattered money in small amount in each and every nook and corners of the country and granting loans and advances in various ways.

At present the bank is operating 109 branches in 55 districts of the country with 2,976 staffs. The bank plays great role to develop the economic condition of country by providing different facilities and services to their customers like collection of bills and cheques, safe keeping of valuables, financial advising etc.

1.1.5 Brief Introduction of Rastriya Banijya Bank

Rastriya Banijya Bank (RBB) is the fully government owned, and is the largest commercial bank in Nepal. RBB was established on January 23, 1966 (2022 Magh 10 BS) under the RBB Act. RBB provides various banking services to a wide range of customers including banks, insurance companies, industrial trading houses, airlines, hotels, and many other sectors.

RBB has many correspondent arrangements with major international banks all over the world that facilitate trade finance, bank-originated personal funds transfers and interbank funds transfer via SWIFT. In a bid to promote remittance business, RBB works with Western Union and International Money Express, two leading person-to-person funds transfer networks.

In addition RBB runs various programmes i.e. banking with the Poor, Micro Credit project for Women etc. to enhance the living standard of people as per the govt. directives.

As well, RBB actively delivers various government programs to people living in remote parts of the country; these programs are intended to raise living standards. RBB has Nepal's most extensive banking network with over 125 branches. Through its branch network, RBB has been contributing to Nepal's economic development by providing banking services throughout the country.

The Bank's slogan "It's your own Bank" signifies the importance of RBB in the socio-economic development of the country. Since the early point of its establishment, RBB has remained an indispensable financial institution of the Nepalese society and economy. RBB has the largest branch network in Nepal, covering 48 branches in the mountainous region, 46 in Terai region, and 19 in the Kathmandu Valley. The Branch Operations Department is responsible for supervising all 113 branch network. The Internal Audit Department monitors the work of the branches and regional offices. With the corporate office located at Singh durbar plaza, RBB has a staff of 3,500 and maintains 113 branches located throughout the country enabling the bank to provide banking products and services to all segments of the national economy accompanying the rural and agricultural needs as well as the largest industrial and commercial enterprises.

1.2 Focus of the Study:

The main focus of this study is the financial performance and profitability analysis of commercial banks in context of Nepal. Nowadays financial institutions are growing day by day in Nepal even the world has been suffering from the depression since more than the couple of years. Therefore it is considerable that how the finance companies in Nepal are still in stable position. The position for profitability has been maintaining by the banks depends upon various aspects related to the company such as interest deposit collections, Loan distribution, return on investment, return on equity, return on assets, interest income, fee income, interest expense, administrative expenses. Are they earning as per their planning? What position of profitability they are maintaining? These queries must be settled and sound planning for profit should be formulated for their sustainable growth.

The growth of economic conditions of a nation needs mobilization of its own domestic resources through banking. But the financial situation of Nepalese banking sector is in a very poor condition. Apart from other measures required to improve their performance, the banking sector is expected to have better prospects with effective profit planning and control. Since profit making is major objective of the banks, it is important to analyze the financial performance of the banks also as well as its profitability position and some other factors need to be considered while evaluating the profitability of Nepalese commercial banks. In this study, the profitability analysis of Nepal Bank Ltd. and Rastriya Banijya Bank is made.

Alternatives of profitability position, decision making process, trend of profit making process and analysis of each part related to profitability is focused in this study. With the help of decision science more alternatives is analyzed and best alternative is selected. Existing process, situation, structure and results is carefully observed while using decision science.

1.3 Statement of Problem:

Till the early 1980s A.D., the financial sector was not that opened up for private sector. Only two commercial banks - Rastriya Banijya Bank and Nepal Bank Limited, which has controlled by government, were functioning in Nepal. The economic reforms initiated by the Government more than one and a half decade ago have changed the landscape of several sectors of the Nepalese economy. As being a commercial institution, a commercial bank must make profit out of its operation for its survival and fulfillment of its responsibilities. The major activities of the commercial banks include mobilization of resources, which involves cost, profitable operation of the resources and income generation. For every bank the main source of profit is the surplus income over expenses. In case the bank fails to generate sufficient returns, it makes a draw off on the company's resources and country's resources as well.

During the financial reformation, human resource development and institutional reorganization were also carried out to make the regulation and supervision system effective. In addition, the policies of gradually phasing out the non-core activities of the bank were also adopted. Programs like strengthening NRB, restructuring NBL, RBB and enhancing the whole financial sector of these commercial banks were introduced during this period.

With the reform and reorganization, NBL and RBB started improving their performance, recovered drastically from the NPL (non performing loan) and also started increasing the level of net profit progressively. In this context, the comparative profitability analysis of NBL and RBB will provide an insight to the banks performance with respect to profitability. Considering above, operating income expense and profitability of the company must be analyzed as the problem of the study. They can be listed below as follows:

1. What is the trend of profit and loss of the bank over the last 5 year period?

2. What is the position of operating income and expenses of Nepal Bank Ltd. and Rastriya Banijya Bank?
3. What is the profitability position and operating efficiency of Nepal Bank Ltd. and Rastriya Banijya Bank?
4. What information can we provide to investor, creditors and stakeholders?

1.4 Objectives of the study:

The specific objectives of the study are:

1. To compare operating income and expenses of Nepal Bank Ltd. with Rastriya Banijya Bank.
2. To analyze the profit and loss trend of the banks over the period.
3. To analyze growth of the bank on the basis of deposit collection of Nepal Bank Ltd. and Rastriya Banijya Bank.
4. To evaluate the profitability and operating financial efficiency of Nepal Bank Ltd. and Rastriya Banijya Bank .

1.5 Significance of the Study:

A proper profit planning considerably contributes to improve the overall financial performance and leads the organization toward success. In this study, an attempt was made for drawing the overall picture of the selected commercial banks of Nepal. Data of five fiscal years is presented systematically and analyzed.

This study is helpful:

- ✓ To select commercial banks of Nepal to make effective profit planning strategy for future.
- ✓ To guide researcher/student to investigate on profitability of the selected commercial banks of Nepal.

- ✓ To oblige the management of NBL and RBB to think again and do self assessment on what they have done in the past and provides guidance for their future plans and program.
- ✓ To explain shareholders, depositors, creditors, NRB, Tax office etc. about the financial performance of the bank.
- ✓ To benefit policy makers, government and NRB regarding the formulation of further policies to facilitate economic development of the country.

1.6 Limitations of the Study:

Every study has its own limitation. This study is also not free from certain limitations. The major limitations of the study are as follows:

1. This study is a part of MBS degree prepared with in a limited time frame.
2. Annual report of the company is mainly used as Secondary data.
3. This study has concern with Nepal Bank Ltd. and Rastriya Banijya Bank.
4. This study is focused on profit-risk associated with profit and financial efficiency as effectiveness of the companies.
5. Five continuous fiscal year is covered in this study.

1.7 Organization of the study:

The whole study is divided in to five chapters.

Chapter I Introduction:

It describes the introductory part of the study where general background , statement of the problem, objective, limitations, significance and organization of the study are investigated.

Chapter II Review of the Literature:

It deals with review of available literature of related studies. It contains conceptual framework, major studies, review of books, review of articles and reports.

Chapter III Research Methodology:

It describes the research methodology adopted in carrying out the present research. It includes research design, sources of data, method of analysis, and limitation of the study, financial and statistical tools.

Chapter IV Data Presentation and Analysis:

It concerns with presentation and analysis of data. It includes the analysis of financial indicators, mathematical and statistical tools. It consists of analyzing profitability analysis of the banks under research.

Chapter V Summary, Conclusion and Recommendation:

This chapter comprises summary, major findings of prevailing issues and some recommendation to the organization that help them to improve their miserable situation to some extent.

Standard normal performance level is not available. So, interpretations of data depend upon judgment and common sense. In this context, concerned experts are also consulted.

CHAPTER II

REVIEW OF LITERATURE

Review of Literature consists of study of past research studies and relevant information that they used and induced. It is an advancement of existing knowledge and in-depth study of subject matters. It starts with a search of a suitable topic and continuous throughout the volumes of similar or related subjects. This chapter deals with the review of the financial system and investment opportunity with more details and in descriptive manner. For this study, various books, journal and articles as well as the past thesis review were taken into consideration. During the review of this research, in depth study and theoretical investigation regarding portfolio's aspects and their present application and potentialities are studied.

2.1 Conceptual Review

2.1.1 Conceptual review of Profit & Profitability:

Generally profit is defined as the excess of revenue over cost. In other words, profit is the residual income, which is equal to sale proceeds minus costs. Profit is the resources left to the firm for future growth and expansion or reward to be distributed to the entrepreneurship in the form of dividends etc. In a simple term, profits mean the residual balance of earning expected to be available with the firm that is obtained after deducting entire expenses, costs, charges and provision from total revenue of a period of time.

It is lifeblood of each type of business. Every business organization should earn profits to survive and grow over the long period of time.

Obviously, organization will have no future if it is unable to make reasonable profit from its operation. As a matter of fact, the overall efficiency of an organization is reflected in its profits. Profits to the managements are the test of efficiency and a measurement of control: to the owners, a measure of worth of their investment; to the creditors, the margin of safety to the employees; a source of fringe benefits to the Government, a measure of fixed paying capacity and the basis of legislative action; to customers, a hint to demand for better quality and price cuts; to a bank, less burdensome source of finance existence and finally to the country, profit are index of economic progress. Thus, if an organization fails to make profit, capital invested erodes and if this situation prolongs it ultimately cease to exist.

Profit has been universally recognized and accepted as a measure of business efficiency. Thus, the larger the profits, the more efficiency and profitable the business organization is deemed to be. This criterion has the greater advantage that it provides a common standard of measuring the efficiency of different banks. Regarding this, Laxmi Narayan clearly states, "Profit is the simple, convenient and the most popular yardstick of judging the efficiency of private and public business enterprises. Profit helps in judging the overall efficiency and is easy to calculate.

The profit is the ultimate measure of effectiveness. A profitable company is likely to offer not only security of employment but also promotion prospects, job opportunities and the intense personnel motivation that comes from being associated with success. John Argent observes, "Profit is the barometer of the success of business. It is, indeed, a magic eye that mirrors all aspects of entire business organizations including the quality output." (Argent, 1968 A.D., P.34)

The term "profitability" is composed of two words profit and ability. It reflects the capacity of a business organization to earn profit. It is also referred to as earning capacity or earning power of the concern investment. Thus, the term profitability may be taken as the ability to earn profit. According to

Howard and Upton, “The word profitability may be defined as the ability of a given investment to earn return on its use.”

It may be mentioned that the term profitability is distinguished from the word profit. Profit refers to the absolute quantum of profit whereas profitability alludes to the ability to earn profit. The former is an absolute measure in itself while the latter is a relative one. According to W.M. Harper, the profitability is a relative measure. It indicates the most profitable alternative. The profit, on the other hand is an absolute measure. It indicates the overall amount of profit earned by transaction. As the profitability is the relative measure, it is used to judge the degree of operational efficiency of management. Furthermore, it is essentially employed to measure the relative efficiency of different trading systems or different investments within one system. In the profitability analysis, the profit making ability of an organization is measured in terms of size of investment in it or its sales volume. Such an analysis of profitability reveals how particularly such a position stand as a result of transactions made during the year. It is particularly interesting to the suppliers of funds who can evaluate their investment and take necessary decision thereon.

2.1.2 Theory and Need of Profit

Theory of Profit

Economists have propounded several theories of profits to explain profits of entrepreneurs. Most of the theories are centered on the controversy about the role of the entrepreneur. In the following section some of the fundamental theories of profit have reviewed in brief.

1. Theory of Risk and Uncertainty Bearing:

F.H. Knight held two distinct definitions of uncertainty. The first, most commonly accepted definition is that risk refers to outcomes that can be insured against, and uncertainty to outcomes that cannot be insured against

(Weston 1954 and Stigler 1987).who divided risk into insurable risk and uncertainties, profit is a reward to the entrepreneur for his non-transferable function of bearing non-insurable risk and uncertainties. Uncertainty is the condition necessary for profit to exist. If the future is merely risky, then profit cannot exist.

2. Dynamic Theory of Profit.

Prof. JB Clark propounded the dynamic theory of profit and according to him; profit is the difference between the price and the cost of production of the commodity. But the profit is the result of dynamic change. In a dynamic state, “five generic changes are going on, every one of which reacts on structure of society.” They are (1) population is increasing (2) Capital is increasing (3) Methods of production are improving (4) The forms of industrial establishment are changing the less efficient shops etc. are passing from the field and the most efficient are surviving (5) The wants of consumers are multiplying.

3. Innovation theory of profit.

Prof. Schumpeter attributes profit to dynamic changes resulting from an innovation. To start with he takes a capitalist closed economy which is in a stationary equilibrium. This equilibrium is characterized by what Schumpeter calls a “circular flow” which continues to repeat itself for ever. In such a static state, there is perfectly competitive equilibrium. The price of each product just equals its cost of production and there is no profit. In his views, the entrepreneur plays an important role of introducing innovation in an economy and profits are the rewards for his role as an innovator. The innovation could be changes or techniques that reduces cost of production or increases demand for the product.

Need for Profit

Profit is necessary for the following reasons:

1. Measurement of Performance:

Profit is only factor to measure the management efficiency, productivity and performance. Profit is the most widely used yardstick to see what really is to be achieved and where the firm is to go in the future.

2. Premium to cover costs of staying in Business.

Business environment is full of risks and uncertainties. to grasp the globally changing technologies, to stay in the market uncertainties, to replace and acquire assets and enhancing business scope etc. require a profit margin.

3. Ensuring Supply of Future Capital

Profit is necessary to plough back in the investments like innovations, business expansion and self-financing. It also attracts investors for further investment.

4. Return to the investors

Shareholders provide equity capital to the business because they expect the entity will provide return to their funds at least equal or above market rate of return. To maintain the shareholders expectation, it is most important that a firm should earn sufficient profit so that it can distribute dividends.

2.1.3 Concept of Commercial Bank

A financial institution that provides services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit. The traditional commercial bank is a brick and mortar institution with tellers, safe deposit

boxes, vaults and ATMs. However, some commercial banks do not have any physical branches and require consumers to complete all transactions by phone or Internet. In exchange, they generally pay higher interest rates on investments and deposits, and charge lower fees.

Commercial banks are mainly established to facilitate the development of trade and commerce sector of the country. The first commercial bank in the world was “Bank of England”, established in 1694 AD, as the form of central bank of Britain. Commercial banks are those financial institutions which deal in accepting deposits of persons and trade, industry and even to agricultural sectors. More over commercial banks also provide technical and administrative assistance to industries, trades and business enterprises. The main purpose of priority sector investment scheme is to uplift the backward sector of the economy. According to the “Nepal Commercial Bank Act, 2031 B.S.”, “ A commercial bank is one which exchanges money deposits , grand loans and performs commercial banking function and which is not a bank meant for co-operation, agriculture, industries or for such specific purpose.”

2.1.4 Profitability of Commercial Banks

Banks today are under great pressure to perform to meet the objectives of their stockholders, employees, depositors, and borrowing customers, while somehow keeping government regulators satisfied that the bank’s policies, loans, and investments are sound.” (Rose, 1991 A.D, P.155)

The majority of the needs of the stakeholders are related with the profitability of the banks. For example, in case the bank earns profits, the investors get dividends, employees get bonus, government gets benefits in forms of taxes etc. Thus, the foremost objective of the banks is the profit maximization. As other types of business entity, commercial banks are also inspired by the profit.

The major source of funds of the bank is the public deposit. Commercial banks invest public deposits on those sectors where they can attain the

maximum income or higher rate of return as the bank is liable to pay certain rate of interest to the public in their deposit. Hence the investment or granting of loan and advance by them are highly influenced by profit margin. Generally the profit of commercial bank depends upon the interest rate of the bank, volume of loan provided, time period of loan, and nature of investment in different securities. However, the bank at the same time has to ensure that their investment is safe from default.

Aspiration of profit to commercial banks seem reasonable as the bank has to cover all the expenses as interest to the depositors and other administrative costs, they should make payment in the form of dividend to the shareholders who contributed to build up the bank's capital and keep aside for the provision and reserves. For this the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligations, it will go ahead for investment.

A successful bank is one who invests most of its funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserve to meet day-to-day requirements of the depositors. After all the commercial bank is simply a business corporation organized for the purpose of maximizing the value of the shareholders wealth invested in the firm at an acceptable level of risk. So bank has to make a crucial decision regarding a mixture of liquidity and profitability cause lower the liquidity higher the profitability and higher the liquidity lower the profitability and both are equally important, banks cannot afford to ignore any of them.

2.1.5 Return from Investments

Return is the main motivating force of the investment or return is the reward of investment. In return, there are two factors one is capital gain and another is regular gain or ordinary gain. Capital gain means difference between the ending and beginning price. Regular gain means annually cash receipt.

Total return = Capital gain + regular gain (ordinary gain)

Capital gain = ending price – beginning price

Regular gain = dividend or interest.

2.1.5.1 Single Period Rate of Return

The rate of return is the speed at which the investor's wealth increases or decreases. This rate of return depends upon the future cash flows that include cash receipt (dividend) and capital gains and the investors make investment for high rate of return at minimum risk. Thus, the investor's single period rate of return can be defined as the total return that the investor receives during the holding period and the single period return generally denoted in percentage. It can be called holding period return (HPR). But this type of return isn't used in our study.

2.1.5.2 Required Rate of Return

While setting the required rate of return on an investment an investor have to consider the real rate of return, expected inflation and risk. Because consumption is foregone today, investor is entitled to a rate of return that compensate for different consumption in future. Required rate of return is the rate of return demanded by an investor forgoing the present utility and satisfaction. If investors postpone his satisfaction for uncertain future, investment must compensate his satisfaction. The compensation that is demanded on behalf of future uncertainty over the risk is the required rate of return. The capital market determines required rate. The required rate of return is the minimum rate of return that an investor expects from his investment. It is function of real rate of return and risk.

2.1.5.3 Expected Rate of Return

Expected rate of return is the return one expects by his/her investment. Suppose one invested Rs 100 in security and he/she thinks that it will generate year-end dividend of Rs 5 with ending price of Rs 110 then its total return will

be Rs 15 and expected return will be 15%. The expected rate of return should be higher than required rate of return. Expected return is the hypothetical rate of return. The expected rate of return is based upon the expected cash receipt over the holding period and expected year-end selling price of the securities. It is obvious that, an investor's expectation on return must be reasonable as most expectation based on history. Reasonable conclusions about future returns can be gained by looking at the past as past history is one of the better forecasting way. Even if expectations are reasonable, however, there are the possibilities that investment's actual return will be different from the expectation.

2.2.5.4 Portfolio Return

Since each investment's future may be considered as a variable, the return of a portfolio also can be thought the same way as variable depended on expected returns of the individual investment that make up the portfolios. The expected return of portfolio is a weighted average return of the stocks or investment sectors in a portfolio where weights being the proportion of funds invested in individual investment of the portfolio. The expected returns of a portfolio should depend on the expected return of each security contained portfolio. It also seems logical that the amount invested in each security should be important. The multiplication between proportion of individual sector's investment weight and the returns is the process to calculate portfolio return:

2.1.6 Financial Statement of Commercial banks

The financial statement of a commercial bank includes balance sheet, profit and loss account, cash flow statement and other relevant disclosures. Merely presenting the financial statement does not satisfy the aim of the study as financial statements are just of financial information to this analysis. Thus, the focus of the study will go to the analysis of the financial statements of the bank, especially on profitability of the bank. This will make some attempts to identify the financial position of the bank and to give necessary suggestions thereto.

Balance sheet

Balance sheet is not an account but it is a statement of assets and liabilities of business enterprises at the given date. It is a statement summarizing the financial position of the firm. The balance sheet is prepared at the end of accounting period. Bank's balance sheet is composed of shareholder's fund, borrowings, debentures and other liabilities and provision on the liabilities side and cash and bank balance, stock, debtors, loan and advances, branch accounts, investment and fixed assets on the assets side. The brief explanation on accounting heads of the balance sheet is provided below:

A. Capital and Liabilities

1. Share Capital

The amount of paid up capital of the bank should be mentioned under this head. The amount received against calls made should be credited in this share capital account.

2. Reserves and Funds

This accounting head shall contain the amount of reserves appropriated from profit, as well as created through any other process and accumulated profit. Generally, this account shall be credited by debit to profit & loss appropriation account and utilization of such reserves shall be debited to the concerned reserve and fund accounts. The following account heads fall under this heading.

- a) General reserve fund: This is a stationary reserve. Under this head, only the amount appropriated from profit as per Commercial Banking act shall be credited. Currently, 20% of the net profit should be transferred to this account. Distribution of dividend by utilizing this fund is restricted and approval of Nepal Rastra Bank shall be obtained for the use of this fund for any other purposes. (NRB, 2062 B.S., P.29).
- b) Capital Reserve Fund: Profit on revaluation of assets and capital assets received in grant from other shall be accounted under this head.

- c) Share Premium: This represents the amount of money collected on issue of shares in excess of its face value. The outstanding amount in this account shall not be considered eligible for distribution of dividends. However, it may be used for issue of bonus shares under approval of Nepal Rastra Bank.
- d) Other Reserves: Funds and reserves, other than those mentioned above shall be included under this head.
- e) Accumulated Profit/Loss: Under this head, the balance of the accumulated profit or loss as per shown in the Profit and Loss Appropriation account shall be shown.

3. Borrowing

The borrowed funds of the bank shall be disclosed under this head. Bank borrowings, placements, overnight placements, borrowing from central banks, foreign banks falls under this heading.

4. Deposits

The principal liability of a commercial bank is its deposits collected from general public, business and government agencies. Deposits received from the depositors as well as the interest payable on the deposits shall be credited to the account of the depositors. The deposit liabilities accepted by the bank shall be exhibited under this head.

5. Bills Payable

Under this head, the outstanding amounts pertaining to draft, telex transfer. Payment orders issued by one branch to another branch of the bank, as well as bills drawn on the bank by other local and foreign banks shall be accounted.

6. Other Liabilities

Other than the capital and liabilities mentioned above, all other

liabilities of whatsoever nature shall be included under this heading. Any other accounting heads that could not be exhibited elsewhere may be included under this head as required.

B. Assets Side

1. Cash Balance

The most liquid assets held by any commercial bank is cash. This heading shall be used for showing the total amount of cash-in-vault, consisting of local and foreign currency. Since cash is the most liquid asset, it is used to cover deposit withdrawals, handle credit demands from customers, and to meet all regular and emergency expenses.

2. Balance with banks

The balances of amounts in non-interest bearing accounts maintained by the bank with Nepal Rastra Bank as well as with other local and foreign banks shall be exhibited under this head.

3. Money at call or short notice

The amount of all interest bearing placement with other banks with maturity of less than 7 days with stipulated condition for payment at call or at short notice (48 hours) shall be exhibited under this head.

4. Investments

As a line of defense to meet demands for cash and serve as a quick source of funds, banks invest certain proportion of funds in the liquid assets. 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 convertible into cash in the financial market. Other forms of investment include investment in the shares and debentures of other companies. These investments are mainly made for their ability to generate income. The investments are to be valued at market price or cost price whichever is lower.

Commercial banks invest the funds to the shares, debenture and bond of the other company. They generally do so when there is excess of funds than required and there are no alternative opportunities to make investment in the profitable sector. Now-a-days the commercial banks of Nepal have purchased share and debenture of regional development bank, NIDC and other development banks etc. these type are mainly held for their income-generating power and for other advantage like tax shelter etc. The investments are to be valued at market price or cost price whichever is lower.

5. Loan Advances and Bill Purchased

This is a primary source of income and most profitable asset to a bank. The sum outstanding of all loans and advances extended to the customers as well as bills purchased and discounted bills less the amount of provisions made shall be exhibited. However, the loans extended to the staffs shall not be disclosed under this head and should be shown under other assets.

6. Fixed Assets

All assets of long-term nature owned by the bank (land & buildings, machinery, vehicles, office equipments etc) shall be accounted under this head and be exhibited in the balance sheet at written down value after deducting the depreciation from the total cost.

7. Other Assets

The heading shall be used for accounting of any other tangible or intangible assets, not mentioned above. Stationery stock, accrued interest on investment, accrued on loan, sundry debtors, assets in transit, non-banking assets, expenses not written off etc.

Profit & Loss Account

The bank's profit & loss account is composed of interest, administrative expenses, provision for possible losses, bonus provision, tax provision, investment provision, etc. as expenses and interest, discount, commission, charges etc, as incomes. The summary of the heads of account in the profit and loss account in the profit and loss account of a commercial bank is given below.

A. Expenses Side

1. Interest Expenses

Payment of interest on deposits accepted by the bank and on the borrowings is shown under this head. Interest is regularly expensed off for various deposits; inter bank borrowings, central bank borrowings and other external obligations.

2. Employee expenses

All expenses related to the employees of the bank for the specific period shall be included under this head. Expenses included are salary, allowances, pension, gratuity, training expenses, uniform expenses etc.

3. Office Overhead Expenses

All expenses related to the office overhead of the bank during the specific period shall be included under this head. Some of the expenses under this head are house rent, insurance, audit expenses, newspapers and magazines, advertisement etc.

4. Exchange loss

The negative balance in exchange fluctuation gain/loss account shall be exhibited under this head.

5. Non-Operating Expenses

These are the expenses that have no direct relationship with the operation of banking transaction. Some of the examples are loss on sale of investment and loss on sale of assets.

6. Bad debts written off

Where the bank has written off loans on account of being unrecoverable, such written off amount to the extent not covered by loan loss provision shall be charged to profit and loss account under this head.

7. Provision for Possible Loss

This is one of the most important heads of account related to the profitability of the bank. As per the directive of the Nepal Rastra Bank, the banks are required to make provision for loan losses. The provisions are to be made on the basis of the expiry dates on the principal amount of the loans and advances. As per the directive the provisions to be made is as follows.

Category	Provision required	Criteria
Pass	1%	due upto 3 months
Substandard	25%	due upto 3 - 9 months
Doubtful	50%	due for 9 months - 2 years
Loss	100%	due for more than 2 years

However, in case of bills purchased items, provision is to be provided at 1% if it stands due for 90 days and in case it remains due for more than 90 days 100% provision is required. (NRB, 2062 A.D, 36)

8. Provision Staff Bonus

The amount of bonus set aside for payment to staffs is disclosed under this head. As per the Nepal Rastra Bank directives the bank is entitled to make provision for the staff bonus at 10% on the net profit after adjustment for loan loss provision.

9. Provision for Income Tax

The amount of income tax on net taxable profit for the period shall be determined through this head. Taxable profit has to be determined considering the allowable and disallowable expenses as per the prevailing income tax act and finance bill.

10. Net Profit

This figure represents the excess of total income over total expenses of the bank during the period.

B. Income side

1. Interest Income

This is the primary source of income of any commercial bank. Under this head the interest received from the customers on behalf of the loans and advances and on the investments of the bank is exhibited. However, Nepal Rastra Bank has established several criteria for the recognition as interest income.

- The interest income should be recognized on cash basis.
- The amount of interest accrued but not received, have to be credited to the interest suspense account.
- In case of the interest accrued is realized within one month from the date of closure of fiscal year, such amount may be recognized in the income of the earlier fiscal year.
- The interest on loans and advances should not be recovered by overdrawing the borrower's current account or where overdraft limit has been extended by overdrawing such limit.

2. Commission and Discount.

The total amount of commission, service charges and discount earned by the bank from the transactions during the period shall be exhibited under this head. Some examples are commission on issue of guarantees, commission on issuance of L/C etc.

3. Exchange Gain

Banks deal with foreign currencies. Foreign currencies are remitted

outwards and inward. Banks involve in trade while dealing this transaction. Banks make trading gain while selling and buying foreign currency stocks for their trade as well as banks gain from revaluation the stock whenever the exchange rates are in their favor. Both the trading gain and revaluation gain are exhibited under this head.

4. Non-Operating Income

Income or profit that has no direct relationship with the operation of banking transaction has to be recognized into profit and loss account under this head. These incomes are casual source of income and are not from regular course of business but from other sources where the business entity can be involved legally as prescribed by the directives if related government authority. Nepalese commercial banks are allowed to invest in the share of another entity like other commercial banks, rural development banks, financial institution and other government institutions. The investing bank receives dividend income and other income.

5. Other income

Receipts of all other income not specifically provided under the income heads as above shall be booked under this head e.g. rental income of safe deposit boxes, income from telex, service charge, renewal charges etc.

6. Net loss

The figure represents the excess of total expenses over total income of the bank during the period.

2.2 Review of Dissertations

In 2043 B.S. comparative analysis of investment structure of RBB and NBL was conducted by Lal Mani Adhikari. He found comparatively high correlation between deposit and investment in NBL then RBB. Deposit structure of two banks was similar but loans, borrowing and advances of RBB

was found higher than NBL. Investment structure of NBL was better than RBB (L. M. Adhikari, 2043).

Bajracharya (2047 B.S.), “Rastriya Baniya Bank: A comparative performance study” published in Rajat Jayanti Smarika, RBB, 2047 states, "Despite the growth of commercial banks is not consistent, low growth of local banks and JVBs. The mobilization of rural savings is better in case of local banks. Credit expansion is decreased in local banks than JVBs. Credit deposit ratio is better in JVBs. Non performing loan is greater in local banks and profitability is greater in JVBs. Local banks are forced to open and continue their branches at rural areas therefore the competition among the local banks and JVBs is not healthy" (R. Bajracharya, 2047).

“Problem encountered by the Nepalese financial system”, was written by Dhungana on 2053 BS on NRB Samachar, Annual Publication, 2053 B.S., where the major weakness of the banking sector, mainly of RBB and NBL were highlighted. As per the writer, these two government owned banks, dominated the banking sectors in Nepal in where the financial sector had been dominated by banking sector. These two banks constitute the largest component of total deposit of banking system. These two banks suffer from various problems, which results the unsound health of the banking industry of Nepal. The major weaknesses of these banks are (Dhungana, 2053).

1. Insufficient records and bookkeeping
2. Loan concentration for limited borrowers
3. Weak supervision and follow up after credit supply
4. Insufficient transaction for large number of branches
5. Lack of modern banking equipments
6. Inefficient staff development

On Annual Publication of NRB Samachar - "Financial statement Analysis: An Approach to Evaluate Banks Performance", 2053 B.S., the writer Poudel pointed on the importance of balance sheet and profit & loss account. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Interest received on loans and investments are the major components of income. Fees, commissions, discounts and service charges are other source of income. According to him the principle objective of analyzing financial statements are to identify liquidity, profitability and solvency of the bank. The other factors to be considered in analyzing the financial statements of banks are to assess to the capital adequacy ratio and liquidity position (Poudel, 2053).

Study on Evaluation of the financial performance of NBL was conducted by Dev Raj Adhikari with the basic objective of evaluating financial performance of this from FY 2038/39 to 2046/47. Other objective of the study was to examine the trend of deposit mobilization along with the cost of deposits to assess the investment portfolio of the bank. To measure liquidity, profitability and operating efficiency of the bank and to evaluate the earning power and dividend paying ability of the bank he concluded that investment portfolio, loan and advances, return on investment weren't satisfactory. The only one liquidity position of the bank was found acceptable (D. R. Adhikari, 1993).

Mani Ratna Bajracharya has conducted dissertation on the deposit of loans and advances of NBL for 2030 to 2035 B.S. He has found that there was increasing trend in deposit and loan & advance were inconsistent due to changes in rate of interest. Bank had invested a lot in long term investment instead of granting loan. He recommended that deposits as well as loans & advances must increase proportionately in order to maintain balance (M. R. Bajracharya, 1981).

Keshav Raj Joshi conducted a study on financial performance of commercial banks on 1989 for his masters dissertation. He had concluded that

commercial banks had maintained sound liquidity position. Loan and advances was very low and debt equity ratios of these banks were very high. Finally he found that Nepal Bank Limited's profitability position was best of all because only that bank had declared dividend (K. R. Joshi, 1989).

Deepak Joshi found commercial banks of Nepal to be unable to maintain appreciate liquidity to be highly leveraged having unsatisfactory profitability. The researcher suggested the bank to invest its resources in more productive sectors and more equity financing (D. Joshi, 1992).

Demirgüç-Kunt and Harry Huizinga (1999 A.D.) in the journal, "World Bank Policy Research Working Paper No. 1900." under the topic "Determinants of Commercial Bank Interest Margins and Profitability: Some International Evidence", says that differences in interest margins and bank profitability reflect a variety of determinants: bank characteristics, macroeconomic conditions, explicit and implicit bank taxation, deposit insurance regulation, overall financial structure, and underlying legal and institutional indicators. A larger ratio of bank assets to gross domestic product and a lower market concentration ratio lead to lower margins and profits, controlling for differences in bank activity, leverage, and the macroeconomic environment. Foreign banks have higher margins and profits than domestic banks in developing countries, while the opposite holds in industrial countries. Also, there is evidence that the corporate tax burden is fully passed onto bank customers, while higher reserve requirements are not, especially in developing countries.

2.3 Research Gap

Lots of study has been conducted to analyze the financial position, profit planning, investment policies, and etc of the commercial banks. But the main theme of this research is to analyze the effectiveness of Rastriya Banijya Bank and Nepal Bank Ltd. Recent data and information of both the banks have been used in this study. This research covers the five years period of the bank's

operation after the implementation of the FSRP and clarifies the progress operating under FSRP.

Main motive of bank is to earn maximum profit with minimum risk. Effectiveness of any bank cannot be measured through analyzing their profit as profit associates with risk. Effectiveness of any company is seen through the combination of risk and profit. If profit yield with high risk, it is not termed as effectiveness of the company. So to measure effectiveness of any company means to analyze the position of risk and the profit generated through bearing the risk. Thus the decision of this study is comparatively based on position of risk and position of profit which makes this study different from other studies.

Previously studies were specially focused on profit planning of banks. This study differs itself from others research by specially focusing on the profitability position of Rastriya Banijya Bank and Nepal Bank Ltd. comparatively and covers the period of F.Y. 2062/63 B.S. to 2066/67 B.S.. This research therefore facilitate readers to identify the profitability position and operating financial efficiency of Rastriya Banijya Bank and Nepal Bank Ltd. which helps to evaluate past and present performance of both the banks as well as it helps to project future prospect of both the banks.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

The main objective of the study is to analyze the profitability of the NBL and RBB. In this context, some recent financial tools along with statistical tools were applied to examine the relevant facts. The study is depended on the secondary data. It includes all the process of collecting, verifying and evaluating of past evidence systematically and objectively to reach the final conclusion. It is proper frame work procedure and technique that helps to do research in any field with in the minimum cost and time successfully. Descriptive, Trend and Analytical research designs are followed in this study.

3.2 Population and Sample

The study is concerned with two commercial banks. Being a study of comparison, the study is a comparative study and convenience sampling method used for sampling purpose.

3.3 Nature and Source of Data

The study is based on secondary and primary data. The data required for analysis are directly obtained from balance sheet, P/L account, other reports etc. According to the need and objective, all the secondary data were compiled, processed and tabulated in time series in order to judge the reliability of data provided by the banks and other sources. Supplementary data and information are collected from number of related institutions, places and articles like:

various published subject matters, economic journals, magazines and electronic data.

3.4 Data Collection Procedure

Secondary data is collected from Annual reports, custom report provided by both the banks especially for this dissertation, web sites of the banks and other sites as well. Informal interaction during data collection has been conducted which is as a questioner presented in appendix 1.

3.5 Data Processing and Analysis

After collecting data from different sources, data were critically examined in order to achieve objectives of the study. The analysis of data is done according to the pattern of data available. The collected data are presented in systematic manner with the help of computer. Therefore available data and information are analyzed on the basis of different tools and techniques.

Following tools are the mostly used tools throughout the report:

- Financial Tools
- Statistical Tools

Beside this, tabulation, percentage, minor mathematical tools and diagrams are also used according to the need and appropriateness of the situation.

3.5.1 Financial Tools

Lots of financial tools are used step by step to analyze the objectives of this study. Financial tools were used to examine the financial strength and weakness of the banks. In this study, financial tools like ratio analysis were used. Among them we have used some ratio analysis tools like:

1. Return on Assets
2. Return on Equity
3. Return on Capital Employed
4. Operating Efficiency ratio

5. Net Profit Margin
6. Interest Payout Ratio

A) Return on Assets (ROA)

Return on Total Assets is the ratio which indicates the portion of return over total assets. It is calculated by dividing net profit after tax by total assets.

$$ROA = \frac{NPAT}{TotalAssets} \times 100$$

Where,

ROTA = Return on Total Assets

NPAT = Net Profit after Tax

B) Return on Equity (ROE)

Return on Equity is the ratio which indicates the portion of return over total equity. It is calculated by dividing net profit after tax by total equity.

$$ROE = \frac{NPAT}{Equity} \times 100$$

Where,

ROE = Return on Equity

NPAT = Net Profit after Tax

C) Return on Capital Employed (ROCE)

Return on Capital Employed is the ratio which indicates

$$ROCE = \frac{NPAT}{CapitalEmployed} \times 100$$

Where,

NPAT = Net Profit after Tax

D) Operating Efficiency Ratio (OER)

Operation Efficiency ratio measure how efficiently management are utilizing the company assets and turn into revenue, inventory management and accounts receivable and accounts payable process and system.

It is calculated as dividing company's operating expenses by its operating revenues.

$$OER = \frac{\textit{OperatingExpenses}}{\textit{OperatingIncome}} \times 100$$

E) Net Profit Margin (NPM)

Net Profit Margin is the ratio which indicates

$$NPM = \frac{\textit{NPAT}}{\textit{TotalIncome}} \times 100$$

Where,

NPAT = Net Profit after Tax

F) Interest Payout Ratio (IPR)

The ratio provides the proportion of interest payment of the bank as compared to the interest income generated by the bank.

$$IPR = \frac{\textit{InterestExpense}}{\textit{InterestIncome}} \times 100$$

3.5.1 Statistical Tools

Lots of Statistical tools can be used to conduct study on portfolio management. According to need of our objective of study, we, here, are using the tools explained below:

A) Mean

A mean is simply the average value of the sum of all observation divided by the number of observation and it is given by formula below.

$$Mean(\bar{R}) = \frac{\sum_{i=1}^n R}{n}$$

Where,

$$\sum_{i=1}^n R = \text{Sum of the values.}$$

$$n = \text{Number of pairs of observations.}$$

B) Standard Deviation(S.D.)

Standard deviation is the statistical measurement of the variability of a distribution of return around its mean .it is the square root of the variance and measures the total risk on investment. Sigma sign denote it (σ).

Symbolically,

$$\sigma_j = \sqrt{\frac{\sum_{i=1}^n (R_j - \bar{R}_j)^2}{n}}$$

Where,

σ_j = Standard deviation of returns on investment 'j' during the period n.

C) Coefficient of Variation (CV)

The Co-efficient of Variation is defined as the standard deviation divided by the mean of expected return. It is used to standardize the risk per unit of return. In other word, it is the ratio of standard deviation of returns to the mean of that distribution. It gives the result regarding the unit of risk to bear for earning 1 unit of return.

Symbolically,

$$C.V. = \frac{\sigma_j}{\bar{R}_j}$$

Where,

σ_j = Standard deviation of investment j

\bar{R}_j = Mean Return of investment j.

3.6 Limitation of the Methodology

Every study is bounded by its own methodology and cannot be free from limitation. Because this study only relates with effectiveness analysis of Nepal Bank Limited and Rastriya Banijya Bank, the study becomes comparative study in where sampling method can be used. In such situation convenience sampling method is used which isn't free from criticism, every financial aspect of the company can't be covered. Data are normally collected upon certain assumption and tools are used to analyze them, therefore the reliability of analysis depends upon available data. S.D. is used to measure the risk associated with profit of both the banks. Financial aspects are only covered as effectiveness of company for this study purpose. Being a case study, the findings of the study mayn't be simplified for other effectiveness analysis.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

The ultimate objective of banks is to earn profit. Strictly speaking, no bank can survive without profit. Profit is the indicator of efficient and effective operation of bank. The bank acquires profit by providing different services to its customers or by making different kinds of investment.

Sufficient profit is a must to have good liquidity, grab investment opportunities, expand banking transaction, finance government in need of development fund, overcome the future contingencies and meet fixed internal obligation for the bank. Profitability ratios measure the efficiency of a bank.

The main concern of this chapter is to analyze and interpret relevant and available data of NBL and RBB. In another way, we can say that this chapter deals in details in order to meet the objective of this study. Annual reports, other reports provided by NBL and RBB especially for this study is used to find out different types of ratios. The data have been analyzed according to the methodology mentioned in third chapter.

4.1 Operating Income and Expenses

The operating income and expenses depict financial part of operating efficiency. Here to find out the operating efficiency of both limited, we have done analysis of operating income and expense from different point of view. For making income, each and every company need different regular or irregular sources. Both limited have mainly four types of income heading; Interest Income, Commission and discount, other operating income and exchange gain

and loss. Operating Expense covers all the expense part of limited for regularity of activities. Staff expenses, other operating expenses and exchange gain and loss are the main expense heading of both limited.

Table 4. 1

Operating Income & Expenses of NBL and RBB (Rs in million)

FY	NBL Income	NBL Expense	Operating Profit/Loss	Profit Trend NBL	RBB Income	RBB Expense	Operating Profit/Loss	Profit Trend RBB
2062-63	1,714.67	1,615.74	98.93	0	1,905.89	1,033.81	872.08	-
2063-64	1,544.63	1,501.09	43.54	-56%	1,881.00	1,159.73	721.27	-17%
2064-65	1,828.81	1,606.61	222.20	410%	2,270.36	1,232.33	1,038.03	44%
2065-66	2,417.42	1,937.58	479.84	116%	3,181.63	1,782.33	1,399.30	35%
2066-67	2,758.99	3,261.61	-502.62	-205%	3,647.96	2,303.33	1,344.62	-4%
Mean	2,052.91	1,984.53	68.38		2,577.37	1,502.31	1,075.06	

(Source: Appendix 2)

The above table depicts the increasing trend of operating income, expenses. Except in 2063-64, it is found that income and expenditure has been increased from Rs 1544.63 to 2758.99 million and 1501.09 to 3261.61 million respectively of NBL. And the income and expenditure of RBB has been increased from Rs 1,881.00 to 3647.96 million and 1159.73 to 2303.33 million respectively of NBL. It is found that operating income of NBL is gradually lower than income of RBB but again the expenditure of NBL is higher than RBB in every fiscal year of study period. As income is low and expenditure is high in every year of NBL, operating surplus is also found in a great gap every year. Operating surplus is found decreased in 2063-64 of NBL and RBB by 56% and 17% respectively. After that fiscal year, both limited got success to increase operating surplus but after that the trend is decreasing even the surplus is positive. But it is found that NBL has faced operating loss in 2066-67 where RBB is operating in profit but ratio than the last trend is found decreasing.

4.1.1 Analysis of Operating Income

Every companies operation and future depend upon income of the company. Both limited have mainly four types of income heading; Interest Income, Commission and discount, other operating income and exchange gain and loss. Both the banks have different levels of interest structure according the nature of account. Both the banks have provided different international money transaction facility which provides the margin for exchange earning.

Table 4.2

Analysis of Operating Income of NBL & RBB (Rs in million)

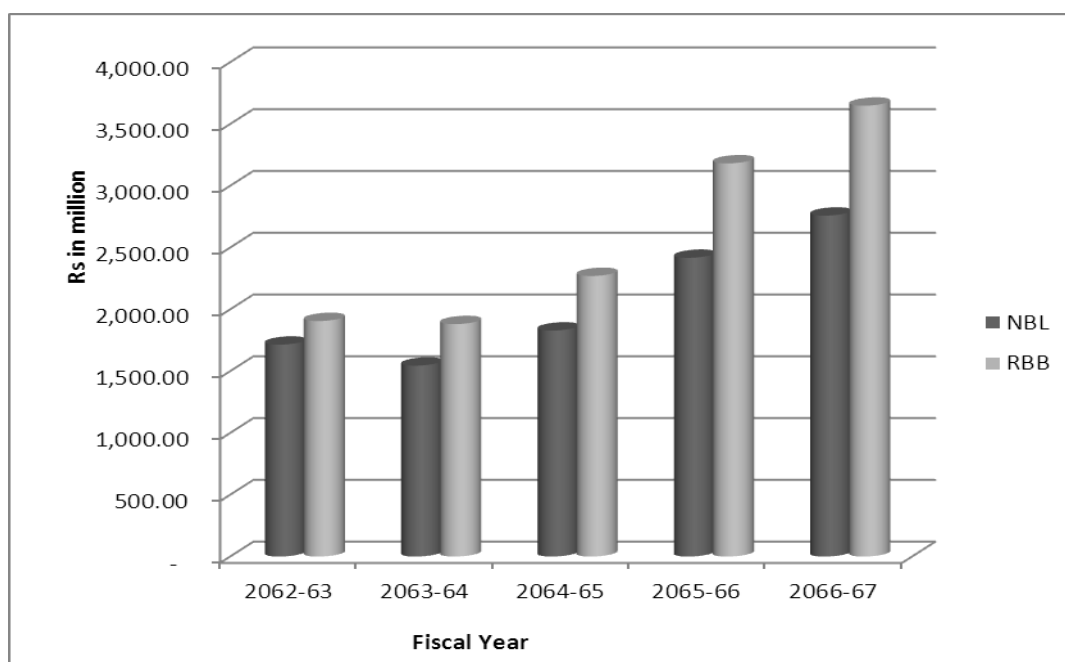
Year	NBL	RBB
2062-63	1714.67	1905.89
2063-64	1544.63	1881.00
2064-65	1828.81	2270.36
2065-66	2417.42	3181.63
2066-67	2758.99	3647.96
Mean	2052.91	2577.37
S.D.	459.21	712.93
C.V.	0.22	0.28

(Source: Appendix 2)

Operating Income of NBL in every year is lower than RBB but both limited have increasing trend of income. NBL has Rs 1714.67 million in first year of study period and end with Rs 2758.99 million at the final study period. From Rs 1905.89 million, RBB raised its income up to 3647.96 during the study period. The operating income of both limited has decreased at once in 2063-64. Average operating income of NBL and RBB is Rs 2052.91 million and Rs 2577.37 million respectively which indicates RBB has maintained good income level than NBL. Higher income of RBB is also one of the result of operating in higher no. of branches than RBB. Fluctuation in income level is found higher in RBB than NBL by Rs 459.21 million and Rs 712.93 million respectively where C.V. is also found lower in NBL. The income of RBB is found always higher with high variation than NBL.

Figure 4.1

Analysis of Operating Income of NBL & RBB (Rs in million)



The figure listed above shows that the income of RBB has been dominating the income of NBL in every fiscal year of study period. The amount of income has also found increasing from one fiscal year to another and the increasing ratio of RBB is comparatively higher than NBB.

4.1.1.1 Income of NBL

Interest income is one of the major income sources of financial institution in Nepal. NBL earns interest by providing loans in different headings like home loan, hire purchase loan, education loan, business loan etc. Commission and discount is another category of income for both banks. Increase/decrease in foreign exchange rate causes income to banks as one of the main important of banks is the same to perform. Except these all of other incomes are considered as other operating income. All income categories of NBL are listed below with the figure of income;

Table 4.3

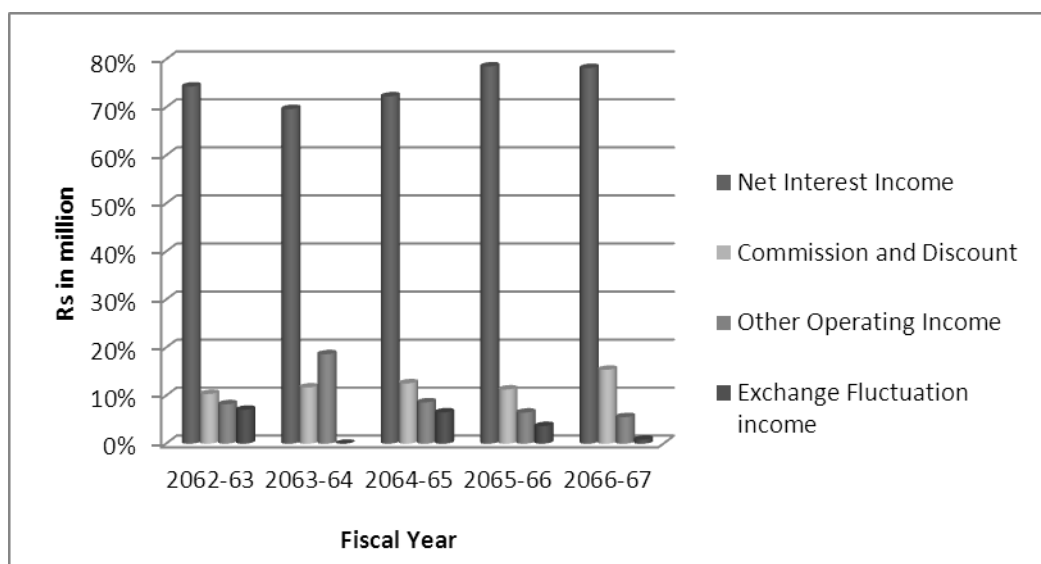
Income of NBL (Rs in million)

FY	Net Interest Income	Commission and Discount	Other Operating Income	Exchange Fluctuation income	Total
2062-63	1274.71	177.78	140.84	121.34	1714.67
2063-64	1075.97	181.02	287.65	0.00	1544.63
2064-65	1322.25	229.72	157.43	119.41	1828.81
2065-66	1898.35	273.11	156.76	89.21	2417.42
2066-67	2157.56	425.01	152.87	23.55	2758.99
Total	7728.83	1286.64	895.55	353.51	10264.53
Mean	1545.77	257.33	179.11	70.70	2052.91
S.D.	410.55	90.86	54.59	50.00	459.21
C.V.	0.27	0.35	0.30	0.71	0.22

(Source: Appendix 3)

Figure 4.2

Income of NBL (Rs in million)

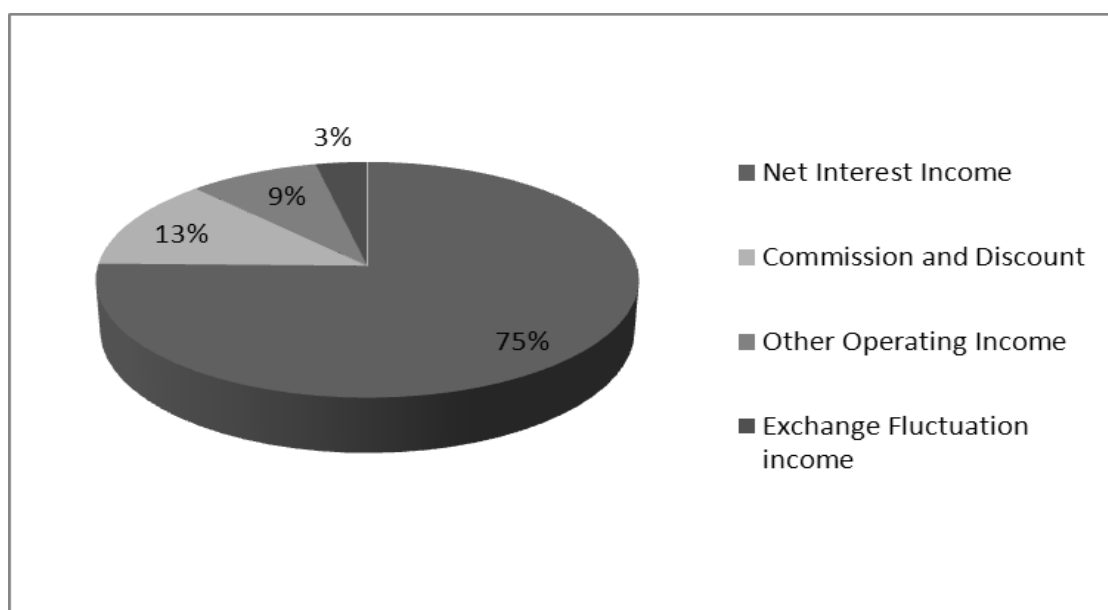


Above table and figure depict that NBL has highest income in interest in every fiscal year of study period. It has been taking increasing trend over the study period. From Rs 1274.71 million of interest income in fy 2062/63, it has

been reached to Rs 2157.56 million in fy 2066/67 where it decreased once in 2063/64 and it has been taken the increasing trend. Same trend has been taken by commission and discount income also. NBL has earned Rs 177.78 million as commission and discount in first year of study period which reached up to Rs 425.01 million in 2066/67. Other operating income of NBL has decreasing trend over the study period. Mean Net interest income of NBL is highest among the incomes of NBL with Rs 1545.77 million where exchange fluctuation income covered lowest part of income with Rs 70.70 million. Risk associated with the mean of Net Interest income and Exchange fluctuation income is Rs 410.55 million and Rs 50 million. Highest income portion bearer Net interest income has C.V. of 0.27 which is lowest C.V. among all incomes of NBL. Exchange fluctuation income has highest C.V., Commission and Discount income has Rs 0.35 million and other operating income has 0.30 C.V. It shows that NBL has been generating highest income in Net interest income with lowest risk among all incomes of NBL.

Figure 4.3

Average Income of NBL (Rs in million)



The largest income source of NBL over five study period is Net interest income which covered 75% of total income where commission and discount is

found the second income generation method with 13% of coverage. Other operating income and exchange fluctuation income covered 9% and 3% respectively. From the figure, we can conclude that net interest income has dominated the other income sources of NBL.

4.1.1.2 Income of RBB

Interest income is the major income sources of RBB too. RBB earns interest by providing loans in different headings like hire purchase loan, business loan education loan, home loan etc. Commission and discount is another category of income for both banks. Fluctuation in foreign exchange rate causes income to RBB. Except these all of other incomes are considered as other operating income. All income categories of RBB are listed below with the figure of income;

Table 4.4

Income of RBB (Rs in million)

FY	Net Interest Income	Commission and Discount	Other Operating Income	Exchange Fluctuation income	Total
2062-63	1432.69	289.58	109.67	73.95	1905.89
2063-64	1414.19	343.56	123.25	0.00	1881.00
2064-65	1682.11	430.62	157.63	0.00	2270.36
2065-66	2376.41	577.56	195.56	32.10	3181.63
2066-67	2817.42	621.73	167.88	40.92	3647.96
Total	9722.82	2263.05	754.00	146.97	12886.84
Mean	1944.56	452.61	150.80	29.39	2577.37
S.D.	558.67	128.97	30.96	27.76	712.93
C.V.	0.29	0.28	0.21	0.94	0.28

(Source: Appendix 3)

Above table and figure depict that net interest income has dominated other income of RBB. NBL has highest income in interest in every fiscal year of study period. It has been increasing over the study period. From Rs 1432.69 million of interest income in fy 2062/63, it has been reached up to Rs 2817.42

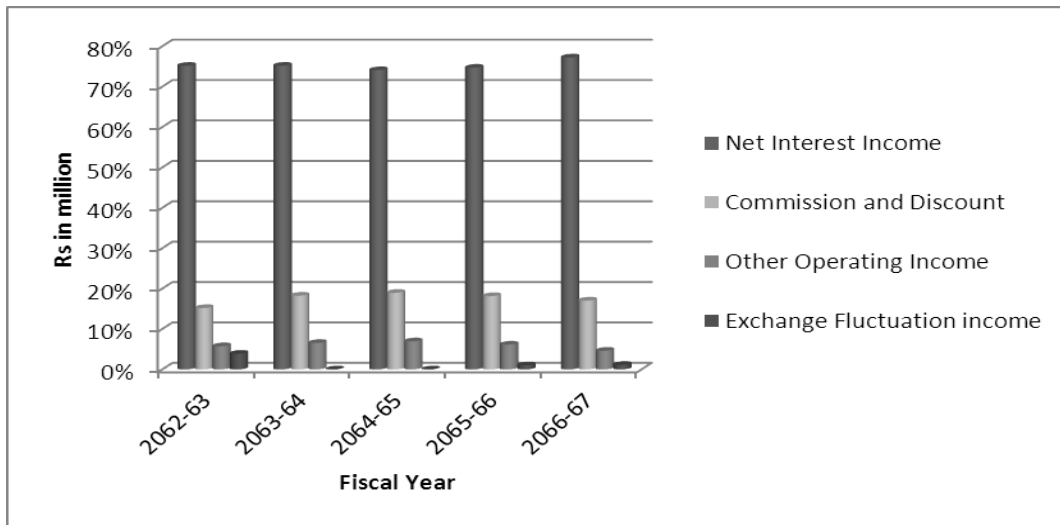
million in fy 2066/67 where it decreased once in 2063/64 and it has been taken the increasing in following fiscal years.

Commission and discount income has been increasing in every year. RBB has earned Rs 289.58 million as commission and discount in first year of study period which reached up to Rs 621.73 million in 2066/67. Other operating income of RBB has taken the increasing way over the study period, But no consistency can be found in exchange fluctuation income. RBB has generated Rs 73.95 million through exchange fluctuation transaction and no incomes are realized in second and third study period. And again RBB generated Rs 32.10 million and Rs 40.92 million in 2065/66 and 2066/67 respectively.

Mean Net interest income of RBB is highest among the incomes of NBL with Rs 1944.56 million where exchange fluctuation income covered lowest part of average income with Rs 29.39 million. Risk associated with the mean of Net Interest income and Exchange fluctuation income is Rs 558.67 million and Rs 27.76 million. Highest income portion bearer Net interest income has C.V. of 0.29 which is second largest C.V. among all incomes of RBB. Exchange fluctuation income has highest C.V., Commission and Discount income has 0.28 and other operating income has 0.21 C.V. It shows that RBB has been generating highest income in Net interest income with midium level risk among all incomes of RBB.

Figure 4.4

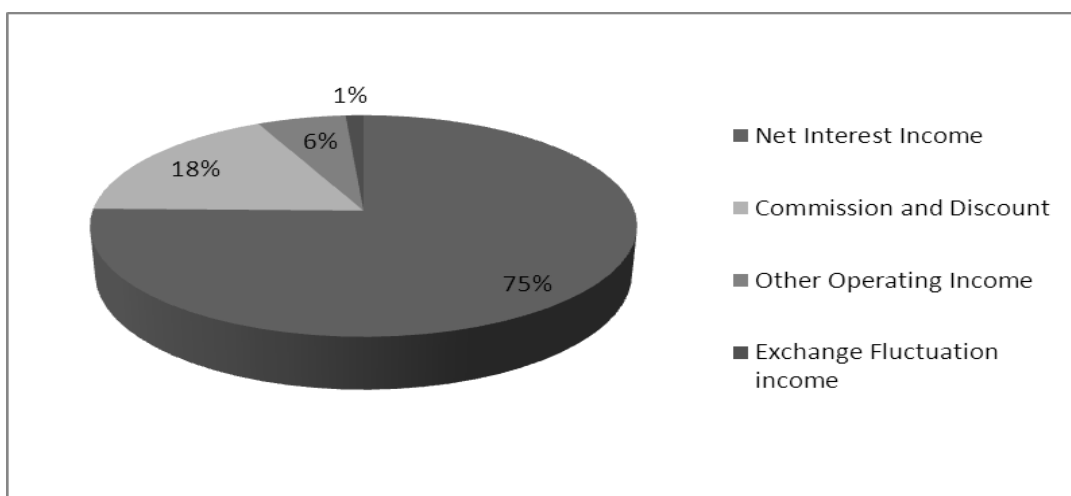
Income of RBB (Rs in million)



The past trend of income has been presented in above figure. Net interest income has taken almost the same trend over total income of study period. Commission and discount income and other operating income have captured increasing trend in first three study period and then decreasing trend in two remaining period. Exchange fluctuation income has taken decreasing trend in first three years where it again transacted in increasing trend.

Figure 4.5

Average Income of RBB (Rs in million)



(Source: Appendix 3)

The largest income source of RBB over five study period is Net interest income which covered 75% of total income where commission and discount is found the second income generation method with 18% of coverage. Other operating income and exchange fluctuation income covered 6% and 1% respectively. From the figure, we can conclude that net interest income has dominated the other income sources of NBL.

4.1.1.3 Income Ratio of NBL and RBB

In many cases, income generation trend between two banks found same. The table and figure of income and its ratio are presented below:

Table 4.5

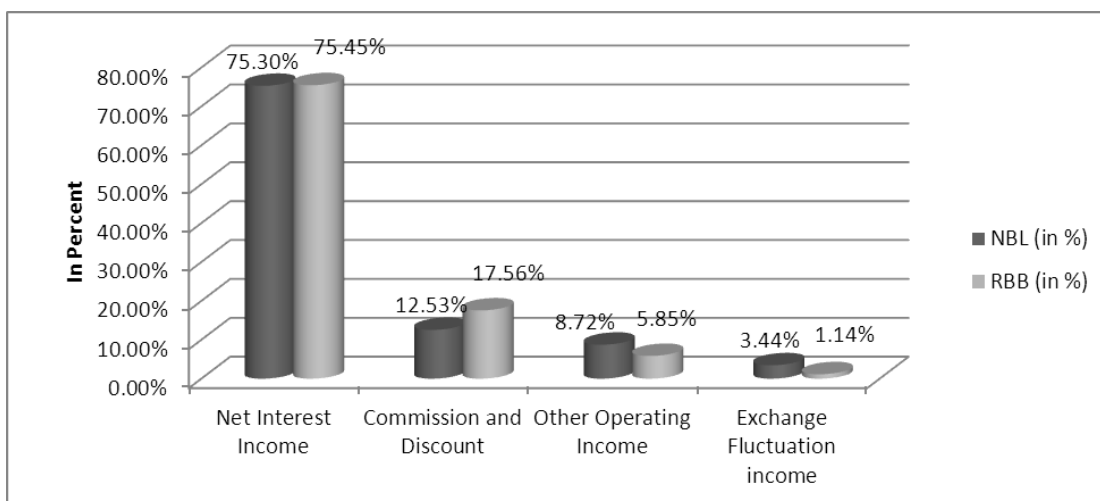
Average Income of NBL & RBB (Rs in million)

Income	NBL	RBB	NBL (in %)	RBB (in %)
Net Interest Income	1,545.77	1,944.56	75%	75%
Commission and Discount	257.33	452.61	13%	18%
Other Operating Income	179.11	150.80	9%	6%
Exchange Fluctuation income	70.70	29.39	3%	1%
Total	2,052.91	2,577.37	100%	100%

(Source: Appendix 3)

Figure 4.6

Average Income Analysis of NBL & RBB (Rs in million)



Average Net interest income of NBL and RBB is Rs 1545.77 million and Rs 1944.56 million respectively. Although the amount of Net interest income of NBL has dominated RBB, NBL and RBB both have gained 75% net interest income over total income of study period. NBL has obtained Rs 257.33 million with 13% of commission and discount income where RBB has gained Rs 452.61 million with 18% for the same. RBB has dominated NBL in commission and discount income where other operating income and exchange fluctuation income of NBL has dominated RBB by 3% and 2% respectively.

4.1.2 Analysis of Operating Expenses

Every organization has to expend for different operating activities. Alksdjfalskddjf are considered as other expenses. Both limited have mainly three types of expenditure occurred; staff expenses, exchange fluctuation expenses and other expenses.

Table 4.6
Analysis of Operating Expenses (Rs in million)

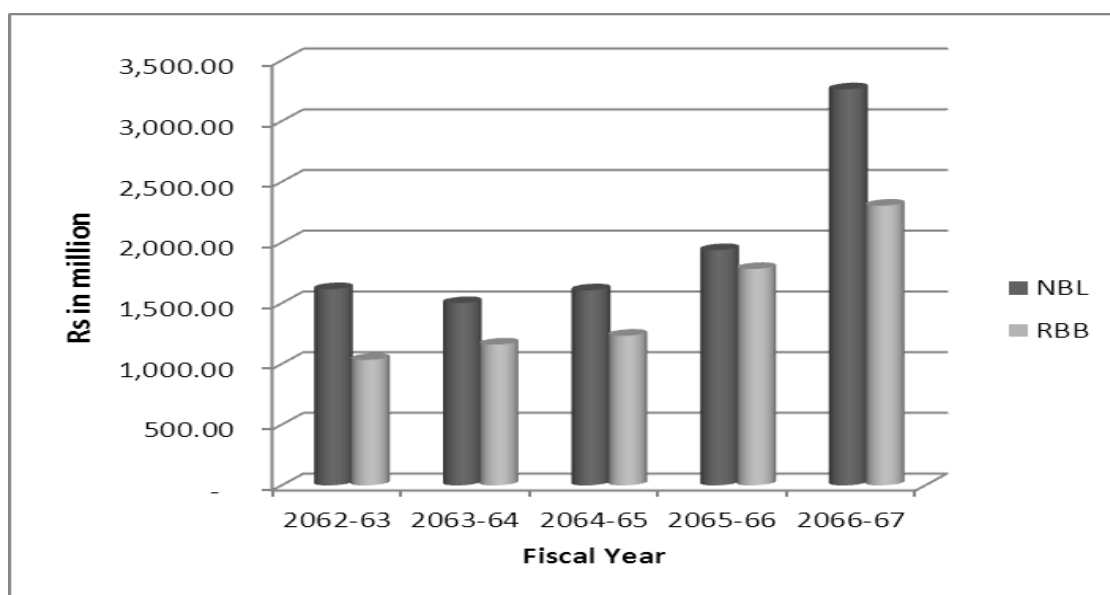
Year	NBL	RBB
2062-63	1615.74	1033.81
2063-64	1501.09	1159.73
2064-65	1606.61	1232.33
2065-66	1937.58	1782.33
2066-67	3261.61	2303.33
Mean	1984.53	1502.31
S.D.	655.08	475.35
C.V.	0.33	0.32

(Source: Appendix 4)

Operating Expenses of NBL in every year is found higher than RBB. Both the banks have increasing amount of expenses. Both banks have highest operating expenses in final year of study period. NBL has deducted its operating expenses in 2063-64 from Rs 1615.74 million to Rs 1501.09 million but the operating expenses of RBB continuously kept increasing through-out the study period. In every fiscal year, NBL has expended more than RBB in its operation. Mean Operating Expenses of NBL is 1984.53 and RBB is 1502.31 over study period. Although NBL has been operating with low number of branches than RBB, Expense of NBL is found higher than RBB. Deviation level of Expense of NBL and RBB is Rs 655.08 million and Rs 475.35 million respectively which resulted same level of C.V in both limited. It illustrates that NBL has maintained lower number of branches with higher expenses than RBB.

Figure 4.7

Operating Expense Analysis of NBL & RBB (Rs in million)



The figure listed above shows that the expenses of NBL is higher than the RBB. NBL has been increasing its expenses from the beginning of the study period except 2063/64. But during the fiscal year 2066-67, the expenses of NBL are increased unexpectedly. It is found that the expense of RBB has taken an increasing trend in every fiscal year of the study period and operated at a lower cost than NBL as well.

4.1.2.1 Operating Expense of NBL

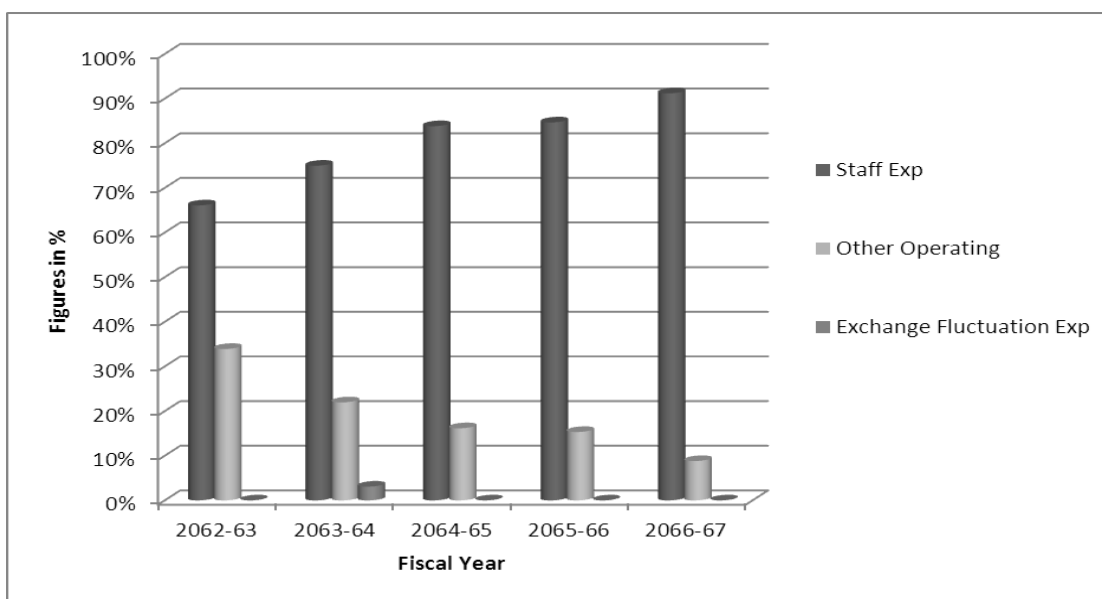
Staff expense is the major expense category of all financial institutions in Nepal and the same is true for NBL also. As foreign currency exchange is one of the major services provided by NBL, sometimes it creates expenses as well. There are lots of expenses to be incurred to run the services smoothly such as: staff expenses, office expenses, new branch opening expenses, regular operational expenses, etc. These types of expenditures are incurred as other operating expenses in NBL. All expense categories of NBL are listed below with the figure of income;

Table 4.7
Operating Expenses of NBL (Rs in million)

FY	Staff Exp	Other Operating	Exchange Fluctuation Exp	Total
2062-63	1067.63	548.11	0.00	1615.74
2063-64	1125.22	329.59	46.28	1501.09
2064-65	1346.82	259.79	0.00	1606.61
2065-66	1640.57	297.02	0.00	1937.58
2066-67	2973.99	287.61	0.00	3261.61
Total	8154.24	1722.11	46.28	9922.64
Mean	1630.85	344.42	9.26	1984.53
S.D.	701.10	104.26	18.51	655.08
C.V.	0.43	0.30	2.00	0.33

(Source: Appendix 4)

Figure 4.8
Operation Expenses Analysis of NBL

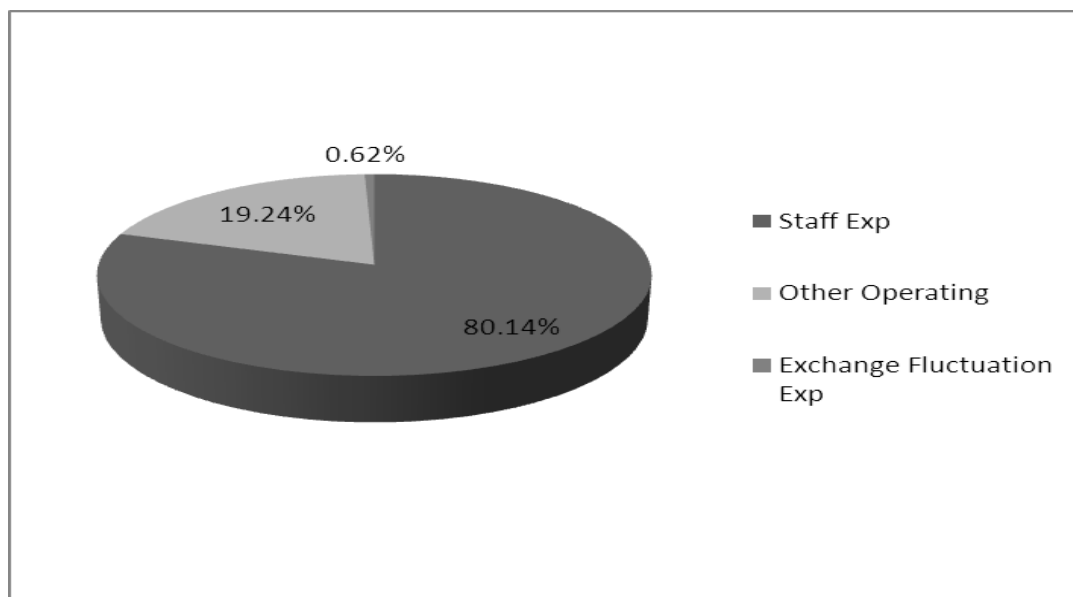


Above table and figure illustrate that NBL has incurred increasing staff expenses in every fiscal year of study period. It has started from Rs 1067.63

million in 2062/63 and reached up to Rs 2973.99 million in 2066/67. NBL has deducted its other operating expenses in one year to another of study period. NBL has taken decreasing trend up to 2064/65 in other operating expense which reached Rs 297.02 million and again decreased to Rs 287.61 million. Rs 46.28 million is expended by NBL as foreign currency fluctuation only in 2063/64. Mean staff expense is the highest expense category among all expense of NBL. It covered Rs 1630.85 million of average expense. Other operating expense covered Rs 104.26 of average expense. Exchange fluctuation expense of NBL has covered Rs 9.46 million of average expense. These level of average expenses are generated with certain level of standard deviation. Staff expense has highest standard deviation and C.V. with 701.10 and 0.43. Other operating and Exchange Fluctuation expenses has C.V. of 0.30 and 2 respectively. It shows that NBL has expended highest part in Staff expenses with high level of variation during the study period.

Figure 4.9

Average Expense Analysis of NBL



(Source: Appendix 4)

The average proportion of various expenditure over total expenditure in study period is presented in above figure which depicts that staff expenses of NBL has covered 80.14% of total expenses, 19.24% by other operating expense and remaining 0.62% by exchange fluctuation expense.

4.1.2.2 Operating Expense of RBB

During operation of any organization, different types of expenses are generated. And that depends on organization nature. In financial institutions some major cost incurs during the operation; staff cost, exchange fluctuation and other operating exp. Other operating expenses includes regular operating expenses like utilities, rent, generator cost, equipment cost, etc. Among these separated costs, staff expenses cover wide range which depends on the number of area serving by the bank.

Table 4.8

Operating Expenses of RBB (Rs in million)

FY	Staff Exp	Other Operating	Exchange Fluctuation Exp	Total
2062-63	745.19	288.62	0.00	1033.81
2063-64	789.04	357.75	12.93	1159.73
2064-65	875.78	325.56	30.99	1232.33
2065-66	1389.01	393.32	0.00	1782.33
2066-67	1883.56	419.77	0.00	2303.33
Total	5682.58	1785.02	43.93	7511.53
Mean	1136.52	357.00	8.79	1502.31
S.D.	439.02	46.74	12.18	475.35
C.V.	0.39	0.13	1.39	0.32

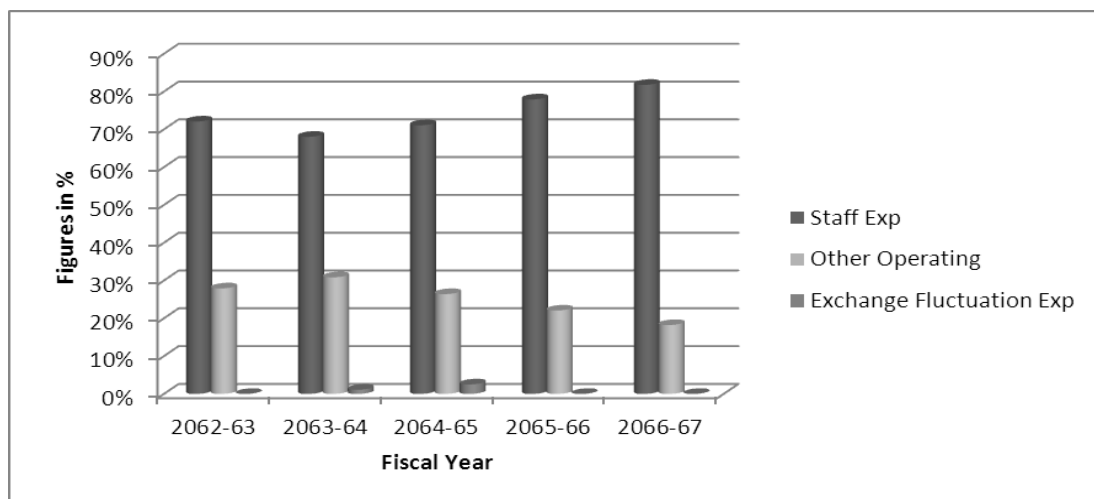
(Source: Appendix 4)

Above table depicts that RBB has an increasing trend of expenditure especially staff expenses and other operating expense. In FY 2062-63, staff

expenses was Rs 745.19 million in RBB which reached to Rs 1883.56 million in 2066-67. Staff expense was increased highly in FY 2065-66 and FY 2066-67. Other operating expense of RBB was Rs 288.62 million in FY 2062-63 which increased upto Rs 419.77 million in final FY of study period. In FY 2064-65, the expenditure was decreased than 2063-64. Exchange fluctuation expense of RBB was incurred just in two years of study period. Rs 12.93 million and Rs 30.99 million was incurred in FY 2063-64 and FY 2064-65 respectively. Mean staff expense is the highest expense category among all expense of RBB. It covered Rs 1136.52 million of average expense. Other operating expense covered Rs 357 of average expense. Exchange fluctuation expense of NBL has covered Rs 8.79 million of average expense. These level of average expenses are generated with certain level of standard deviation. Staff expense has highest standard deviation and C.V. with 439.02 and 0.39. Other operating and Exchange Fluctuation expenses has C.V. of 0.13 and 1.39 respectively. It shows that RBB has expended highest part in Staff expenses with high level of variation during the study period.

Figure 4.10

Operation Expenses Analysis of RBB

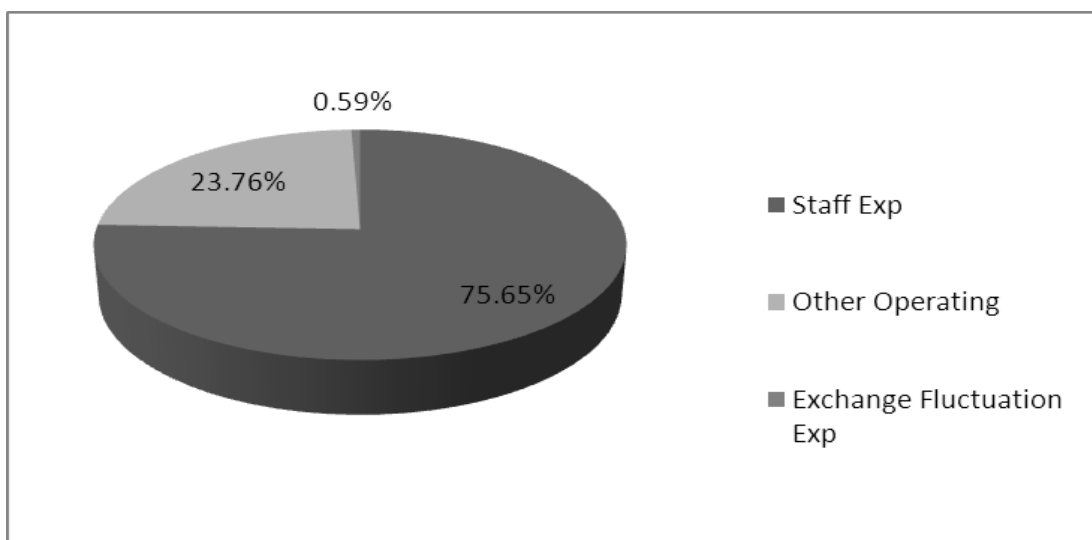


The above figure shows that proportion of staff expenses over total expense of RBB was decreased in FY 2063-64 and then It has taken increasing trend. From 72% in FY 2062-63, It has decreased to 68% and it went up to

82% in FY 2066-67. But Other operating expense has just opposite trend than staff expense. The proportion of other operating expense over total expense was 28% in FY 2062-63, 31% in FY 2063-64 which was decreased upto 18% in final year of study period.

Figure 4.11

Average Expense Analysis of of RBB



(Source: Appendix 4)

The average proportion of various expenditure over total expenditure in study period is presented in above figure which depicts that staff expenses of RBB has covered 75.65% of total expenses, 23.76% by other operating expense and remaining 0.59% by exchange fluctuation expense.

4.1.2.3 Expense Ratio of NBL and RBB

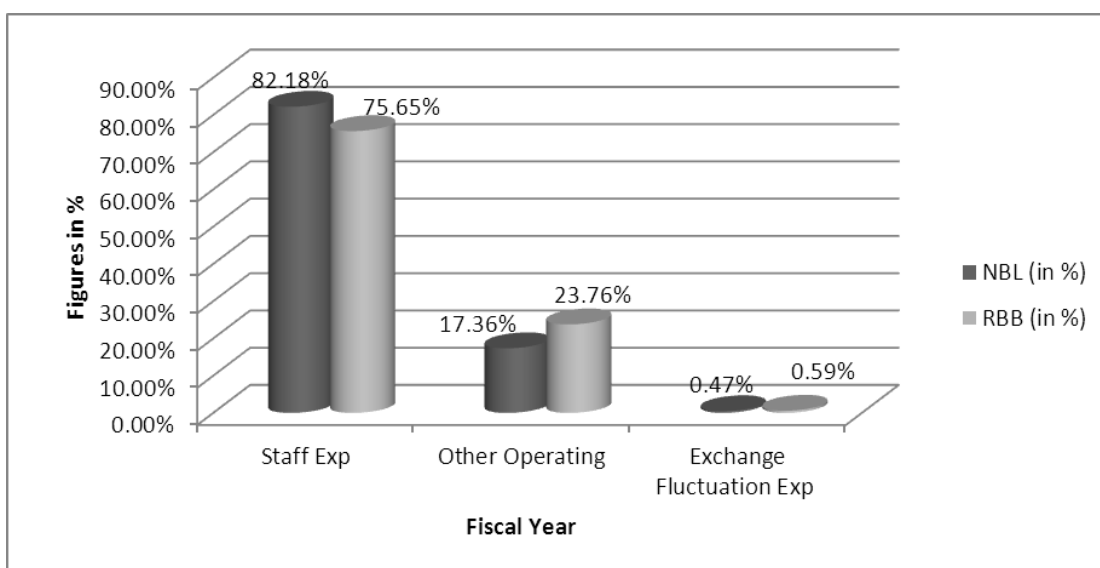
The comparative expense ratio of NBL and RBB helps to determine which bank has low operating expenses and how the expenditure structure is made. Staff expense is the major expenditure of both banks. Second highest is other operating and the smallest expense among them is exchange fluctuation expenses.

Table 4.9**Expenses Ratio of NBL & RBB (Rs in million)**

Expense	NBL	RBB	NBL (in %)	RBB (in %)
Staff Exp	1,630.85	1,136.52	82.18%	75.65%
Other Operating	344.42	357.00	17.36%	23.76%
Exchange Fluctuation Exp	9.26	8.79	0.47%	0.59%
Total	1,984.53	1,502.31	100%	100%

(Source: Appendix 4)

The table listed above shows the staff expense of NBL is Rs 1630.85 million with 82.18% of average expenditure over five study periods where RBB has Rs 1136.52 million with 75.65% for the same category. Rs 344.42 million of expense in other operating category of NBL where 357.00 million of RBB for the same. Exchange fluctuation of NBL is over expended than RBB by more than Rs 0.40 million.

Figure 4.12**Average Expense Analysis of NBL & RBB**

From the above figure, we can conclude that Staff expense is lower in RBB than NBL. But other operating expense of NBL is lower than RBB where NBL has 17.36% of other operating expense over total average expense of five study period and 23.76% is expended by RBB for the same. NBL is found better in management of exchange fluctuation where NBL expended 0.47% and RBB expended 0.59% for the same.

4.2 Analysis of Net Profit After Tax

The definitive objective of banks is to earn profit. No bank can survive without profit. Profit is the indicator of efficient operation of bank. The bank acquires profit by providing different services to its customers or by making investment of different kinds.

Sufficient profit is a must to have good liquidity, grab investment opportunities, expansion, finance government in need of development fund, overcome the future contingencies and meet fixed internal obligation for the bank. After deducting all kinds of liability, Net profit after tax is received. Such profit after tax determine the net profit level of the company. The position and trends of NPAT of both banks is presented below:

4.2.1 NPAT of NBL and RBB

NPAT signifies the profit position of banks that helps the company to exist in long run. It means profit declare that the company has been operating all the activities successfully and achieving goals. The higher profit illustrate the strength of the banks for longrun.

Table 4.10**NPAT of NBL & RBB (Rs in million)**

FY	NBL	RBB
2062-63	1207.26	1591.49
2063-64	226.95	1616.91
2064-65	239.21	1718.94
2065-66	894.25	1923.68
2066-67	249.38	2026.98
Mean	563.41	1775.60
S.D.	410.10	171.70
C.V.	0.73	0.10

(Source: Appendix 5)

From the above table, it can be concluded that RBB has dominated NBL in every fiscal year of study periods. NBL has generated Rs 1207.26 million of NPAT in FY 2062-63 where RBB has generated Rs 1591.49 million. In FY 2063-64, NPAT of NBL was deducted to Rs 226.95 million where NPAT of RBB was increased to Rs 1616.91 million. NPAT of NBL has been increased from Rs 239.21 million to Rs 894.25 million in FY 2064-65 and 2065-66. Finally it has been decreased to Rs 249.38 million in final year of study period. But NPAT of RBB has increased year to year from Rs 1718.94 million upto Rs 2026.98 million in FY 2064-65 to 2066-67. Average NPAT of NBL is Rs 563.41 million where RBB has 1775.60 million of average NPAT of five study period. Standard deviation of NBL is Rs 410.10 million and 171.70 million where C.V. of NBL is higher than RBB by 0.73. Therefore, It can be easily concluded that NPAT level of RBB is better than NBL. But the volatility on

NPAT is found higher in NBL than RBB. RBB has been maintained increasing and more stable profit level than NBL.

Figure 4.13

NPAT Level Analysis of NBL & RBB

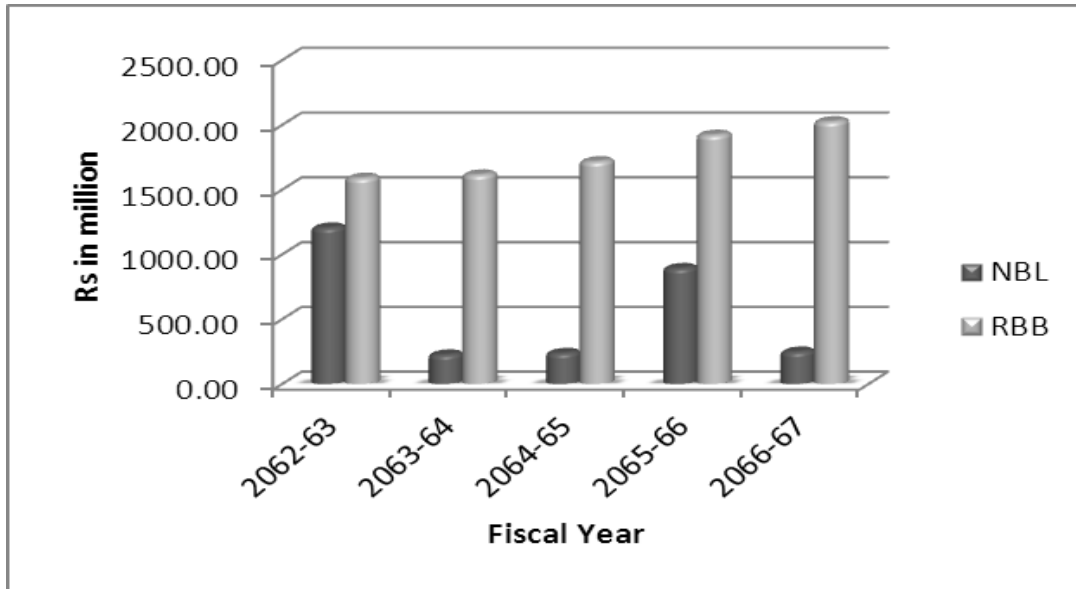
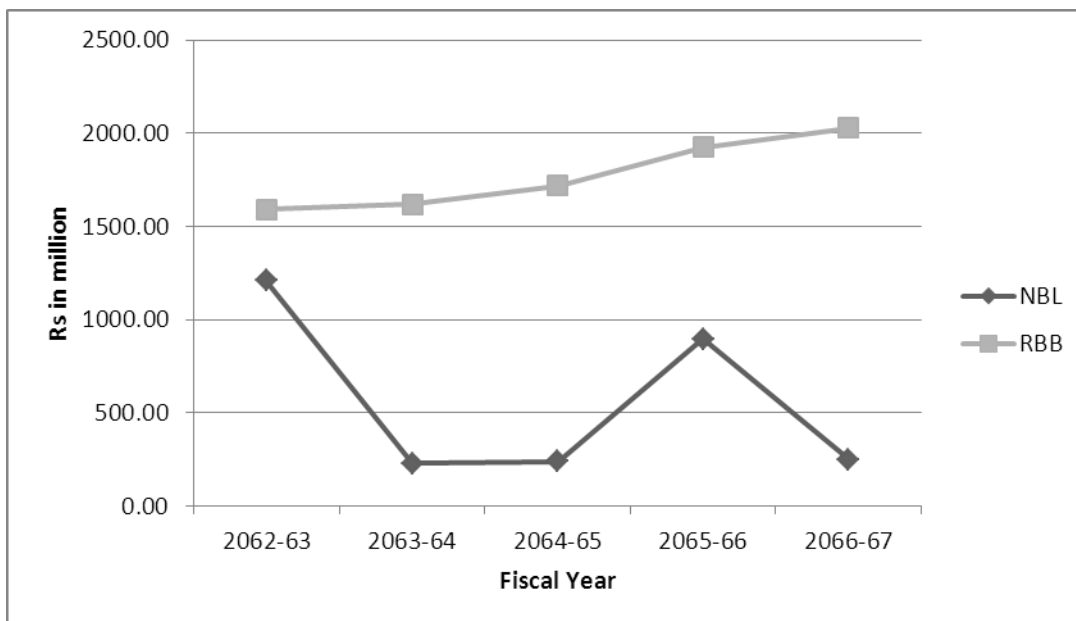


Figure 4.14

NPAT Analysis of NBL & RBB



The figures listed above show the comparative NPAT of NBL and RBB. RBB has dominated NBL in every fiscal. RBB has taken increasing trend in

every fiscal year of study period where NPAT of NBL is found volatile. First it decreased and then slightly increased in third FY of study period. NPAT of NBL increased in FY 2065-66 and then again decreased in final FY of study period.

4.2.2 Analysis of NPAT Trend

The trend of NPAT shows the position of net profit of bank that gained in past fiscal years. This position helps to know how a bank has been operating. Positive position of the company is favorable where negative is harmful. It decreases the capacity in long run if the NPAT is negative. From NPAT point of view, higher profit is concluded as better position.

The NPAT trend of NBL and RBB are listed below;

Table 4.11

Change in NPAT of NBL (Rs in million)

FY	NBL	Change in NPAT	Change in %
2062-63	1207.26	0.00	0%
2063-64	226.95	-980.31	-81%
2064-65	239.21	12.26	5%
2065-66	894.25	655.04	274%
2066-67	249.38	-644.87	-72%

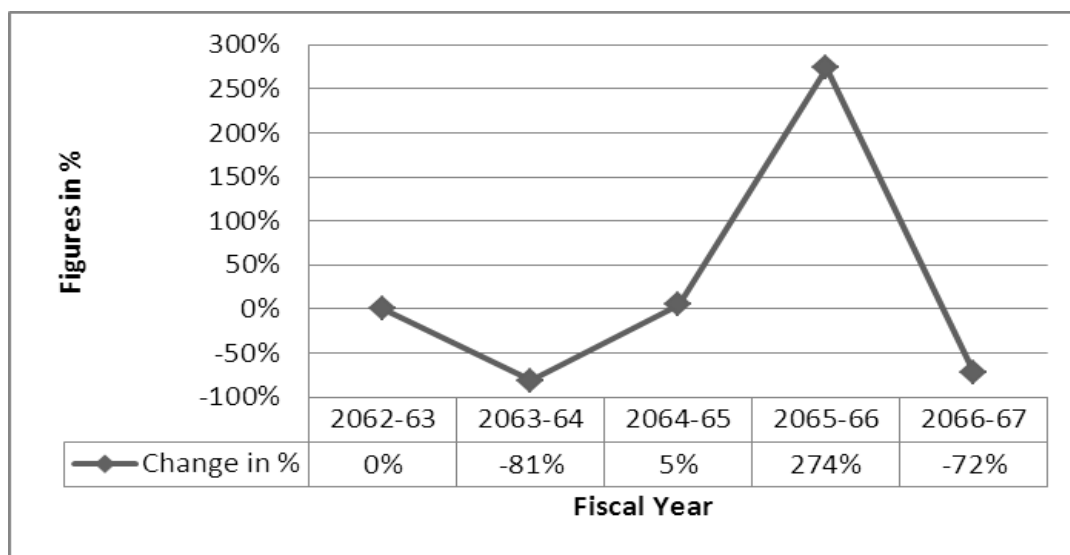
(Source: Appendix 5)

From the above table, we can conclude that NBL has generated profit position in every fiscal year where it has taken decreasing trend in FY 2063-64 and FY 2066-67. NBL has generated only Rs 226.95 million on 2063-64 where it was Rs 1207.26 million in FY 2062-63. It was slightly increased in FY 2064-65 with profit Rs 239.21 million. After this, it increased dramatically and

reached to Rs 894.35 million in 2065-66 and finally its again decreased and reached down to Rs 249.38 million in FY 2066-67.

Figure 4.15

NPAT Trend Analysis of NBL



The trend of NPAT in NBL is found decreasing in FY 2063-64 by -81% where it has taken increasing trend after this. 5% increasing trend in FY 2064-65 and 274% increasing trend in FY 2065-66. And finally it has taken decreasing trend by -72%. NBL has volatile trend of past NPAT.

Table 4.12

Change in NPAT of RBB (Rs in million)

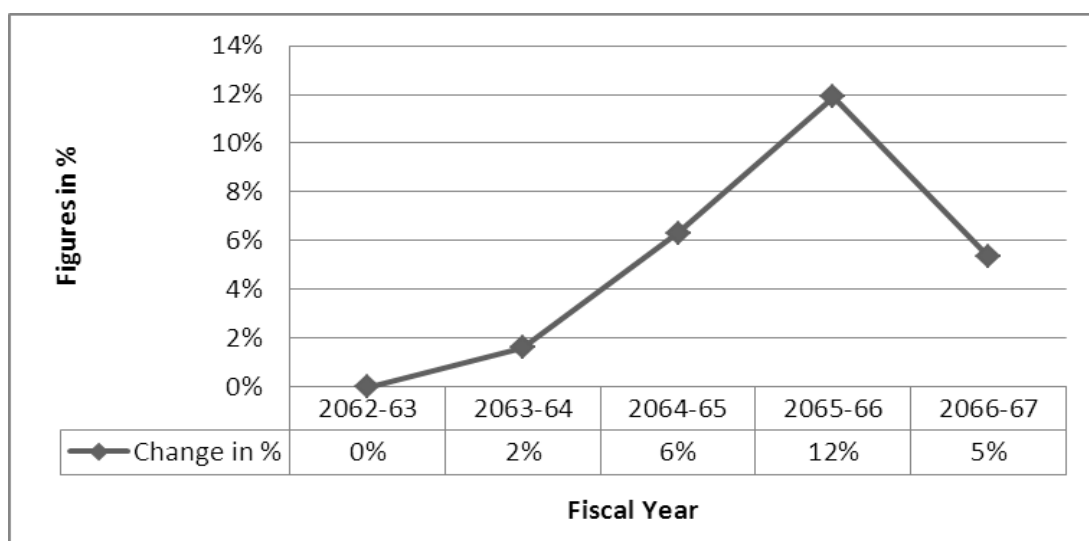
FY	RBB	Change in NPAT	Change in %
2062-63	1591.49	0.00	0%
2063-64	1616.91	25.42	2%
2064-65	1718.94	102.03	6%
2065-66	1923.68	204.74	12%
2066-67	2026.98	103.29	5%

(Source: Appendix 5)

From the above table, we can conclude that RBB has generated profit position in every fiscal year where it has taken increasing trend in every FY of study period. RBB has generated Rs 1616.91 million on 2063-64 where it was Rs 1591.49 million in FY 2062-63. It was slightly increased in FY 2064-65 with profit Rs 1718.94 million. After this also, it has taken increasing trend and reached to Rs 1923.68 million in 2065-66 and Rs 2026.98 million in 2066-67.

Figure 4.16

NPAT Trend Analysis of RBB



The trend of NPAT in RBB is found increasing in FY 2063-64 by 2% where it has again taken increasing trend after this. 6% increasing trend in FY 2064-65 and 12% increasing trend in FY 2065-66. And finally it has taken decreasing trend by 5%. RBB has volatile trend of past NPAT.

4.3 Analysis of Growth Position

Deposit is the main source of fund for a financial institution. All banking activities are concentrated in managing such funds on the way to generate high profit. Scattered money from all over the country are deposited into banking system. And banks invest such funds into different sectors. We can't imagine banks without such deposit because without deposit there is no meaning of existence of banks. That means increasing deposit is one of the

main objective of banks. When there is enough investment opportunity with assumption of zero risk for banks, relation between deposit, investment and profit becomes as follows;

Deposit, investment and profit of bank get positive relation if there is proper investment opportunity, and if deposit increases, investment and profit both will increase. Profit and investment both will decrease when deposit decrease. When investment opportunity decrease but deposits are high, it creates cost of fund and ultimately results lower profit. Anyway, we can say banks growth is directly indirectly based on deposits. To increase deposit, Banks work through different branches. NBL and RBB also collect deposit and mobilize them to generate high yield, the main source of collecting deposit is introducing different types of account to the customer with different facilities i.e., saving , current, fixed and other accounts. The deposits of NBL and RBB as follows:

Table 4.13

Deposits of NBL & RBB (Rs in million)

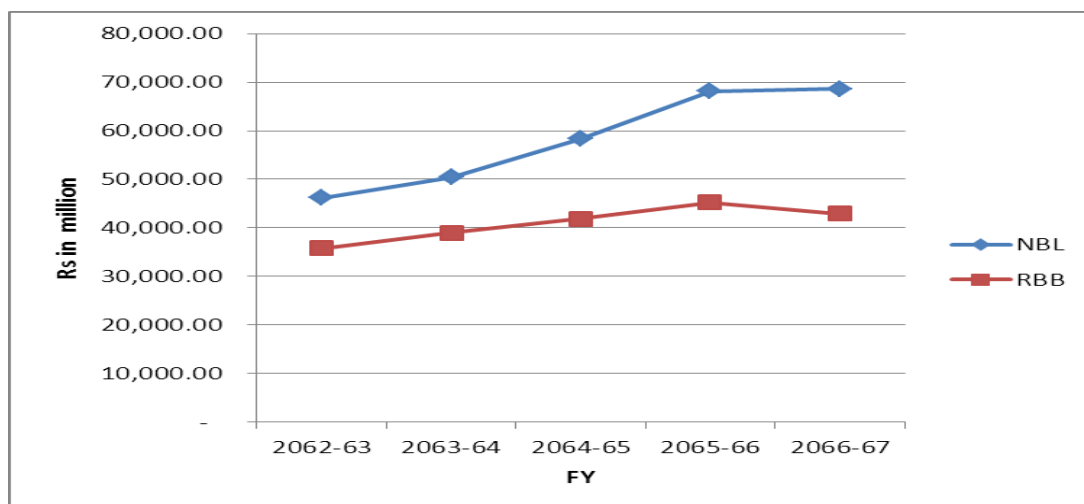
FY	NBL	RBB
2062-63	46,195.48	35,829.77
2063-64	50,464.13	39,014.20
2064-65	58,333.12	41,829.39
2065-66	68,160.93	45,194.23
2066-67	68,625.87	42,882.04
Mean	58,355.90	40,949.93
S.D.	9,074.88	3,239.87
C.V.	0.16	0.08

(Source: Appendix 6)

NBL has collected deposit of Rs 46195.48 and 50464.13 where RBB has generated 35829.77 and 39014.20 in 2062-63 and 2063-64 respectively. NBL increased the figure and reached to 58333.12 in 2064-65 where RBB has abled to increase it to 41829.39. In FY 2065-66, NBL has generated deposit of Rs 68160.93 where RBB has collected only Rs 45194.23. Finally NBL has maintained decreasing deposit figure and reached at 68625.87 in 2066-67 where RBB generated deposit of Rs 42882.04 in FY 2066-67 which is lower than FY 2065-66. The average deposit of total study period is Rs 58,355.90 and 40949.93 of NBL and RBB. In every FY, NBL has dominated RBB in collection of deposit from various branches of the bank. The deviation in collecting deposit is higher in NBL than RBB where C.V of NBL is 0.16 and RBB is 0.08. It shows that consistency over collecting deposit is lower in NBL than RBB.

Figure 4.17

Deposits of NBL & RBB (Rs in million)



The above figure illustrates that NBL has always generated higher deposit collection than RBB. The another point to be noted here is deposit amount in NBL has increased from one year to another very high than RBB. At the final FY, RBB has loosed the deposit amount where NBL has succeed to stable the deposit. To illustrate this more we can observe the growth of deposit in NBL and RBB which help us to be more clear on this.

Table 4.14**Growth of NBL & RBB (Rs in million)**

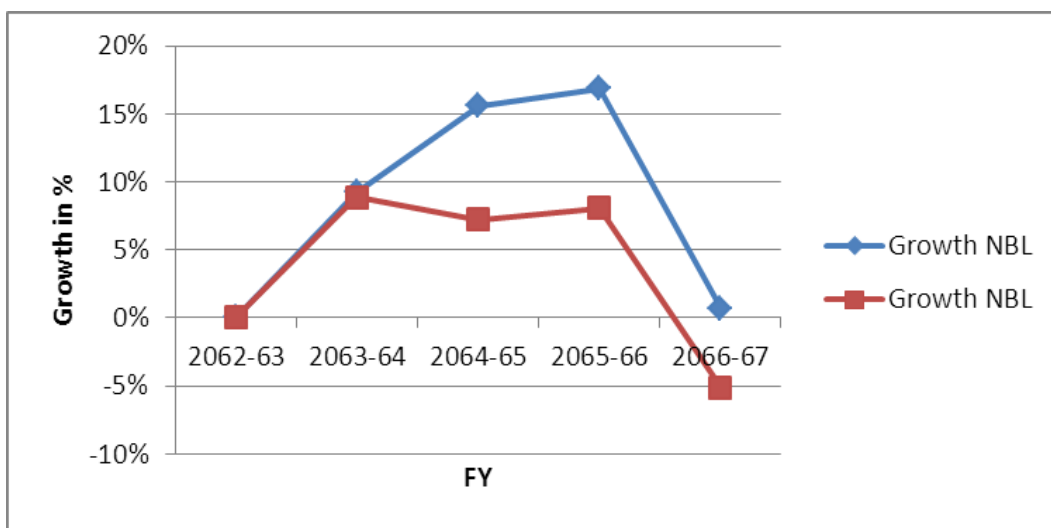
FY	Growth NBL	Growth RBB
2062-63	0%	0%
2063-64	9%	9%
2064-65	16%	7%
2065-66	17%	8%
2066-67	1%	-5%

(Source: Appendix 6)

The above table shows that growth level of NBL deposit is higher than RBB in FY 2064-65 by 9% with 16% and 7 % in NBL and RBB respectively. Before this, 2063-64 have same level of deposits in both banks where 2062-63 is based year to calculate growth. NBL has 17% growth in 2065-66 where RBB has 8% only. But in final FY NBL has 1% growth and RBB has growth of -5% that means RBB loosed the deposit this year.

Figure 4.18

Growth Analysis of NBL & RBB



The above figure depicts that growth in deposit of NBL has dominated RBB after 2nd FY of study period. In FY 2064-65 and 2065-66, NBL has dominated the growth of RBB by 9% each year. In Final year, Growth of NBL has decreased but gained positive growth. But RBB has got negative growth in Final FY. Considering all these facts, we can conclude that deposit growth of NBL is better than RBB.

4.4 Analysis of Profitability Position

Profitability ratios measure the efficiency of a bank. They invest to earn profit, provide service in order to satisfy customer and to generate more profit. They take deposits and spread the loan to various persons to generate profit. Without profit, financial institutions cannot operate their regular and irregular duties.

Financial institutions provide dividend to staffs and take retained earnings from the profit they earned in each fiscal years. Hence, profitability ratio can be regarded as a control measure for the earning power and operating efficiency of a firm. The following profitability ratios, are used to evaluate the profitability of the selected commercial banks.

4.4.1 Net Profit Margin

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

Table 4.15

Net Profit Margin (in %)

FY	NBL	RBB
2062-63	70.41%	83.50%
2063-64	14.69%	85.96%
2064-65	13.08%	75.71%
2065-66	36.99%	60.46%
2066-67	9.04%	55.56%
Mean	28.84%	72.24%
S.D.	22.96%	12.20%
C.V.	79.59%	16.89%

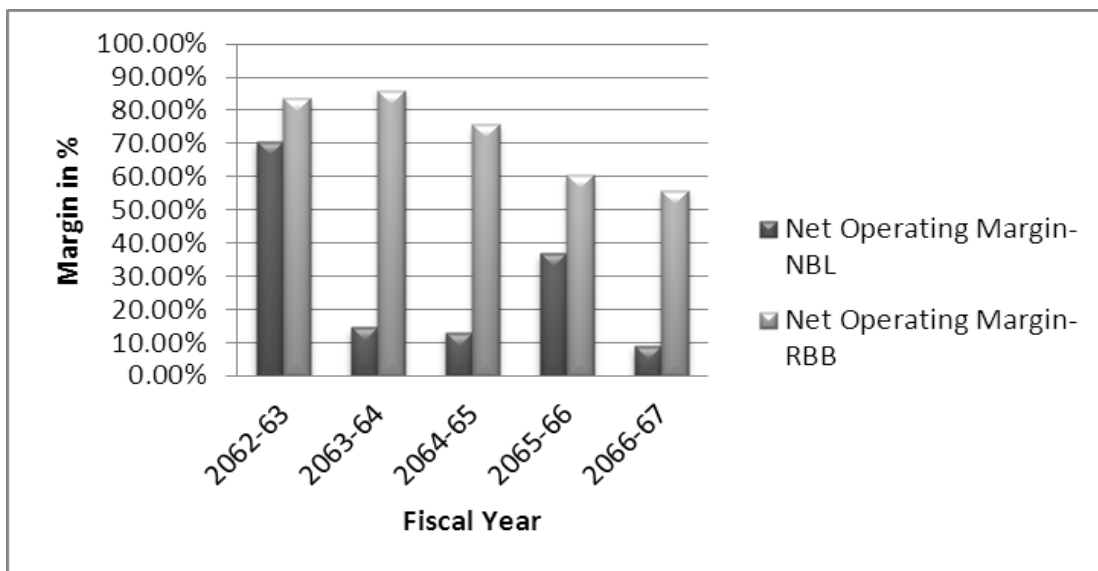
(Source: Appendix 7)

From the above table, Net Profit Margin is found to be decreasing each Fiscal year of both the banks except in fiscal year 2063-64 for RBB and 2065-66 for NBL. But the decreasing ratio is high in NBL than RBB. The starting point for NBL is 70.41% and it ends with 9.04% which shows NPR in the high declining ratio. The starting point for RBB is 83.50% and it ends up with 55.56% which is in slow ratio than NBL. Mean Net profit margin of NBL is 28.84% where RBB has 72.24%. Risk associated with net profit margin is 22.96% of NBL where RBB has generated net profit margin with 12.20% of risk. Coefficient of variance of NBL is 79.59% and RBB is 16.89%. It helps us

to conclude that RBB has maintained better position of Net profit margin than NBL.

Figure 4.19

Net Operating Profit Margin Analysis of NBL & RBB



This figure proves the elaboration of the above table. Here we can easily observe that NPM of NBL has decreased highly in the two fiscal year i.e. on 2063-64 and 2064-65 and it managed to lift up its NPM in FY 2065-66, but NPM again fell down on FY 2066-67. The NPM trend of RBB is in the same decreasing phase but not in the high decreasing ratio. RBB has managed to increase the NPM in FY 2063-64 but it failed to keep the same in rest of continuous three years.

4.4.2 Return on Assets

This is the ratio which indicates the position of profit over the assets. Financial institutions make investment over different types of assets in order to run daily operations. These types of assets are long run assets. It helps the organization to survive years to years. All the assets are the wealth of the company which means wealth of the shareholders. ROA helps to analyze

strength of the company. Higher ratio indicates total assets are effectively used. Return on Total Assets of NBL and RRB are shown on the table below:

Table 4.16

Return on Assets of NBL & RBB

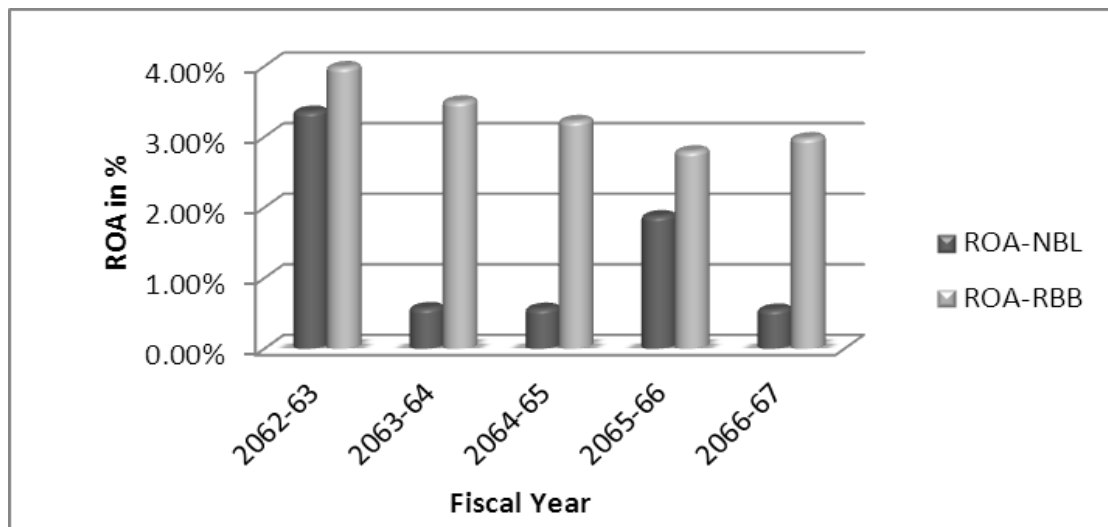
FY	ROA-NBL	ROA-RBB
2062-63	3.36%	3.99%
2063-64	0.58%	3.50%
2064-65	0.57%	3.23%
2065-66	1.88%	2.80%
2066-67	0.56%	2.98%
Mean	1.39%	3.30%
S,D.	1.11%	0.42%
C.V.	79.85%	12.66%

(Source: Appendix 8)

NBL has decreased its ROA to 0.58% and 0.57% in FY 2063-64 and 2064-65 respectively. But in FY 2065-66, NBL has come up with 1.88% ROA but again decreased to 0.56% in FY 2066-67, it failed to maintain its ROA which decreased to 0.56%. ROA of RBB is also in slow decreasing trend in each FY. In FY 2062-63 ROA of RBB is 3.99% and as per decreasing ROA trend it decreases to 2.98% in FY 2066-67. Mean Return on Assets of NBL is 1.39% where RBB has 3.30%. Risk associated with net return on assets is 1.11% of NBL where RBB has generated return on assets with 0.42% of risk. Coefficient of variance of NBL is 79.85% and RBB is 12.66%. It helps us to conclude that RBB has maintained better position of return on assets than NBL.

Figure 4.20

Return on Assets Analysis of NBL & RBB



The above figure illustrates that there is huge difference in Return of Assets of NBL and RBB. In 63/64, NBL has 0.58% of ROA and RBB has 3.50% of ROA which is the maximum difference level of ROA between the two banks thorough out the study period. The highest ROA of NBL is 3.36% and lowest one is 0.56%. The highest ROA of RBB is 3.99% and lowest one is 2.80%. Among the two banks

4.4.3 Return on Equity

Return on Equity is the ratio which indicates the portion of return over total equity. Equity sometimes also called as Net Worth is the excess amount of total assets over outsiders' liabilities. Equity refers to the owners' claim of a bank. This ratio measure how prudently the management has employed shareholders and the interest of shareholders by maximizing their net worth. It is the measurement of the rate of return available to the bank's shareholders. The ratio provides the company to deliver a good return on equity. It is calculated by dividing net profit by total equity capital.

Table 4.17
Return on Equity of NBL & RBB

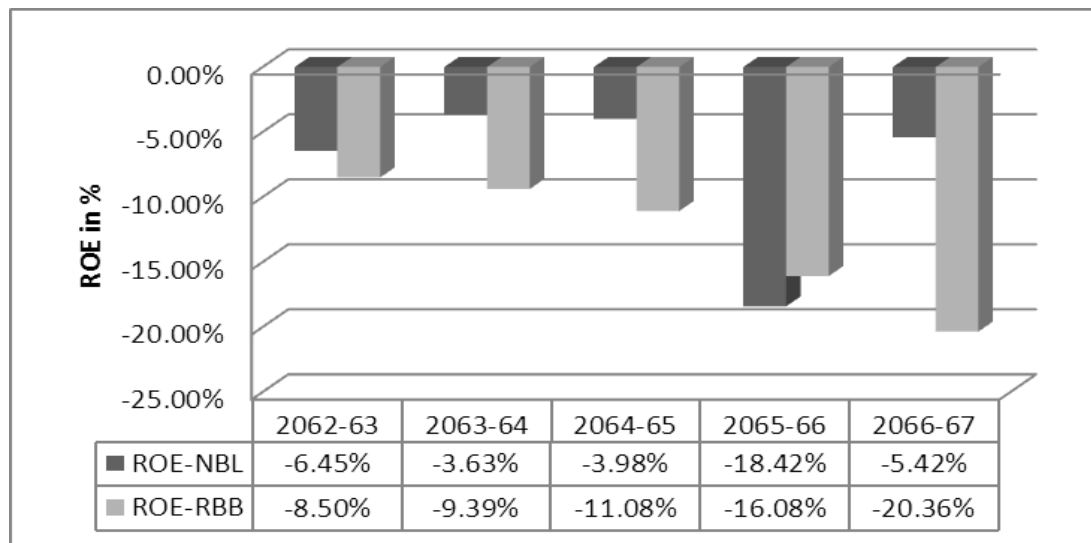
FY	ROE-NBL	ROE-RBB
2062-63	-6.45%	-8.50%
2063-64	-3.63%	-9.39%
2064-65	-3.98%	-11.08%
2065-66	-18.42%	-16.08%
2066-67	-5.42%	-20.36%
Mean	-7.58%	-13.08%
S,D.	5.51%	4.48%
C.V.	-72.75%	-34.28%

(Source: Appendix 9)

From the above table we can say that, ROE is negative in each year of the study period of NBL and RBB. But NBL is found better than RBB as ROE of NBL has decreased by -5.42 from -18.42 but negative ROE is found increasing in each year of RBB. This is because of the high amount reserve maintained by both the banks throughout the study period. Mean Return on Equity of NBL is -7.58% where RBB has -13.08%. Risk associated with net return on assets is 5.51% of NBL where RBB has generated return on equity with 4.48% of risk. Coefficient of variance of NBL is -72.75% and RBB is -34.28%. As per this point of view, RBB is found maintaining less negative ROE and is therefore better than NBL.

Figure 4.21

Return on Equity Analysis of NBL & RBB



The above figure shows that NBL has its highest negative 18.42% ROE in 065-066 and RBB has its highest negative 20.36% ROE in year 066-067. But the ratio of negative ROE in NBL is in lower rate than RBB. This concludes that RBB has reserved high amount of negative reserve than NBL.

4.4.4 Return on Capital Employed

The ratio measures management efficiency on how well the total fund including external funds were used to generate profit. This ratio provides a test of profitability in relation to long term fund. ROCE should always be higher than the rate at which the company borrows; otherwise any increase in borrowing will reduce shareholders' earnings. That's why; higher ROCE implies more efficiency in utilizing the capital employed.

The external fund comprises total of borrowings, depositors and other external liabilities:

Table 4.18
Return on Capital Employed

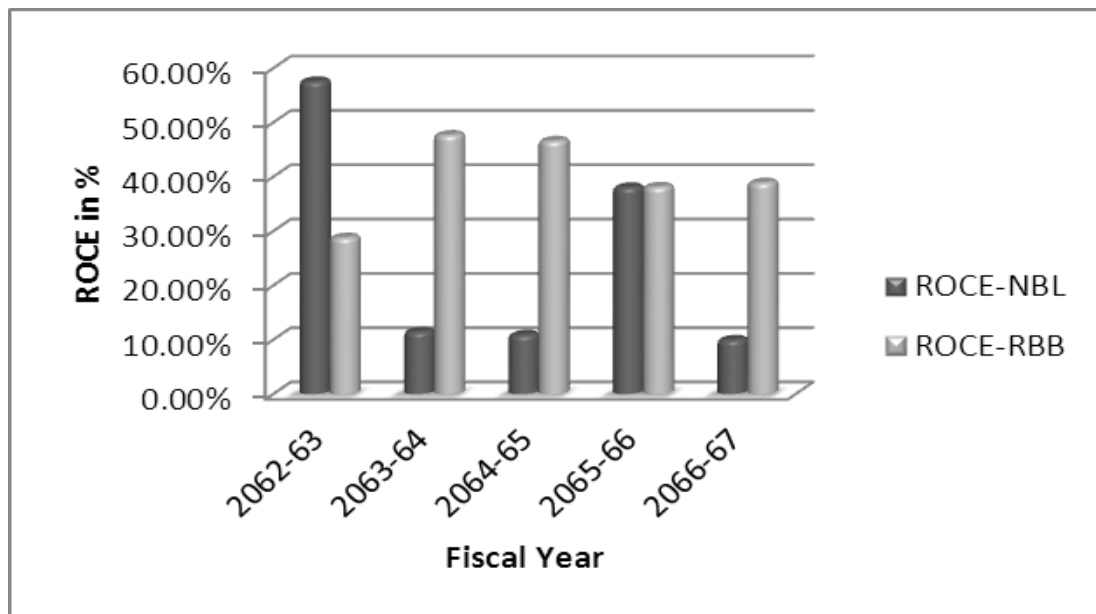
FY	ROCE-NBL	ROCE-RBB
2062-63	57.55%	28.78%
2063-64	11.43%	47.67%
2064-65	10.87%	46.59%
2065-66	38.04%	38.12%
2066-67	9.95%	38.89%
Mean	25.57%	40.01%
S.D.	19.17%	6.83%
C.V.	74.98%	17.06%

(Source: Appendix 10)

The above table defines that NBL has poor condition in ROCE. In year 062-063, it has 57.55% of ROCE but in the last year of the study period i.e.066-067 it decreased to 9.95%. The difference of NBL's ROCE from 1st year to 5th year is around -48% . RBB has ROCE in fluctuating trend but it has somehow managed to keep the difference in limit ratio. Here we can see that in year 062-063, RBB has 28.78% ROCE and in last year of the study period RBB has 38.89% which is around 10% in difference from 1st year to 5th year. Mean Return on Capital Employed of NBL is 25.57% where RBB has 40.01%. Risk associated with return on capital employed is 19.17% of NBL where RBB has generated the return with 6.83% of risk. Coefficient of variance of NBL is 74.98 and RBB is 17.06. It helps us to conclude that RBB has maintained better position of return of capital employed than NBL.

Figure 4.22

Return on Capital Employed Analysis of NBL & RBB



Here in this figure we can see that ROCE of NBL is in decreasing trend from first FY to 3rd FY of study period. And it has increased highly in FY 2065-66. Finally it has reached to highest lower ratio of ROCE in NBL. ROCE of RBB is increased in first to second FY of study period. It has started to decline after this. However, RBB has managed to increase its ROCE in 5th year than 4th year of study period.

4.4.5 Operating Efficiency Ratio

Often identified with banking and financial sectors, the efficiency ratio indicates a management's ability to keep overhead costs low. This ratio is used by Finance companies that focus on tight cost controls to boost profitability because growth prospects are generally modest. Bank management has to maintain efficiency in their operations to maximize profitability and the value of the shareholders, investments in the bank. This usually means reducing their operating expenses and increasing the productivity of their employees.

Since banks have to pay huge amount of the interest costs for their funds, they like to reduce non-interest costs especially, staff costs, wages and overhead costs. Lower the ratio means greater the success of management.

Operation Efficiency ratio measure how efficiently management are utilizing the company assets and turn into revenue, inventory management and accounts receivable and accounts payable process and system. A company's operating expenses divided by its operating revenues. More generally, any of a number of ratios measuring a company's operating efficiency, such as sales to cost of goods sold, net profits to gross income, operating expenses to operating income, and net profit to net worth.

Table 4.19
Operating Efficiency Ratio

FY	Operating Efficiency- NBL	Operating Efficiency- RBB
2062-63	94.23%	54.24%
2063-64	97.18%	61.65%
2064-65	87.85%	54.28%
2065-66	80.15%	56.02%
2066-67	118.22%	63.14%
Mean	95.53%	57.87%
S.D.	12.76%	3.78%
C.V.	13.36%	6.54%

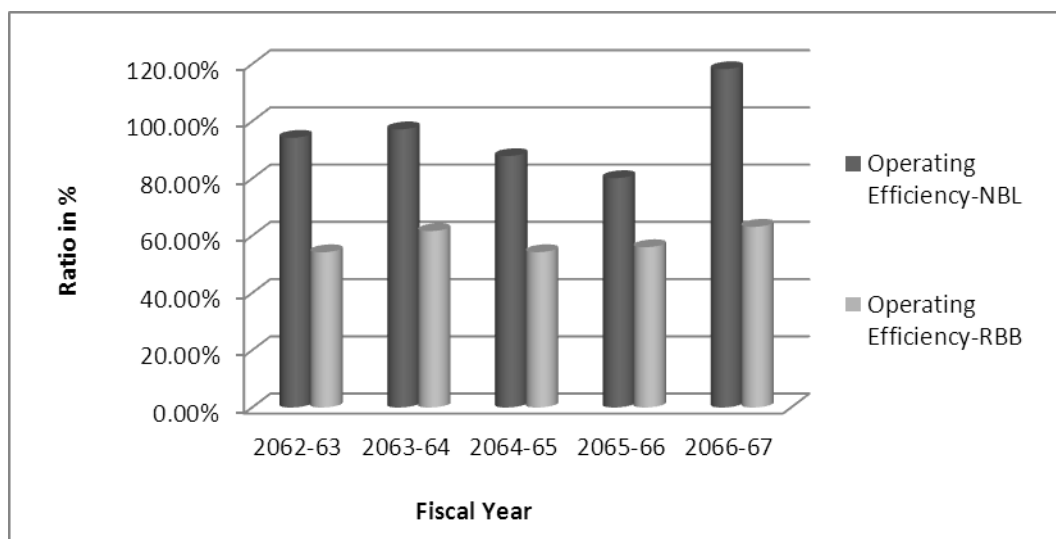
(Source: Appendix 11)

The above table exposes the trend of OER of NBL and RBB. Both the company has increasing trend of OER. NBL has 94.23% of OER in year 062-063 but it increased to 118.22% in last year of the study period i.e. 066-067. RBB has 54.24% of OER in year 062-063 and increased to 63.14% in last year of study period i.e. 066-067. Even though both the bank has increasing trend, NBL is found to be the poor performance bank as it has increased its OER by

app. 24% but RBB by app. 9%. Mean Operation efficiency ratio of NBL is 95.53% where RBB has 57.87%. Risk associated with the ratio is 12.76% for NBL where RBB has operated with 3.78% of risk. C.V. of NBL is 13.36 and RBB is 6.54. As lower the ratio mean the better management, we can conclude that RBB has maintained better operating efficiency position than NBL.

Figure 4.23

Operating Efficiency Analysis of NBL & RBB



This figure illustrates the position of NBL and RBB in Operating efficiency ratio. Here we can clearly see that NBL has the highest percentage of OER with 118.22% and RBB has the lowest OER with 54.24%. So, we can conclude that RBB has performed well than NBL. In fiscal year 065-066, NBL has however, been able to lower it ratio by 80.15% but it dramatically increased in 066-067. NBL has the highest percentage of OER which indicates weak management performance.

4.4.6 Interest Payout Ratio

The main function of a bank is to collect deposit and advance 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.

Table 4.20

Interest Payout Ratio

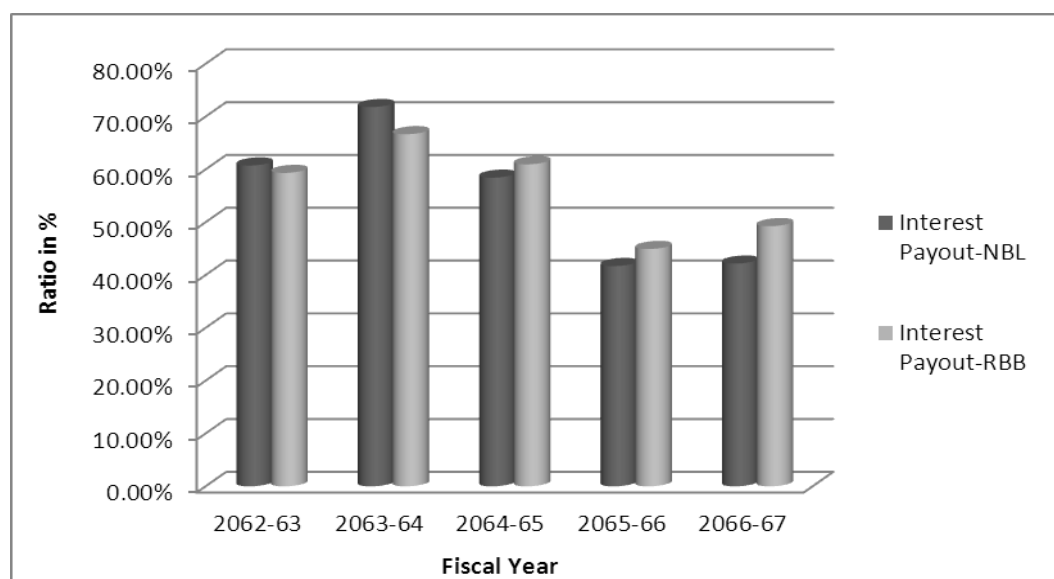
FY	Interest Payout-NBL	Interest Payout-RBB
2062-63	60.75%	59.34%
2063-64	71.81%	66.66%
2064-65	58.44%	60.97%
2065-66	41.71%	44.93%
2066-67	42.18%	49.25%
Mean	54.97%	56.23%
S.D.	11.56%	7.97%
C.V.	21.03%	14.17%

(Source: Appendix 12)

From the above table we can see that in FY 062-066, NBL has highest IPR with 60.75% and lowest IPR with 41.71% in FY 065-066 of the study period. Likewise, RBB has highest IPR with 66.66% in FY 063-064 and lowest IPR with 44.93% in FY 065-066 of the study period. Mean Interest payout ratio of NBL is 54.97% where RBB has 56.23%. Risk associated with the ratio is 11.56% for NBL where RBB has operated with 7.97% of risk. C.V. of NBL is 21.03 and RBB is 14.17. If we consider average interest payout ratio, we find NBL better than RBB and if we consider S.D. as a measuring tool then we find RBB better than NBL.

Figure 4.24

Interest Payout Ratio Analysis of NBL & RBB



The above figure illustrates that IPR of both the bank is in fluctuating trend. IPR of NBL has increased in FY 063-064 to 71.81% and again decreased to 58.44% in FY 064-065. And then it kept on decreasing for rest of the FY of this study period. Likewise, for RBB, IPR in 2063-064 increased to 66.66% which is less than NBL of same FY. IPR then has decreased to 44.93% in two FY and then it again increased to 49.25% in last year of the study period.

4.5 Major Findings

The major finding of the study on Effectiveness Analysis of Nepal Bank Limited and Rastriya Banijya Bank are as follows:

1. NBL has lower Operating Income than RBB but both the banks have increasing value of income. NBL has Rs 1714.67 million in first year of study period which ends with Rs 2758.99 million in the final year of the study period. RBB raised its income from Rs1905.89 million to Rs.3647.96 million during the study period. Both the banks have decreasing trend of operating income in year 2063-64. RBB is found dominating over the five study period.

2. Operating Expenses of NBL in every year is found higher than RBB. Both the banks have increasing amount of expenses. Both banks have highest operating expenses in final year of study period. NBL has deducted its operating expenses in 2063-64 from Rs 1615.74 million to Rs 1501.09 million but the operating expenses of RBB continuously kept increasing through-out the study period. In every fiscal year, NBL has done high expenses in operating expenses than RBB.
3. NBL has generated Rs 1207.26 million of NPAT in FY 2062-63 where RBB has generated Rs 1591.49 million. NBL has deducted its NPAT in FY 2063-64 to Rs 226.95 million whereas RBB has increased its NPAT to Rs 1616.91 million. NPAT of NBL has increased from Rs 239.21 million to Rs 894.25 million in FY 2064-65 and 2065-66. Sadly, NPAT of NBL decreased to Rs 249.38 million in final year of the study period. But NPAT of RBB has been increasing in every year of the study period. It has increased from Rs 1718.94 million upto Rs 2026.98 million in FY 2064-65 to 2066-67. Average NPAT of NBL is Rs 563.41 million where RBB has 1775.60 million of average NPAT of five study period. It can be easily concluded that RBB has maintained better NPAT level than NBL. But the volatility on NPAT is found higher in NBL than RBB. RBB has been maintained increasing and more stable profit level than NBL.
4. It is found that the NPAT of NBL is in decreasing trend in FY2063-64 by -81% where it takes increasing trend after the period. It increases by 5% in FY 2064-65 and high percentage of 274% in FY 2065-66. Then again it decreases by -72%. This proves that NBL has volatile trend of past NPAT. Likewise, NPAT in RBB is found increasing in FY 2063-64 by 2% where it has again taken increasing trend after this. 6% increasing trend in

FY 2064-65 and 12% increasing trend in FY 2065-66. And finally it has taken decreasing trend by 5%. RBB has volatile trend of NPAT.

5. The average deposit of total study period is Rs 58,355.90 and 40949.93 of NBL and RBB. In every FY, NBL has dominated RBB in collection of deposit from various branches of the bank. Both banks have been maintaining increasing trend of growth in deposit collection. The deviation in collecting deposit is higher in NBL than RBB where C.V of NBL is 0.16 and RBB is 0.08. It shows that consistency over collecting deposit is lower in NBL than RBB.
6. Decreasing trend of Net Profit Margin is found in each Fiscal year of both the banks except in fiscal year 2063-64 for RBB and 2065-66 for NBL. In comparison the decreasing ratio of Net Profit Margin is higher in NBL than RBB. NBL has starting point of 70.41% to 9.04% which shows NPM in high declining rate. The starting point for RBB is 83.50% and it ends up with 55.56% which is in slow ratio than NBL.
7. ROA of RBB is found to be decreasing by 0.58% and 0.57% in FY 2063-64 and 2064-65. But in FY 2065-66, NBL has come up with 1.88% ROA but it again decreased by 0.56% in FY 2066-67, which shows that it failed to maintain its ROA so it decreased by 0.56%. In FY 063-064, NBL has 0.58% of ROA and RBB has 3.50% which is the maximum difference level of ROA between the two banks throughout the study period. NBL has the highest ROA of 3.36% and lowest of 0.56% similarly RBB has the highest ROA of 3.99% and lowest of 2.80%. This illustrates a huge difference in Return of Assets between the two banks- NBL and RBB.

8. Negative ROE is found in each year of the study period for both the banks- NBL and RBB. But NBL is found better than RBB as ROE of NBL has decreased to -5.42 from -18.42 but negative ROE is found increasing in each year of RBB. This is because of the high amount reserve maintained by both the banks throughout the study period.
9. In year 062-063, NBL has ROCE of 55.13% but in the last year of the study period i.e. on 066-067 it decreased to 7.74%. ROCE of NBL from first to last year has decreased approximately by 50%. I must say, NBL has a poor condition in ROCE. RBB also has ROCE in decreasing trend but it has somehow managed to keep the difference in limit ratio. In year 062-063, RBB has 66.52% ROCE and in last year of the study period RBB has 46.35% which is around 20% in difference from 1st to 5th year of the study period.
10. Both the company has increasing trend of OER. NBL has 94.23% of OER in year 062-063 which increased to 118.22% in the last year of the study period i.e. on 066-067. RBB has 54.24% of OER in year 062-063 which increased to 63.14% in the last year of the study period i.e. 066-067. Even though both the bank has increasing trend, NBL is found to be the poor performer bank as it has increased its OER by app. 24% but RBB by app. 9%.
11. IPR of both the bank has found to be in fluctuating trend. IPR of NBL is increased to 71.81% in FY 063-064 and again it decreased to 58.44% in FY 064-065. Then it kept on decreasing for rest of the FY of this study period. Likewise, for RBB, IPR in 2063-064 increased to 66.66% which is less than NBL of same Fiscal year. IPR then has decreased to 44.93% in two FY and then it again increased to 49.25% in last year of the study period. In FY 062-066, NBL has highest IPR with 60.75% and lowest

IPR with 41.71% in FY 065-066 of the study period. Likewise, RBB has highest IPR with 66.66% in FY 063-064 and lowest IPR with 44.93% in FY 065-066 of the study period.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The objective of this study is to summarize the whole study. Therefore this chapter consists of three major contents. First is summary of the study, second is conclusion and final one is suggestions and recommendations on the basis of finding of the study.

5.1 Summary

This study is basically conducted to fulfill the requirement for completion of Master's degree which is focused on Profitability Analysis. Two Limited Bank- Nepal Bank Limited and Rastriya Banijya Bank are selected on different basis for the study. The study focused on existing process, situation, structure and results are carefully observed on the basis of decision science. This study has been undertaken to compare operating income and expenses between the two banks, analyze the profit and loss trend and growth, compare risk associated with profit, and evaluate the profitability and operating financial efficiency. This study helps to find out profitability position of two banks.

The data for the study has collected through different sources and used both types of data in the study- primary and secondary. The study has covered five years period from F.Y. 2062/63 to 2066/67. The data for those years have been analyzed by using financial, mathematical and statistical tools in the study for meaningful results.

The income of NBL is found lower than income of RBB but again the expenditure of NBL is found higher than RBB in every fiscal year of study period. As income is low and expenditure is high in every year of NBL,

operating surplus is also found in a great gap every year. Operating surplus is found decreased in 2063-64 of NBL and RBB by 56% and 17% respectively. After that fiscal year, both limited got success to increase operating surplus but after that the trend is decreasing even the surplus is positive. But it is found that NBL has faced operating loss in 2066-67 where RBB is operating in profit but ratio than the last trend is found decreasing. The NBL has lower Operating Income than RBB but both the banks have increasing trend of income. RBB has dominated NBL in every FY of five study period. Operating Expenses of NBL in every year is found higher than RBB. Both the banks have increasing amount of expenses. Both banks have highest operating expenses in final year of study period. In every fiscal year, NBL has expended more than RBB in its operation. NBL has generated Rs 1207.26 million of NPAT in FY 2062-63 where RBB has generated Rs 1591.49 million. NPAT of NBL is decreased in second and final fiscal year of study period. NPAT of RBB has been increasing in every year of the study period. Average NPAT of NBL is Rs 563.41 million where RBB has 1775.60 million. High difference in NPAT is found between NBL and RBB's NPAT in every FY. Volatility on NPAT is found higher in NBL than RBB. RBB has been maintained increasing and more stable profit level than NBL. Decreasing trend of Net Profit Margin is found in each Fiscal year of both the banks except in fiscal year 2063-64 for RBB and 2065-66 for NBL. In comparison the decreasing ratio of Net Profit Margin is higher in NBL than RBB. ROA of NBL is found weaker than RBB. RBB has maintained ROA around 3% where NBL has crossed 3% only in first FY and then almost decreased. Variation and deviation both in NBL is much higher than RBB with lower average ROA. Negative ROE is found in each year of the study period for both the banks- NBL and RBB. But NBL is found better than RBB as ROE of NBL has decreased to -5.42 from -18.42 but negative ROE is found increasing in each year of RBB. This is because of the high amount reserve maintained by both the banks throughout the study period. In year 062-063, NBL has ROCE of 55.13% but in the last year of the study period i.e. on 066-067 it decreased to 7.74%. ROCE of NBL from first to last

year has decreased approximately by 50%. NBL has poor condition in ROCE. RBB also has ROCE in decreasing trend but it has somehow managed to keep the difference in limit ratio. In year 062-063, RBB has 66.52% ROCE and in last year of the study period RBB has 46.35% which is around 20% in difference from 1st to 5th year of the study period. Both the company has increasing trend of OER. Even though both the bank has increasing trend, NBL is found to be the poor performer bank as it has higher increment in its OER than RBB. IPR of both the bank has found to be in fluctuating trend. IPR of NBL and RBB were increased FY 063-064 and FY 2066-67. Both banks have adopted decreasing trend in rest FY of study period. Finally both banks have performed good in different context. There is no black and white method to separate the better performance on the basis of counting points, Even though we can hereby summarize that RBB has performed better than NBL as it has dominated NBL in almost every comparison.

5.2 Conclusion

Analyzing all the data and capturing some of the findings from the analyzed data, this is the part where some of conclusions are drawn.

5.2.1 The trend of income in NBL and RBB show that the largest income has been generated from Interest of loan and advances. Secondly they have received income from commission and discount, thirdly other operating and finally exchange gain and loss income. This is concluded that both the banks have generated their income more than $\frac{3}{4}$ from interest income. RBB has dominated NBL in every FY to generate income under interest income. And also average income of RBB is again found higher than NBL.

5.2.2 NBL and RBB have made expenses in different three categories – Staff expenses, other operating and exchange fluctuation expenses. The main expenditure sector of both banks is Staff expense and second is other operating expenses.

5.2.3 As RBB has maintained higher level of income and lower level of expenditure than NBL, we can easily conclude that the profit level of RBB is obviously better than NBL. NPAT of RBB has dominated the NPAT of NBL in every fiscal year of study period. RBB has got the increasing trend of NPAT and NBL has got the decreasing trend of NPAT during the study period.

5.2.4 Net profit margin shows the profit level over income which illustrates the capacity of the management to retain profit for strengthen the company. Here NBL has lower level of both income and profit, even the margin has been decreased in some end fiscal years of study period, RBB has maintained a far better Net profit margin than NBL.

5.2.5 Low return on assets indicates that it has not been able to earn adequate profit. Both companies have low return on assets. The return on total assets ratio of NBL is found lower than RBB. It is concluded that RBB has been utilizing the assets more profitably and consistently than NBL.

5.2.6 NBL and RBB both have been maintaining negative return on equity since the starting years of study period. NBL has less negative return on return on equity than RBB.

5.2.7 ROCE of RBB is higher than NBL and found high consistent and low risky. ROCE of NBL and RBB has been decreased in every fiscal year which isn't good symptoms for both banks. Even though RBB has found ROCE with less deviation and variation, therefore we can conclude RBB is found comparatively in better position.

5.2.8 RBB has been maintaining comparatively better operating efficiency ratio than NBL from the starting to end of the study period. Efficiency of NBL has been decreasing year to year instead of increment for better management. RBB has dominated NBL for maintaining operational efficiency with better position of consistency.

5.2.9 The major source of income is interest income for both banks. As, this ratio provides the proportion of interest payment of the bank as compared to the interest income generated by the bank.

5.3 Recommendations

The following recommendation may be useful to overcome the weakness, inefficiencies and to increase profit of NBL and RBB. All the recommendations are based on analysis, findings and conclusions.

5.3.1 Financial organizations are the legal institutions for collecting scattered money within the country. As they have such funds of the country, it is their legal obligation to make investment in developing and productive sectors of the country to generate stable profit.

5.3.2 The expenditure of NBL is found higher than RBB even though the number branches of NBL are lower than RBB. It shows that there is a place to control the expenditure of NBL. Always high income doesn't work to retain high and stable profit. It is recommended that NBL should think about possibility of expenditure optimization and implementation.

5.3.3 Both the banks have very high potential of earning high profit than they are making in the recent years especially NBL have to utilize its resources more efficiently for generating more profit margins. If resources held idle, bank faces high cost and causes the low profit margin.

5.3.4 Both the banks have high level of negative net worth. So a capital plan needs to be worked out and the shareholders of these banks need to employ the capital.

5.3.5 For the growth and better mobilization of deposit, both the banks must take initiation to get involved in publicity. Both banks must share information about their improved technology and management with customers which will help to boost up the banking habits and confidence among the people upon the bank.

5.3.6 Profitability analysis is the most important tools for measurement performance of company. NBL and RBB have fluctuating trend in profitability position during the study period. Trust of equity holders and other stakeholders play a vital role for organization's survival in long run as they believe on profit. In order to make better profitability position, NBL and RBB both have to manage their resources efficiently. It seems that NBL has a big space to improve position of profitability as it has lower level of performance than RBB on the basis of profitability position.

5.3.7 As the banks are fully or partially owned by the government, there seems some political influence in both the banks. Such influences are unjustifiable for depositors and which also affect the regular activities of banks. So Banks should perform their activities according to fair policy instead of influence guide.

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Appendix 1

Questionnaire

- 1) How many staffs are enrolled in your organization?
- 2) What are the services that your organization provides?
- 3) Why the investment is totally focused on loan and Advances instead of other sector as interest occurs the highest portion of total income?
 - a) limited investment opportunities
 - b) low return
 - c) Unsuitable investment Environment
 - d) All of them
- 4) How does the investment of your company support the nation for its development? Is investment in loan and advances only can help the development?
 - a) Partially
 - b) Fully
 - c) doesn't help
 - d) Indirectly helps
- 5) On what base, loan and advances are provided to the customers?
 - a) Educational Status
 - b) Collateral and Cash flow
 - c) Physical and Mental Condition
 - d) All of them
- 6) How much the government policy suitable for banking sector?
 - a) Highly suitable
 - b) Moderate
 - c) Low facility and less supportive
 - d) Good but not enough

- 7) In how many branches that your company currently operates?
- 8) For better management, as it was declared that the condition of your bank was very poor, what were the steps took by the organization in past which helps to overcome the condition?
- 9) Is there any strategy with bank to promote its service in market?
 - a) Yes
 - b) No
- 10) What are the factors that affect deposits of your organization?
- 11) As net worth position of your bank is highly negative, what will the step in future will be taken?
 - a) No action particularly on this
 - b) Issue of shares and other strategic steps will be taken
- 12) What kind of problems do you face during the regular operation?

Appendix 2

Income and Expenditure of NBL and RBB (Rs in million)

Year	NBL Income	RBB Income	NBL Expenditure	RBB Expenditure
2062-63	1714.67	1905.89	1615.74	1033.81
2063-64	1544.63	1881.00	1501.09	1159.73
2064-65	1828.81	2270.36	1606.61	1201.34
2065-66	2417.42	3181.63	1937.58	1782.33
2066-67	2758.99	3647.96	3261.61	2303.33

Source: Annual Reports of NBL and RBB

Mean	2052.91	2577.37	1984.53	1496.11
S.D.	459.21	712.93	655.08	479.02
C.V.	0.22	0.28	0.33	0.32

**Calculation of Mean , Standard Deviation and Coefficient of Variation for
NBL's Income**

Fiscal Year	NBL Income (NI)	$NI - \overline{NI}$	$(NI - \overline{NI})^2$
2062-63	1714.67	(338.24)	114,404.00
2063-64	1544.63	(508.27)	258,339.41
2064-65	1828.81	(224.09)	50,218.33
2065-66	2417.42	364.51	132,871.07
2066-67	2758.99	706.09	498,559.17
Total	10264.53	0.00	1,054,391.99

$$\text{Mean Income} = \text{Mean}(NI) = \frac{\sum NI}{n} = \frac{10264.53}{5} = 2052.91$$

$$\begin{aligned} \text{Standard Deviation (S.D.)} = \sigma_{NI} &= \sqrt{\frac{\sum (NI - \overline{NI})^2}{n}} \\ &= \sqrt{\frac{1,054,391.99}{5}} \\ &= 459.21 \end{aligned}$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma_{NI}}{NI} = \frac{459.21}{2052.91} = 0.22$$

In where , NI = NBL Income

And the same way of calculation is carried out for other data to find out Mean, S.D. and C.V.

Appendix 3

Operating Income of NBL (Rs in million)

FY	Net Interest Income	Commission and Discount	Other Operating Income	Exchange Fluctuation income	Total
2062-63	1274.71	177.78	140.84	121.34	1714.67
2063-64	1075.97	181.02	287.65	0.00	1544.63
2064-65	1322.25	229.72	157.43	119.41	1828.81
2065-66	1898.35	273.11	156.76	89.21	2417.42
2066-67	2157.56	425.01	152.87	23.55	2758.99
Total	7728.83	1286.64	895.55	353.51	10264.53
Mean	1545.77	257.33	179.11	70.70	2052.91
S.D.	410.55	90.86	54.59	50.00	459.21
C.V.	0.27	0.35	0.30	0.71	0.22

Operating Income of RBB (Rs in million)

FY	Net Interest Income	Commission and Discount	Other Operating Income	Exchange Fluctuation income	Total
2062-63	1432.69	289.58	109.67	73.95	1905.89
2063-64	1414.19	343.56	123.25	0.00	1881.00
2064-65	1682.11	430.62	157.63	0.00	2270.36
2065-66	2376.41	577.56	195.56	32.10	3181.63
2066-67	2817.42	621.73	167.88	40.92	3647.96
Total	9722.82	2263.05	754.00	146.97	12886.84
Mean	1944.56	452.61	150.80	29.39	2577.37
S.D.	558.67	128.97	30.96	27.76	712.93
C.V.	0.29	0.28	0.21	0.94	0.28

Average Income (in %)

Entity	Net Interest Income	Commission and Discount	Other Operating Income	Exchange Fluctuation income	Total
NBL	75%	13%	9%	3%	100%
RBB	75%	18%	6%	1%	100%

(Source: Annual report, NBL and RBB)

Appendix 4

Operating Expenses of NBL (Rs in million)

FY	Staff Exp	Other Operating	Exchange Fluctuation Exp	Total
2062-63	1067.63	548.11	0.00	1615.74
2063-64	1125.22	329.59	46.28	1501.09
2064-65	1346.82	259.79	0.00	1606.61
2065-66	1640.57	297.02	0.00	1937.58
2066-67	2973.99	287.61	0.00	3261.61
Total	8154.24	1722.11	46.28	9922.64
Mean	1630.85	344.42	9.26	1984.53
S.D.	701.10	104.26	18.51	655.08
C.V.	0.43	0.30	2.00	0.33

Operating Expenses of RBB (Rs in million)

FY	Staff Exp	Other Operating	Exchange Fluctuation Exp	Total
2062-63	745.19	288.62	0.00	1033.81
2063-64	789.04	357.75	12.93	1159.73
2064-65	875.78	325.56	30.99	1232.33
2065-66	1389.01	393.32	0.00	1782.33
2066-67	1883.56	419.77	0.00	2303.33
Total	5682.58	1785.02	43.93	7511.53
Mean	1136.52	357.00	8.79	1502.31
S.D.	439.02	46.74	12.18	475.35
C.V.	0.39	0.13	1.39	0.32

Average Expenses (in %)

Entity	Staff Exp	Other Operating	Exchange Fluctuation Exp	Total
NBL	82.18%	17.36%	0.47%	100%
RBB	75.65%	23.76%	0.59%	100%

(Source: Annual report, NBL and RBB)

Appendix 5

Net Profit After Tax

FY	NBL	Change in NPAT	Change in %	RBB	Change in NPAT	Change in %
2062-63	1207.26	0.00	0%	1591.49	0.00	0%
2063-64	226.95	-980.31	-81%	1616.91	25.42	2%
2064-65	239.21	12.26	5%	1718.94	102.03	6%
2065-66	894.25	655.04	274%	1923.68	204.74	12%
2066-67	249.38	-644.87	-72%	2026.98	103.29	5%

(Source: Annual report, NBL and RBB)

Appendix 6

Deposit and Growth of Deposit

FY	NBL	Growth in %	RBB	Growth in %
2062-63	46,195.48	0%	35,829.77	0%
2063-64	50,464.13	9%	39,014.20	9%
2064-65	58,333.12	16%	41,829.39	7%
2065-66	68,160.93	17%	45,194.23	8%
2066-67	68,625.87	1%	42,882.04	-5%
Mean	58,355.90		40,949.93	0%
S.D.	9,074.88		3,239.87	
C.V.	0.16		0.08	

(Source: Annual report, NBL and RBB)

Appendix 7

Net Profit Margin

FY	NPAT-NBL (A)	NPAT-RBB (B)	Total Operating Income-NBL ('C)	Total Operating Income-RBB (D)	Net Operating Margin-NBL (A/C)	Net Operating Margin-RBB (B/D)
2062-63	1,207.26	1,591.49	1,714.67	1,905.89	70.41%	83.50%
2063-64	226.95	1,616.91	1,544.63	1,881.00	14.69%	85.96%
2064-65	239.21	1,718.94	1,828.81	2,270.36	13.08%	75.71%
2065-66	894.25	1,923.68	2,417.42	3,181.63	36.99%	60.46%
2066-67	249.38	2,026.98	2,758.99	3,647.96	9.04%	55.56%
Mean					28.84%	72.24%
S,D.					22.96%	12.20%
C.V.					79.59%	16.89%

(Source: Annual report, NBL and RBB)

Appendix 8

Calculation of Return on Assets

FY	NPAT-NBL (A)	NPAT-RBB (B)	Total Assets-NBL (C)	Total Assets-RBB (D)	ROA-NBL (A/C)	ROA-RBB (B/D)
2062-63	1207.26	1591.49	35,918.91	39,879.62	3.36%	3.99%
2063-64	226.95	1616.91	39,258.79	46,139.65	0.58%	3.50%
2064-65	239.21	1718.94	42,053.44	53,232.46	0.57%	3.23%
2065-66	894.25	1923.68	47,559.11	68,714.35	1.88%	2.80%
2066-67	249.38	2026.98	44,736.65	67,910.65	0.56%	2.98%
Mean					1.39%	3.30%
S.D.					1.11%	0.42%
C.V.					79.85%	12.66%

(Source: Annual report, NBL and RBB)

Appendix 9

Calculation of Return on Equity

FY	NPAT-NBL (A)	NPAT-RBB (B)	Shareholders Equity-NBL ('C)	Shareholders Equity-RBB (D)	ROE-NBL (A/C)	ROE-RBB
2062-63	1207.26	1591.49	(6,301.46)	(18,718.58)	-6.45%	-8.50%
2063-64	226.95	1616.91	(6,247.52)	(17,219.50)	-3.63%	-9.39%
2064-65	239.21	1718.94	(6,008.30)	(15,509.97)	-3.98%	-11.08%
2065-66	894.25	1923.68	(4,854.31)	(11,960.89)	-18.42%	-16.08%
2066-67	249.38	2026.98	(4,604.93)	(9,956.82)	-5.42%	-20.36%
Mean					-7.58%	-13.08%
S,D.					5.51%	4.48%
C.V.					-72.75%	-34.28%

(Source: Annual report, NBL and RBB)

Appendix 10

Calculation of Return on Capital Employed

FY	NPAT-NBL(A)	NPAT-RBB(B)	Total Capital Employed-NBL ('C)	Total Capital Employed-RBB (D)	Return on Capital Employed-NBL (A/C)	Return on Capital Employed-RBB (B/D)
2062-63	1,207.26	1,591.49	2,097.82	5,530.03	57.55%	28.78%
2063-64	226.95	1,616.91	1,985.25	3,391.90	11.43%	47.67%
2064-65	239.21	1,718.94	2,200.47	3,689.24	10.87%	46.59%
2065-66	894.25	1,923.68	2,351.06	5,045.90	38.04%	38.12%
2066-67	249.38	2,026.98	2,505.52	5,212.09	9.95%	38.89%
Mean					25.57%	40.01%
S,D.					19.17%	6.83%
C.V.					74.98%	17.06%

(Source: Annual report, NBL and RBB)

Appendix 11

Calculation of Operating Efficiency Ratio

FY	Operating Exp-NBL (A)	Operating Exp-RBB (B)	Total Operating Income-NBL ('C)	Total Operating Income-RBB (D)	Operating Efficiency Ratio-NBL (A/C)	Operating Efficiency Ratio-RBB (B/D)
2062-63	1,615.74	1,033.81	1,714.67	1,905.89	94.23%	54.24%
2063-64	1,501.09	1,159.73	1,544.63	1,881.00	97.18%	61.65%
2064-65	1,606.61	1,232.33	1,828.81	2,270.36	87.85%	54.28%
2065-66	1,937.58	1,782.33	2,417.42	3,181.63	80.15%	56.02%
2066-67	3,261.61	2,303.33	2,758.99	3,647.96	118.22%	63.14%
Mean					95.53%	57.87%
S.D.					12.76%	3.78%
C.V.					13.36%	6.54%

(Source: Annual report, NBL and RBB)

Appendix 12

Calculation of Interest Payout Ratio

FY	Interest Exp-NBL (A)	Interest Exp-RBB (B)	Interest Income-NBL ('C)	Interest Income-RBB (D)	Interest Payout Ratio-NBL (A/C)	Interest Payout Ratio-RBB (B/D)
2062-63	774.32	850.14	1,274.71	1,432.69	60.75%	59.34%
2063-64	772.64	942.75	1,075.97	1,414.19	71.81%	66.66%
2064-65	772.66	1,025.59	1,322.25	1,682.11	58.44%	60.97%
2065-66	791.71	1,067.78	1,898.35	2,376.41	41.71%	44.93%
2066-67	909.99	1,387.70	2,157.56	2,817.42	42.18%	49.25%
Mean					54.97%	56.23%
S,D.					11.56%	7.97%
C.V.					21.03%	14.17%

(Source: Annual report, NBL and RBB)