

CHAPTER I

INTRODUCTION

1.1 Background of the study

Banks are the monetary units of national economy. They work as facilitator for achieving sustained economic growth through providing effect monetary intermediation. They provide financial resources from surplus sector to deficit sector. A financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes trade of goods and services easy.

Banking renders service to the people in financial matters, and its magnitude of action is extending day by day. It is a major financial institutional system in Nepal. The performance evaluation of bank is important for all parties including depositors, investors, managers and regulators Jha & Hui., (2012).

Banks help to the growth of agriculture, trade, commerce and industry of the national economy. They are inevitable for the resources mobilization and economic development of the country. Banking industries are regarded as one component of economy. They transfer the scattered funds collected from saving of the public into various productive sectors. Economic activities remain halt in absence of banking industries. It helps to enhance economic activities of the country by providing capital funds for the smooth operation of business activities.

If one bank fails to repay the deposited amount to the public then the public do not believe the bank and it leads to insolvency of the banks. So as the regulator and supervisor NRB always dictate the activities of the banks in the country. It provides its directives from time to time in order to have fair competition between the banks and to safeguards the deposits of the public. As number of banks in the country increases NRB has to be more active towards its regulative and supervising role. For healthy competitions of the banks, NRB planned to merge two banks and they have to make their capital 8,000,000,000.

A strong financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes easy the trade of goods and services. Several studies have reported that the efficacy of a financial system to reduce information and transaction costs plays an important role in

determining the rate of savings, investment decisions, technological innovations and supporting the rate of economic growth. Banking has become an important feature, which renders service to the people in financial matters, and its magnitude of action is extending day by day. Performance evaluation of a company is usually related to how well a company can use its assets, shareholders equity and liability, revenue and expenses. A competitive banking system promotes the efficiency and therefore important for growth, but market power is necessary for stability in the banking system. Commercial bank holds a large share of economic activities of a country. The function of the commercial banks has been enhanced in Nepal to sustain the increasing need of the service sector and the economy in general.

Comparative financial analysis is the process of analyzing the data found in a financial report in comparison with similar data from other reports. This allows whoever is doing the analysis to get some context which makes the raw numbers more meaningful. An individual can do comparative financial analysis by studying several reports of the same company from different time periods in an effort to spot trends. Another way to practice this type of analysis is to compare the reports of different companies that compete with each other in the same industry. When doing comparative financial analysis within one industry, the choice of which set of numbers to use as the basis for comparison is an important one. One way to do this, again using financial ratios, is to get the industry averages for these ratios and use these numbers as way to judge one company within the industry. Since averages may be difficult to locate and cumbersome to calculate, comparative analysis can be achieved using ratios from a single, financially strong company as an industry benchmark, against which all other companies' ratios may be compared. Financial analysis is the process of evaluating businesses, projects, budgets and other finance-related entities to determine their suitability for investment. Typically, financial analysis is used to analyze whether an entity is stable, solvent, liquid, or profitable enough to be invested in. When looking at a specific company, the financial analyst will often focus on the Income statement, balance sheet, and cash flow statement. In addition, one key area of financial analysis involves extrapolating the company's past performance into an estimate of the company's future performance. It is used by a

variety of stakeholders, such as credit and equity investors, the government, the public, and decision-makers within the organization. These stakeholders have different interests and apply a variety of different techniques to meet their needs. For example, equity investors are interested in the long-term earnings power of the organization and perhaps the sustainability and growth of dividend payments. Creditors want to ensure the interest and principal is paid on the organizations debt securities (e.g., bonds) when due.

Common methods of financial statement analysis include fundamental analysis, DuPont analysis, horizontal and vertical analysis and the use of financial ratios. Historical information combined with a series of assumptions and adjustments to the financial information may be used to project future performance.

Financial analysts often assess the following elements of a firm:

1. Profitability - its ability to earn income and sustain growth in both the short- and long-term. A company's degree of profitability is usually based on the income statement, which reports on the company's results of operations;
2. Solvency - its ability to pay its obligation to creditors and other third parties in the long-term.
3. Liquidity - its ability to maintain positive cash flow, while satisfying immediate obligations.
4. Stability - the firm's ability to remain in business in the long run, without having to sustain significant losses in the conduct of its business. Assessing a company's stability requires the use of the income statement and the balance sheet, as well as other financial and non-financial indicators. Etc.

Commercial banks collect deposits from the public and the largest portion of deposited money is utilized in disbursing loan and advances. Loans and advances constitute a major portion of the assets and deposits constitute a major portion of the liabilities of balance sheet of commercial banks. Similarly earning of the banks depends upon the spread that it enjoys between the interest it receives from the borrowers and that to be paid to the borrowers. An average, bank generates sixty to seventy percent of its revenue through its lending activities. The return that the bank enjoys of deposit mobilization through loan and advances is very attractive but they

do not come free of cost and free of risk. There is risk inherent in lending portfolio. Banking sector is exposed to number of risk like, interest rate risk, liquidity risk, credit risk or default risk, borrowers risk, security risk, earning risk etc. Such risk are excessive had led many banks to go bankrupt in a number of countries. Performing loans have multiple benefits to the society while non-performing loan erodes even existing capital.

1.2 Brief Profile of Sample Banks

1) Nepal Bank Limited (NBL)

The history of the banking development of Nepal is not very long. Nepal Bank Limited, The first 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.

Nepal Bank Limited has the following objectives:-

1. Focus on building the positive net worth and meeting minimum capital requirement over the coming five years.
2. Focus on increasing the customer base and market share.
3. Maximize the potential/efficiency of bank's staff.
4. Focus on minimizing the risk associated with the business.
5. Focus on providing the world class business solutions.
6. Focus on increasing the sustainable profit.

NBL offers various types of services to its valuable customers who promote bank competitiveness, credit worthiness and attraction. Some other services and technologies which are provided by Nepal Bank Limited are as follows:

1. Internet Banking
2. Safe deposit vault
3. Trade finance
4. NBL Smart mobile banking
5. ATM /Debit card

6. Any Branch Banking Services (ABBS)
7. Application Supported by Blocked Amount (ASBA) Service

2) Nepal SBI Bank Limited (NSBI)

Nepal SBI Bank limited is the fifth joint venture bank in Nepal. It was established on 24th jetha 2050 B.S. under Nepal commercial Bank Act 2031. Nepal SBI Bank is established with the assistance of state bank of India. It was established with the authorized capital of Rs. 240 million, issued capital of Rs.120 million and paid up capital of Rs. 119.946 million. Nepal SBI Bank Limited has following objectives:-

1. Focus on increasing the customer base and market share.
2. Be the most preferred bank for transforming Nepal.
3. Focus on minimizing the risk associated with the business.
4. Focus on providing the high quality, reliable and innovative financial solutions.

Nepal SBI Bank Limited has offers various types other services to its customers which are as follows: -

1. Draft and SWIFT arrangement.
2. NSBI Intouch outlet, NSBI Digital Village.
3. ASBA, NSBI bancassurance.
4. Mobile banking (Mero Sathi)
5. Safe Deposit Locker, Utility bill payment.
6. Fees and premia collection.
7. Convinient Banking Services to Differently abled people.

1.3 Statement of the problem

There are twenty eight commercial banks in Nepal in current situation. The number of established of new banks had been increased after 2040 B.S. But now, the private commercial banks are merging. They are trying to make their performance better. But most of the commercial banks have their branches are only in the urban areas. NBL is a semi government bank and NSBI is a joint venture bank. NBL has more branches than other private and joint venture commercial banks. But its presence is also in

urban area generally. It could not able to cover the village area satisfactory. Most of the JVBs business is concentrated in urban area and their offices are almost confined inside of Kathmandu valley. When even they are in to outside the valley, then they move towards urban sectors but not in rural sector. Therefore, the high mass of rural sector is not getting the advantages of such institutional development.

This state of affair cannot contribute much to the socio-economic development of the country where most of the population living in the rural areas and 80% of population depend upon agriculture. This problem remained to be saved so that even the small investors in the rural area will benefit from services of these banks. NBL has its high responsibilities to the villages as it has governments' share.

In the changed scenario NBL and NSBI need to explore their strengths and weaknesses and improve their performance because their success depends upon their ability to boost their productivity and financial performance.

These following specific problems are being made to explore in details:

1. How far have Nepal SBI Bank Limited and Nepal Bank Limited been able to manage their assets?
2. How efficiently these banks are managing their liquidity?
3. At what extents the banks are able to raise and maintain their profitability?

1.4 Objective of the study

The main objective of the study is to analyze the comparative financial performance of two commercial banks: Nepal Bank Limited and Nepal SBI Bank Limited. Those specific objectives of the study are as follows:

1. To analyze the assets management of NBL and NSBI bank limited.
2. To analyze the liquidity position of NBL and NSBI bank limited.
3. To analyze the profitability of NBL and NSBI bank limited.

1.5 Significance of the study

The banking sector is one of the major sectors of the country. It helps to emerge new business in industries by providing different facilities to businessmen so that they can run their business smoothly. This study helps to analyze the financial performance of

one semi government bank and one joint venture bank like NBL and NSBI bank limited. So, it will be useful for:

1. Management of two banks: The study helps the management to ascertain their position and competitive analysis.
2. Lenders and borrowers of these banks: Both lenders and buyers could get relevant information from the study which helps in decision making to choose the appropriate company.
3. Policy maker of these banks: It is beneficial to policy makers as they could make policies in accordance with the performance, situation and figures of the banks and their financial indicators.
4. Concerned parties and general interested parties of the banks: Various concerned parties like investors can take their decision such as where to invest through competitive analysis of performance of both the banks.
5. Customers of these banks: This study helps the customer to analyze the bank they are banking with in terms of benefits, security and services.

1.6 Limitations of the study

The limitations of the study are as follows:

1. The study will cover only five fiscal years 2012/13 to 2016/17.
2. This study is mainly conducted on the basis of secondary data such as annual reports of two banks and other related journal, magazines, books etc.
3. This study is conducted only to analyze the financial performance on the basis of accounting data. It does not analyze market based performance of two banks i.e. Nepal Bank Limited and Nepal SBI Bank Limited.

1.7 Chapter plan of the study

The study will be divided to five chapters as follows:

Chapter -I Introduction

This chapter includes Background of the study, Statement of the problem, Objectives of the study, Significance of the study, Limitations of the study and chapter plan of the study.

Chapter -II Review of literature

This chapter deals with the reviews existing literature on financial performance and reviews of earlier studies. It also helps to analyze research gap of the study.

Chapter -III Methodology

This chapter is concerned with research methodology to carry out this research. It has included the research design, sources and type of data, population and samples, methods and techniques of data analysis.

Chapter -IV Results

This chapter deals with systematic presentation and analysis of data by using various financial and statistical tools. It also helps to find out research outcomes.

Chapter -V Conclusions

This chapter summarize the main conclusion that flow from the study and offers necessary recommendations for future improvements of financial performance of NBL and NSBI Bank. At the end of the study, reference has also been incorporated.

CHAPTER II

REVIEW OF LITERATURE

This chapter contains the review of different sources of literature such as books, journal, research paper and other studies related to a comparative financial performance analysis of Nepal bank limited and Nepal SBI bank limited. It has been expected that the reviews will help to identify the research gap. The chapter has been divided mainly into two parts one is theoretical framework and other is preview studies in relevant field. The review of literature arranged in following order:

2.1 Conceptual Review

2.1.1 Liquidity

Liquidity position of commercial banks is normally monitored and measured by liquidity ratio Rychtarik, (2009)The significant items that was diagnosed includes the liquidity position measures such as total deposit to core funding position, liquid assets to demand liabilities and gross loans to demand liabilities. This study will examine a set of commercial banks providing services to the same economy and operating in the same environment. Moreover this study will be interested in establishing differences, if any, in relative degrees of liquidity position of these commercial banks. The ratio of total deposit to total Funding, liquid assets to demand liabilities and gross loans to total deposit were used as the measurement criteria.

2.1.2 Profitability

There is general agreement that bank profitability is a function of internal and external factors. Koch, (1995) Observed that the performance differences between banks indicate differences in management philosophy as well as differences in the market served. Profitability is a function of internal factors that are principally influenced by a bank's management decisions and policy objectives such as the level of liquidity, provisioning policy, capital adequacy, expense management and bank size, and the external factors related to industrial structural factors such as ownership, market concentration and stock market development and other macroeconomic factors Athanasoglou, Brissimis, & Delis, (2006). To identify the relevant factors influencing commercial bank profitability in Liberia, this research will be

concentrated on bank- specific factors based on the CAMEL framework and market structural factors; ownership and market concentration. CAMEL is a widely used framework for evaluating bank performance. The Central Bank of Liberia also uses the same to evaluate the performance of commercial banks in Liberia.

2.1.3 Asset Management

According to Investopedia Asset management is the direction of a client's cash and securities by a financial services company, usually an investment bank. The institution offers investment services along with a wide range of traditional and alternative product offerings that might not be available to the average investor. The account is held by a financial institution and includes checking writing privileges, credit cards, debit cards, margin loans, the automatic sweep of cash balances into a money market fund and brokerage services. Asset management requires investment minimums, which means this service generally restrict accounts to high net-worth individuals, government entities, corporations and financial intermediaries. This includes such products as equity, fixed income, real estate, commodities and international investments.

When individuals deposit money into the account, it is placed into a money market fund that offers a greater return that can be found in regular savings and checking accounts. Account holders can choose between Federal Deposit Insurance company backed- (FDIC) funds and non-FDIC funds. The added benefit to account holders is all of their banking and investing needs can be serviced by the same institution rather than having separate brokerage account and banking options.

2.1.4 Financial Statement Analysis:

Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable situation of a business concern. Therefore, financial analysis reflects the financial position of a firm, which is the process of determining the operational and financial characteristics of a firm. Different types of financial statement analysis can be used based on our objectives. Myer, (1969) Said that “Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by the single set of statement and study of the trend of these factors as shown in a series of statement”

It is the process of determining the significant operating and financial statements. The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports.

2.1.5 Significance of Financial Analysis:

Significance of analysis lies on the objectives of financial analysis of any firm. Different groups associated with the concern perceive the facts discovered by the analysis differently. The facts and the relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses and credit worthiness are interpreted based on objective in the hand. Such an analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, inter-financial control system and bargaining strategy for funds from external sources. The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be enumerated as: -

1. Top management
2. Creditors
3. Shareholders
4. Economist
5. Labor union

2.1.6 Objectives of Financial Analysis:

Financial analysis enables us to explore various facts related to the past performance of business and predict about the potential for achieving expected results. Major objectives of analysis of financial statement are to assess various factors in relation to the business firm, which are as follows:

1. The present and future earning capacity or profitability of the concern.
2. The operational efficiency of the concern and of its various parts or department.
3. The short term and long-term solvency of the concern
4. The possibility of developments in the future making future forecasts and preparing budgets

5. The comparative stud regarding to one firm with another firm.
6. The financial stability of business concern.
7. The long-term liquidity of its funds.
8. The real meaning and significance of financial data.

2.1.7 Financial Performance Analysis of Bank:

The users of financial statements of bank require relevant, reliable and comparative information to evaluate the financial performance and position and hence make economic decision regarding the bank.

Traditionally, banks act as financial intermediaries to channel funds from surplus units to deficit units. Unlike other non-banking financial companies, commercial banks do not produce any physical goods. They produce loans and financial innovations to facilitate trade transactions. Because of special role they play in the economy, concerned authorities heavily regulate them. Analysis of banks financial statement is different from threat of other companies due to the special nature of assets and liabilities.

Balance sheet, profit and loss account and the accompanying notes are the most widely aspects of financial statements of the bank. The bank's B/S includes financial claims as liabilities in the form of deposit and as assets in the form of loan. Fixed assets appear in small portion out of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet item. Interest received on loans, advances, and investment and paid on deposit liabilities re major components of profit and loss account. The other sources of income are fee, commission and discounts, foreign exchange income, dividend on investment, other service charge etc.

Following factors affect the evaluation of bank's overall performance.

1. The structure of B/S and P/L account.
2. Operating efficiency and internal management system.
3. Managerial decision taken by the top management regarding interest rate lending policy, exchange rates etc.
4. Environment changes such as changes in technology, government, competition and economy etc.

2.2. Theories of Liquidity Management

The theories of liquidity management are outlined and explained in this section.

2.2.1 Anticipated Income Theory

This theory holds that a bank's liquidity can be managed through the proper phasing and structuring of the loan commitments made by a bank to the customers. Here the liquidity can be planned if the scheduled loan payments by a customer are based on the future of the borrower. The doctrine of anticipated income, as formalized by Herbert, (1949), embodied these ideas and equated intrinsic soundness of term loans, which were of growing importance, with appropriate repayment schedules adapted to the anticipated income or cash flow of the borrower. The credit demands of business were well accommodated under this system of banking policy, and the use of loan commitments was freely pursued. Changing economic conditions, however, placed extra demands on the banking system that resulted in a new approach to balance sheet management, and businesses faced new financial challenges. Under this emerging state of affairs, bank loan commitment policies would come to play a more important part in the credit process. This theory has encouraged many commercial banks to adopt a ladder effects in investment portfolio.

2.2.2 Shiftability Theory

This theory posits that a bank's liquidity is maintained if it holds assets that could be shifted or sold to other lenders or investors for cash. This point of view contends that a bank's liquidity could be enhanced if it always has assets to sell and provided the Central Bank and the discount Market stands ready to purchase the asset offered for discount. Thus this theory recognizes and contends that shiftability, marketability or transferability of a bank's assets is a basis for ensuring liquidity. This theory further contends that highly marketable security held by a bank is an excellent source of liquidity. This theory of liquidity replaced the commercial loan theory and was supplemented by the doctrine of anticipated income. Formally developed by Moulton,(1915), the shiftability theory held that banks could most effectively protect themselves against massive deposit withdrawals by holding, as a form of liquidity

reserve, credit instruments for which there existed a ready secondary market. Included in this liquidity reserve were commercial paper, prime bankers' acceptances and, most importantly as it turned out, Treasury bills. Under normal conditions all these instruments met the tests of marketability and, because of their short terms to maturity, capital certainty.

2.2.3 Commercial Loan Theory

This theory has been subjected to various criticisms by Dodds, (1982) and Nwankwo, (1992) from the various points of view, the major limitation is that the theory is inconsistent with the demands of economic development especially for developing countries since it excludes long term loans which are the engine of growth. The theory also emphasizes the maturity structure of bank assets (loan and investments) and not necessarily the marketability or the shiftability of the assets.

Adam Smith provided the first systematic exposition of the doctrine in his *Wealth of Nations* (1776). Basically, it is a theory of asset management that emphasized liquidity; the doctrine held that banks should restrict their earning assets to "real" bills of exchange and short-term, self-liquidating advances for commercial purposes. In this way, it was argued; individual banking institutions could maintain the liquidity necessary to meet the requirements of deposit withdrawals on demand. Under a somewhat modified character this basic doctrine came to be known in the U. S. as the commercial loan theory of credit. The commercial loan theory of credit became obsolete both because of its conceptual flaws and its impracticality.

A critical underlying assumption of the theory held that short-term commercial loans were desirable because they would be repaid with income resulting from the commercial transaction financed by the loan. It was realized that this assumption would certainly not hold during a general financial crisis even if bank loan portfolios did conform to theoretical standards, for in most commercial transactions the purchaser of goods sold by the original borrower had to depend to a significant extent on bank credit. Without continued general credit availability, therefore, even short-term loans backing transactions involving real goods would turn illiquid. Rigid adherence to the orthodox doctrine was, furthermore, a practical impossibility if banks were to play a role in the nation's economic development Casu, Girardone, &

Malyneux, (2006). Moreover, the practice of continually renewing short- term notes for the purpose of supporting long-term capital projects proved unacceptable. The failure or inability of banks to tailor loan arrangements to the specific conditions encountered with longer-term uses in fact contributed to the demise of the practice.

2.3 Empirical Review

2.3.1 Review of International Journal Articles

The trend of commercial banking is changing rapidly. Competition is getting stiffer and therefore, banks need to enhance their competitiveness and efficiency improving performance. Normally, the financial performance of commercial banks and other financial institutions has been measured using a combination of financial ratio analysis, benchmarking, measuring performance against budget or a mix of these methodologies Avkiran, (1995)

Helfert, (1996) Studied that it is both an analytical and judgmental process that helps answer questions that have been posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problem and issues depend significantly on the views of the parties involved in the related importance of the issue and on the nature and reliability of the information available.

Ho & Zhu, (2004) have reported that the evaluation of a company's performance has been focusing the operational effectiveness and efficiency, which might influence the company's survival directly. The empirical results of the researches Alam, Raza, & Akram, (2011) explained that a company, which has better efficiency, it does not mean that always it will show the better effectiveness. Alam, Raza, & Akram, (2011) Study concludes that ranking of banks differ as the financial ratio changes.

Gopinatham, (2009) Has presented that the financial ratios analysis can spot better investment options for investors as the ratio analysis measures various aspects of the performance and analyzes fundamentals of a company or an institution.

Bakar & Tahir, (2009) in their paper used multiple linear regression technique and simulated neural network techniques for predicating bank performance. ROA was used as dependent variable of bank performance and seven variables including liquidity, credit risk, cost to income ratio, size and concentration ratio, were used as independent variables.

Jha & Hui, (2012) compared the financial performance of different structured banks in Nepal using camel framework. The study covers the years 2005-2010 to assess the financial performance of eighteen commercial banks in Nepal. The analysis was based mainly on the descriptive financial analysis to describe measure, compare and classify the financial situations. The authors then used multivariate regression model to test the significance of the variables used. They found that the return on assets of public sectors banks were higher than those of joint ventures and private banks. Moreover, the values determined for the financial ratios revealed that joint venture and private banks were also not so strong in Nepal to manage the possible large scale stock to their balance sheet.

Leonard, (2015)“Liquidity Risk Management and Self-Paced A/L Management” undoubtedly suggested that the quantity of liquidity you have or can get must be related to the quantity of liquidity that you think you may need. The quantity of liquidity that you need is, mainly, the sum of current liabilities you may lose plus new assets you have to fund. Liquidity Risk, the amount of liquidity you might need, is highly scenario specific. Liquidity cannot be intelligently measured without using scenario analysis. Sources available in some scenarios are less available or unavailable in others. The study emphasized that the essences of liquidity risk is cash flow. Therefore, fundamentally, liquidity gap analysis is simply an evaluation of the two requirements: "enough money" and "when we need it". Liquidity risk management tactics are more vital than managing the time profiles of maturing liabilities. He conducted four essential Liquidity Management tools: always keep some asset liquidity reserve, extend liability terms to reduce liquidity risk, be prepared to enhance liquidity quickly at the first signs of increased potential need and manage cash flow profiles.

liquidity strategy should set out the general approach the bank will have to liquidate, including various quantitative and qualitative targets. This strategy should address the bank's goal of protecting financial strength and the ability to withstand stressful events in the marketplace. Optimal management of liquidity requires a delicate balance between liquidity risk and income. No bank can hold enough liquidity to survive anything close to a "worst case" liquidity crisis. The penalty for too little liquidity may be the failure of the bank but too much liquidity

carries a penalty as well. So, liquidity risk is highly idiosyncratic, arbitrary and inconsistent.

Samuel & Vanniarajan, (2015) Discussed about financial performance of bank by applying Du-Pont analysis. They concluded that the liberalization of the finance sector in India has divulged Indian banks to a new economic environment that is considered by increased competition and new regulatory requirements. They also revealed that Indian and foreign banks need to explore development opportunities in India by initiating new products for different customer segment, and many of which were not conservatively viewed as customer for the banking industry. They suggested all banks should to evaluate their performance and compare with the others. In the last they depicted from the analysis the performance of the banks may be viewed on the base of three dimensions like structural, functioning and efficiency factors which was suggested by the India Bank Association.

Jacob,(2016) in his article states that, “Sound practices for Managing Liquidity in Banking Organizations” attributed Liquidity, or the ability to fund increases in assets and meet obligations as they come due, is crucial to the ongoing viability of any banking organization. Sound liquidity management can reduce the probability of serious problems. Indeed, the importance of liquidity transcends the individual bank, since a liquidity shortfall at a single institution can have system – wide repercussions. For this reason, the analysis of liquidity requires bank management not only to measure the liquidity position of the bank on an ongoing basis but also to examine how funding requirements are likely to evolve under various scenarios, including adverse conditions.

2.3.2 Review of Nepalese Journal Articles

Rimal,(1989) States in his analysis on “Building effective financial system” poor management has contributed to banks difficulties. Excessive branching and staffing, poor assets and liability management and inexact accounting and management account systems have all been a source of weakness. Financial institution in developing countries is plagued by portfolio problem, which in many cases was the result of the poor management. Lending to insiders, excessive concentration of lending in one geographic area, or in industry have been important sources of trouble.

Shrestha,(1989) Conducted a study on “Capital Adequacy of Bank, the Nepalese Context” and suggested that the banks that deal in highly risky transactions to maintain strong capital base. It concluded that the capital base should neither be too much leading to inefficient allocation of scarce resources nor so weak to expose to extreme risk. The study accepts that the operations of banks and the degree of risk associated with them are subject to changes country wise, bank wise and time wise.

Joshi, (1989) Carried out a study on “Financial performance of commercial banks” and stated that the liquidity position of commercial banks is highly leveraged than those of joint venture commercial banks. Loan and advances are the major form of investment. Two third of the assets have used for earning purpose. Profitability position of NABIL is stronger than of other commercial banks.

Gurung,(1995) in this study entitled “A Financial study of Joint Venture Banks in Nepal: A comparative study of NGBL and NABIL” analyze assets, liabilities, debt and equity, profit and loss etc. for the period of 1986/87 to 1992/93. In the study it is found that profitability records of both the banks have registered an increasing trend during the first half of the study period and have decrease thereafter. It is found that the liquidity, profitability and dividend payout ratio of both the banks seems too favorable and both the banks have been able to manage satisfactory level of capital adequacy ratio in the subsequent years, which is above the required adequacy norm.

It is recommended that both the banks are required to maintain improved capital structure by increasing equity base i.e. issuing more capital, expanding general reserve and retaining more earning and wide range of fluctuation the cash/ bank to deposit ratio of the bank should be stabilized after proper diagnosis of the root cause. The study suggested further that both banks should try hard to earn operational profit by increasing their operational efficiencies, mobilizing resources more efficiently or by minimizing operating expenses as far as possible or the both, it focused mainly on Return on deposit of NGBL and NABIL in the study.

Pandey,(2000) Conducted a study on “A study of financial analysis on HBL” to ascertain, analyze and evaluate the financial position of HBL for the period of 1994/95 to 1998/99. In the study, it is tried to examine the growth of the sampled bank. In this study it is concluded that overall liquidity and capital structure position of the bank is not satisfactory. Overall profitability condition was highly appreciable

profit generating capability through loans and advances appeared satisfactory. Trend of deposit collection showed that the bank was in a higher risk with respect to saving deposits as against the fixed deposits.

Shrestha, (2002) in his analysis “Lending operation of commercial banks of Nepal and its impact on GDP” has presented with the objectives to make an analysis of contribution of commercial banks’ lending to the gross domestic product (GDP) of Nepal. It has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, it has considered GDP as the dependent variable and various sectors of lending viz. agriculture industrial, commercial, service and general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution. The multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. Thus, in conclusion it has accepted the hypothesis i.e. there has been positive impact on GDP by the lending of commercial banks in various sector of economy, except service sector investment.

Pyakuryal, (2002) Examine on “Workshop on Banking and National Development” the present changing context of the economy calls, for a substantial revitalization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize their resources in an efficient manner therefore, the task of utilization of resources is as much crucial as the mobilization. The underutilization of resources not only results in loss of income but also goes further to discourage the collection of deposits.

Bajracharya & Bhattarai, (2004) Effective planning and control are to enhancing enterprise value. Financial plans may take many forms. But any good plan must be related to the firm’s existing strengths and weaknesses. The strengths must be understood if they are to be used to proper advantage, and the weaknesses must be recognized if corrective action is to be taken. For example, are inventories adequate to support the projected level of sales? Does the firm have too heavy an investment in accounts receivable, and does this condition reflect a tax collection policy? For efficient operation, does the firm have too much or too little invested in plant and equipment? The financial manager can plan future financial requirements in

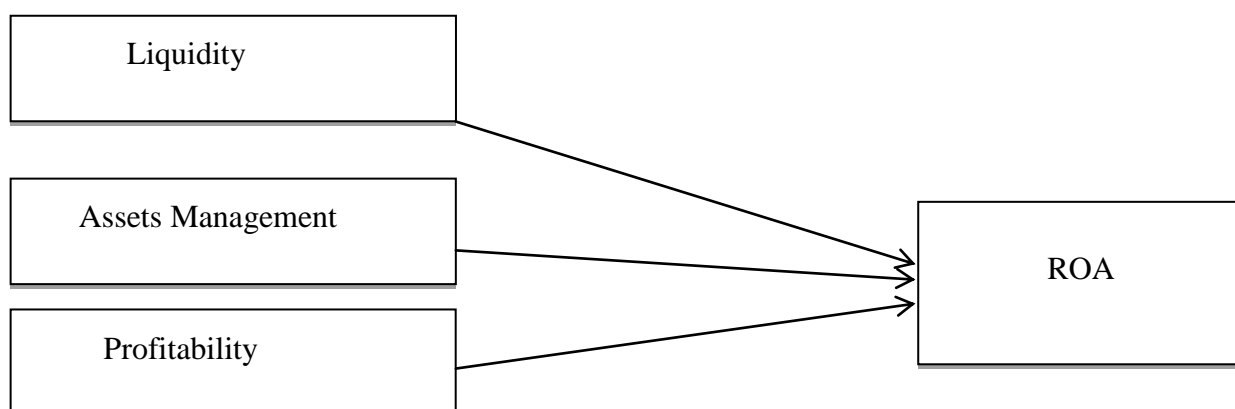
accordance with the forecasting and budgeting procedures, but the plan must begin with the type of financial analysis.

Shakya,(2015) Conducted a study entitled “Comparative analysis of financial performance of selected JVBs, a case study of NGBL and HBL” for the period from year 2010/11to 2014/15. the major finding drawn from the study are HBL is more efficient in case of liquidity as well as it is more levered than NGBL whereas HBL is in better condition from the aspect of capital adequacy, activity and profitability ratios. Study showed positive correlation between loans and advances to total debt of both banks. According to the trend analysis, profit before tax of NGBL has been increasing at the higher rate than that of HBL.

Pathak,(2016) has followed the operational performance approach to study the post-merger effects of financial institutions which deals with the link between mergers and the productivity efficiency of the banks involved. They seek proper organizational identification from the new management which directly affects their turnover intentions.

Baniya & Adhikari,(2017) Since the evidences from different economies on bank mergers suggest varying impact, this study adds to the existing literature on the effects of merger in the banking industry with evidence of Nepalese context revealing which performance dimension significantly improves, deteriorates or remain constant after the merger. It also helps to gain comparative view by linking the results of this study with results from other economies. Furthermore, the published literatures in the Nepalese economy consider only the operational profitability ratios as the variables to measure the post-merger performance and rather than making comparisons of individual financial institutions, pooled data is taken.

2.4 Theoretical Framework



2.5 Research Gap

There are several studies which help to identify bank financial positions and its effective utilization of assets and its analysis of financial performances of various banks in different countries and different period of time. This chapter reviewed various literatures relevant to factors affecting the financial performance of commercial banks in Nepal. It is very much essential to study in the context of Nepal whether these variables like liquidity, asset management and profitability with financial performance is better or not? Also Nepal's banking sectors has been undergoing significant changes in the last few years with the introduction of new rules and regulations. Moreover, to identify the financial performance of these bank variables on the present scenario, this study tries to fill up the gaps created by the use of different methodology, samples, and variables, duration till the study, various analytical tools and conclusion.

A gap in literature provide areas of compels research financial practice in various banks. There is a scope to study the profile of impact of financial performance analysis in each industry, comparing and constructing different industries. Also research can be done to analyze major issues that are faced by the various banks going for implementation of financial position in their management. Studies are required to be done throw light on the effect and the potential benefits of the financial performance, which will help to the banking take faster decision regarding profitability, working capital as well liquidity maintaining based investment management. Set of studies can be dedicated to study the impact of financial performance and utilization of funds on improving the overall competitiveness of banks.

CHAPTER III

RESEARCH METHODOLOGY

The rationale behind the study is to evaluate and assess the financial performance of the two commercial banks Nepal Bank Limited and Nepal SBI Bank Limited. Thus, this chapter includes those methods and techniques used for finding out the desired outcome. Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objective in view. It is a way to systematically solve the research problem and it may be understood as a science of studying how research is done scientifically. It includes the various steps that are generally adopted by a researcher studying his/ her research problem along with the logic behind them, it would be appropriate to mention here that research project are not meaningful to any one unless they are in sequential order which will be determined by the particular problem at hand therefore, this study aims at analyzing and interpreting the purpose of comparative financial performance or appraisal of two commercial banks.

3.1. Research Design

Research design is the task of defining the research problem. In other words, "A research design is the arrangement of conditions, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which the research is conducted. General objective of this research study is to examine and evaluate the financial performance of commercial banks especially that of NSBI and NBL in order to achieve the objective, both descriptive and analytical research design has been followed. The study focuses on the examination of relationship between those variables that influence-financial decision of the sampled banks.

In order to achieve the objective of the study, descriptive research design has been employed. it is more scientific method of classification, tabulation, analysis and comparison of data and it also use to estimate the relationship. For this, it requires information and data from the annual reports and the financial statements published by the related banks. They are collected for the F/Y 2012/13 to F/Y 2016/17 for the analytical purpose. Then the important information and data are selected for the study.

Then data are arranged in useful manner after that, data are analyzed by using appropriate financial, descriptive and analytical tools. In analysis part, interpretation and comments are also made wherever necessary.

3.2. Population and Sample

The population for this study comprises 28 commercial banks currently operating in the country. The sample consists of two judgmentally selected banks- Nepal Bank Limited and Nepal SBI Bank Limited. These units represent 7.14% of the total population and are comparable to each other in various aspects.

Table 3.1: Number of commercial banks selected for the study

S. No.	Name of Commercial Banks	Study Period
1.	Nepal Bank Limited (NBL)	2012/13- 2016/17
2.	Nepal SBI Bank Limited (NSBI)	2012/13 - 2016/17

3.3. Sources of Data

This study is mainly based on secondary data which are gathered from 2 sampling commercial banks in Nepal for the period 2012/13 to 2016/17. These data are collected from annual report and website of respective commercial banks which is selected for study, Annual report of Nepal Rastra Bank and other official and unofficial publications.

3.4. Data Collection Procedure

The problem of the study lies on the issues related to the comparative strengths and weaknesses of the banks. The study has been inducted to examine and evaluate the financial performance of the sample banks. This study is also intended to find the weaknesses and strengths so that appropriate suggestion can be provided to enhance the performance of the banks in coming days. For the purpose, various data are required. With the view of obtaining the data, secondary data are used such as the published books of different authors, unpublished thesis reports, journals articles, Internet web sites, AGM reports of commercial banks, bulletins published by NRB etc. are the major sources of data. To collect these secondary data, the researcher visits different campus library including online library, TU central library and website of NRB. Different web sites are also searched to collect necessary information for the

study.

3.5. Method of Data Analysis

The data collected from different sources are recorded systematically as necessary. Only useful and related data are grouped as per need of the research work. Data are presented in appropriate forms of tables, graphs and charts. For analysis appropriate mathematical, financial as well as statistical tools are used. Some of them are:

3.5.1 Financial Tools

Financial tools are those, which are used for the analysis and interpretation of financial data. These tools can be used to get the precise knowledge of a business, which in turn, are fruitful in exploring the strengths and weaknesses of the financial policies and strategies. For the sake of analysis, following various financial tools have been used in order to meet the purpose of the study.

3.5.1.1 Ratio Analysis

An overview of financial ratio analysis is as follows:

1. Liquidity Ratio
2. Assets Management Ratio
3. Profitability Ratio

3.5.1.1.1. Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. Liquidity ratio gives insight into the present cash solvency of the firm and its ability to remain solvent in the event of adversities. It is the comparison between the short-term obligation and the short firm resources. In case of bank, liquidity management is widely used to analyze liquidity position of banks. A bank should ensure that it does not suffer from lack of liquidity and it does not have excess liquidity. Both conditions of liquidity are unfavorable for a bank. Banks can experience lack of liquidity when cash outflows (due to deposit withdraws, loans, etc.) exceed cash inflows (new deposits loan repayment etc.). They can resolve any cash deficiency either by creating

additional liabilities or by selling assets. To analyze the ability of banks, the following selected ratios are calculated.

1. Current ratio
2. Investment on Government securities to current assets
3. Loan and advance to current assets
4. Cash and bank balance to total deposit
5. Cash and bank balance to current assets

1. Current ratio:

The current ratio is the ratio of total current to total current liabilities. It is calculated by dividing current assets by current liabilities, which is presented as follows:

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

Current assets represent those assets which can be converted into cash and bank balance within an accounting period such as cash and bank balance, investment in treasury bills, money at call or placement, loans and advances, bills purchased and discount, inter branch account, other short term loans, receivable and prepaid expenses etc.

Current liabilities refer to the short term maturing obligations. This includes all deposit liabilities, intra bank reconciliation account, bills payable, tax provision, staff bonus, dividend payable, bank overdrafts, provisions, and accrued expenses etc.

2. Investment on Government securities to current assets:

This ratio is calculated in order to find out the percentage of current assets invested in government securities i.e. Treasury bills. It can be calculated by dividing investment on government securities by current assets as follows:-

$$\text{Investment on government securities to current assets} = \frac{\text{Investment on Treasury bill}}{\text{Current Assets}} \times 100$$

3. Loan and advances to current assets:

Loans and advances refer to bill purchased and discounted, local and foreign currencies, loan, advances, and overdrafts. Bank loans and advance is the main assets used for income generating purpose in commercial banks. This ratio is calculated to find out the percentage of current asset, invested in loans and advances by following formula:

$$\text{Loan and advances to current assets} = \frac{\text{Loan and advances}}{\text{Current assets}} \times 100$$

4. Cash and Bank balance to total deposit (Cash Reserve Ratio):

The cash reserve requirement in most of the developed and developing countries has been used extensively to control commercial banks credit. Especially in those countries, where capital market is not well developed, cash reserve requirement can be used not only to control. The commercial bank credit but also to influence the investment portfolio of the commercial banks.

$$\text{CRR} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

5. Cash and Bank Balance to Current Assets:

Since cash and bank balance is the most liquid assets, a financial analyst may examine the ratio of cash and bank balance to current assets. This ratio shows the percentage of readily available fund within the banks. It is calculated by dividing cash and bank balance by current assets which is as follows:

$$\text{Cash and Bank Balance to Current Assets} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

3.5.1.1.2. Assets Management Ratio

Now a day these relations are also known as assets investment management. Activity or turnover ratios employed to evaluate the efficiency with which the firm manages and utilized its assets. They indicate the speed with which assets are being converted or turned over. Thus, these ratios are used to measure the banks' ability to utilize their

available resources. Various activity ratios are used to predict the effectiveness of asset utilization. Some selected ratios for this research can be illustrated as follows:

1. Loans and advances to fixed deposit ratio
2. Loans and advances to saving deposit ratio
3. Loans and advances to total deposit ratio
4. Investment to total deposit ratio

1. Loans and advances to fixed deposit ratio:

This ratio measures how many times the amount is used in loan and advances in comparison to fixed deposits. Fixed deposits are high interest-bearing obligation whereas loan and advances are the major source of investment to generate income for the commercial banks. This ratio is calculated by dividing the amount of loans and advances by fixed deposits that is given below:

$$\text{Loans and advances to fixed deposit} = \frac{\text{Loans and Advances}}{\text{Fixed Deposit}} \times 100$$

2. Loan and advance to saving deposit ratio:

This ratio measures how many times the second-high interest bearing deposit is utilized for income generating purpose. This ratio can be calculated by dividing the amount of loans and advances by the amount of saving deposits. The ratio is calculated as follows:

$$\text{Loans and advances to saving deposit} = \frac{\text{Loans and Advances}}{\text{Saving Deposit}} \times 100$$

3. Loan and advances to total deposits ratio:

This ratio measures the extent to which the banks are successful to utilize the outsider's fund (total deposits) for the profit generating purpose on the loans and advance generally, a high ratio reflects higher efficiency to the utilization of outsider's fund and vice-versa. It can be calculated by dividing the amount of loans and advances the amount of total deposits, which is given bellows:

$$\text{Loans and advances to total deposit} = \frac{\text{Loans and Advances}}{\text{Total Deposit}} \times 100$$

Here, loan and advances refer to total of loan, advances and overdraft (i.e. in local current plus convertible foreign currency) and total deposits refer to total of all kinds of deposits.

4. Investment to total deposit ratio:

This ratio is derived by dividing investment by the amount of total deposit in the bank.

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

Investment comprised investment in Nepal Government Treasury bill, development bond, company shares and other type of investment. The ratio shows the efficiency of mobilization of the major resources of the bank. High ratio indicates managerial efficiency regarding the utilization of deposits, when low ratio is the result of less efficiency in use of funds.

3.5.1.1.3. Profitability ratios

Profit is different between total revenues and expenses over a period. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of profits. The profitability ratios in this study are calculated to measure the operating efficiency and performance of two banks comparatively. Some major profitability identifying ratios used in this study are:

1. Net profit to total deposit ratio
2. Net profit to total assets ratio
3. Return on net worth

1. Net profit to total deposit ratio:

The collected deposits are mobilized in investment and loans to get profit. This ratio indicated the percentage of profit earned by using the total deposit. This ratio is mirror for bank's overall financial performance as well; as its success in profit generation, the reason being that the deposits made by its customer's is the major source of earning of the commercial banks as the earning is made by the efficient and effective

utilization of these deposits. It is calculated by dividing the amount of net profit by the amount of total deposits, which is presented below.

$$\text{Net Profit to total deposit} = \frac{\text{Net Profit}}{\text{Total Deposit}} \times 100$$

Here, net profit calculated from profit and loss a/c and total deposit refers to all kinds of deposits, i.e. (current, saving, fixed, other, margin and call at short notice).

2. Net profit to total assets ratio:

This ratio is a useful measurement of the profitability of all financial resources invested in the bank's assets. This ratio provides the foundation necessary for company to deliver a need of return on equity. Higher return on assets (ROA) ratio indicates higher efficiency in the utilization of total assets and vice-versa. The return on assets (ROA) or profit to assets ratio is calculated by dividing the amount of net profit by the amount of total assets.

$$\text{Net Profit to Total Assets} = \frac{\text{Net profit}}{\text{Total Assets}} \times 100\%$$

3. Return on net worth:

Net worth or shareholders equity refers to the owners claim on the assets of the bank. It can be found by deducting total assets (excluding intangible assets and accumulated losses). This ratio measures the profit earned by the commercial banks by utilizing owners' equity and there by generating return to satisfy the owners.

Higher the ratio indicates sound management and efficiency and wealth maximization of the banks, which in turn is the wealth maximization of the banks. It is calculated by dividing net profit after tax by net worth, which is as follows:

$$\text{Net Profit to Net Worth} = \frac{\text{Net Profit}}{\text{Net Worth}} \times 100$$

Here, NPAT refers to net profit after tax from profit and loss a/c and net worth refers to paid up capital, reserve and surplus and undistributed profit.

3.5.2. Statistical Tools

Various statistical tools can be used in research to draw the reliable conclusion according to the financial data available to the researcher. For this purpose, the researcher in this study uses following statistical tools.

3.5.2.1. Arithmetic Mean (\bar{X})

Arithmetic Mean or Simply a 'mean' of a set of observation is the sum of the entire observation dividend by the number of observation. it is also known as the arithmetic average. It is the sum of total value of dividend by number of value .It is calculated as;

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

Where,

X_i = Value of Variable i

N = Number of Items

3.5.2.2. Standard Deviation (σ)

Standard Deviation is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. The standard Deviation is the absolute in other measure of dispersion are removed. it is said to be the best measure of dispersion as it satisfies most of the requisites of a good measure of dispersion .it is calculated as;

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

$$\sum (X - \bar{X})^2 = \text{Sum of the mean deviation squared}$$

N = Total number of observation

3.6.2.3. Coefficient of Variation (CV)

The coefficient of dispersion based on standard deviation multiply by 100 is known as the coefficient of variation (CV). It is independent of unit. So, two distributions can bitterly be compared with the help of C.V for their variability .Less the C.V more will be the uniformity, consistency and more than C.V less will be the uniformity, consistency. It is calculated as;

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

CHAPTER-IV

RESULTS

This chapter covers presentation and analysis of all related information about selected banks which also covers presentation and analysis of secondary data, an attempt has been made to analyze the financial performance of NBL and NSBI bank limited for its operational period of five years that is from 2012/13 to 2016/17. This chapter of thesis presents the data and facts relating to different aspects of NBL and NSBI bank limited. These available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. Hence, the financial ratios have been taken from this, only selected ratios including liquidity ratios, assets management ratios and profitability ratios been taken for analyzing the strength and weakness of the sample commercial banks.

4.1 Ratio Analysis

Ratio analysis involves the method of calculating and interpreting financial ratios in order to assess the firm's performance and status. In order to analyze and interpret the tabulated data the following measures have been used.

1. Liquidity Ratio
2. Assets Management Ratio
3. Profitability Ratio

4.1.1 Liquidity Ratio

This ratio measures to evaluate the performance of the selected banks regarding their strategies, operating and financing decisions. Under these following ratios have been tested.

1. Current ratio
2. Investment on Government securities to current assets
3. Loan and advance to current assets
4. Cash and bank balance to total deposit
5. Cash and bank balance to current assets

1) Current ratio

It is the ratio of total current assets to total current liabilities calculated by dividing the company's current assets by current liabilities.

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

Table 4.1 Current Ratio Analysis

In times

Bank	NBL			NSBI		
Year	Current Assets	Current Liabilities	Ratio (Times)	Current Assets	Current Liabilities	Ratio (Times)
2012/13	70443	62989	1.12	65288	59262	1.10
2013/14	89222	69338	1.29	64829	54835	1.18
2014/15	89095	78077	1.14	59830	51849	1.15
2015/16	102468	89446	1.15	77656	65534	1.18
2016/17	106509	93974	1.13	99140	81942	1.21
Mean	1.17			1.16		
S.D.	0.07			0.044		
C.V	5.98			3.793		

Source: NRB bank supervision report 2017

The table 4.1 shows that the current ratio of both banks has been below the standard 2:1. The ratio of NBL over the study period of five years is 1.12, 1.29, 1.14, 1.15 and 1.13 times and mean is 1.17 times whereas NSBI bank limited has ratio of low of 1.10 times in 2012/13 and high of 1.21 times in 2016/17 with mean of 1.16 times. NBL has S.D. of 0.07 times which is higher than that of NSBI bank limited i.e.0.044.The C.V of NBL is higher than NSBI Bank so NBL is more variable but less stable than NSBI Bank. The NSBI bank is more consistent than NBL.

2) Investment on Government Securities to Current Assets

$$\text{Investment on government securities to current assets} = \frac{\text{Investment on Treasury bills}}{\text{Current Assets}} \times 100$$

Table 4.2 Investment on Government Securities to Current Assets Ratio Analysis

In Percentage

Bank	NBL			NSBI		
Year	Investment on Government Securities	Current Assets	Ratio (%)	Investment on Government Securities	Current Assets	Ratio (%)
2012/13	7227	70443	10.26	2742	65288	4.20
2013/14	18680	89222	20.94	5172	64829	7.98
2014/15	11960	89095	13.42	2102	59830	3.51
2015/16	7860	102468	7.67	1000	77656	1.29
2016/17	4909	106509	4.61	1842	99140	1.86
Mean	11.38			3.77		
S.D	6.25			2.64		
C.V	54.92			70.03		

Source: NRB bank supervision report 2017

The table 4.2 shows that ratio of NBL bank has ranged between low of 4.61% in 2016/17 to high of 20.94% in 2013/14 while the ratio of NSBI bank limited has ranged between low of 1.29 % in 2015/16 to high of 7.98% in 2013/14. The mean ratio of NSBI bank is lesser than NBL. Similarly, NBL has more consistency than NSBI bank with C.V. of 54.92% in comparison to 70.03% of NSBI bank. NSBI bank is more efficient in using government securities. But lower the investment on government securities means higher the risk and higher the income and vice-versa.

3) Loan and Advances to Current Assets Ratio

This ratio is calculated by using the following formula:

$$\text{Loan and advances to current assets} = \frac{\text{Loan and advances}}{\text{Current assets}} \times 100$$

Table 4.3 Loans and Advances to Current Assets Ratio Analysis

In Percentage

Bank	NBL			NSBI		
Year	Loan and Advances	Current Assets	Ratio (%)	Loans and Advances	Current Assets	Ratio (%)
2012/13	37855	70443	53.74	28788	65288	44.09
2013/14	41218	89222	46.20	35280	64829	54.42
2014/15	50971	89095	57.21	39979	59830	66.82
2015/16	61250	102468	59.77	46976	77656	60.49
2016/17	71746	106509	67.36	63025	99140	63.57
Mean	56.86			57.88		
S.D.	7.78			8.96		
C.V	13.68			15.48		

Source: NRB bank supervision report 2017

The table 4.3 shows that the loan and advances to current assets ratio of NBL bank ranges from low of 46.20% during 2013/14 to high of 67.36% during 2016/17 with mean ratio of 56.86%. Similarly, the ratio of NSBI bank ranges from low of 44.09% during 2012/13 to high of 66.82% during 2014/15. The mean ratio is 57.88%. Similarly, NBL bank has more consistency than NSBI bank with C.V. of 7.78 % compare to 8.96 % respectively.

4) Cash and Bank Balance to Total Deposit (Cash Reserve Ratio)

The ratio is calculated by following formula:

$$CRR = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}} \times 100$$

Table 4.4 Cash and Bank Balance to Total Deposit Ratio Analysis

In Percentage

Bank	NBL			NSBI		
Year	Cash and Bank Balance	Total Deposit	Ratio (%)	Cash and Bank Balance	Total Deposit	Ratio (%)
2012/13	14184	62989	22.52	7713	58920	13.09
2013/14	6660	69338	9.61	6655	54493	12.21
2014/15	9012	77999	11.55	8435	51628	16.34
2015/16	15615	89410	17.46	10389	65214	15.93
2016/17	17673	93944	18.81	13230	81665	16.20
Mean	15.99			14.75		
S.D.	5.32			1.95		
C.V	33.27			13.22		

Source: NRB bank supervision report 2017

The table 4.4 shows that the ratio of NBL over the study period has ranged between low of 9.61% in 2013/14 to high of 22.52% in 2012/13 with the mean of 15.99% whereas NSBI bank has ranged between low of 12.21% in 2013/14 to high of 16.34% in 2015/16 with mean of 14.75%. However, NSBI is more consistent or more stable than NBL because it's C.V. is less than C.V of NBL i.e. 13.22% < 33.27%.

5) Cash and bank balance to current assets

This ratio is calculated by using following formula:

$$\text{Cash and Bank Balance to Current Assets} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}} \times 100$$

Table 4.5 Cash and Bank Balance to Current Assets Ratio Analysis

In percentage

Bank	NBL			NSBI		
Year	Cash and Bank Balance	Current Assets	Ratio (%)	Cash and Bank Balance	Current Assets	Ratio (%)
2012/13	14184	70443	20.14	7713	65288	11.81
2013/14	6660	89222	7.46	6655	64829	10.27
2014/15	9012	89095	10.12	8435	59830	14.10
2015/16	15615	102468	15.24	10389	77656	13.38
2016/17	17673	106509	16.59	13230	99140	13.34
Mean	13.91			12.58		
S.D.	5.09			1.54		
C.V	36.60			12.23		

Source: NRB bank supervision report 2017

The table 4.5 shows that the cash and bank balance to current assets ratio of NBL has ranged between low of 7.46% in 2013/14 to high of 16.59% in 2016/17 and mean of 13.91% whereas the ratio of NSBI bank has ranged between low of 10.27% in 2013/14 to high of 14.10% in 2014/15. Mean ratio is 13.91% in NBL which is more than that of NSBI bank's 12.58%. The C.V. of NBL is higher than NSBI bank i.e. (36.60% > 12.23%) which suggest that NSBI bank is utilizing its cash balance better than NBL. So NSBI bank is in better position regarding their cash and bank balances.

4.1.2 Assets Management Ratio

These ratios are used to measure the bank's ability to utilize their available resources. Some selected ratios for this research can be illustrated as follows:

1. Loans and Advances to Total Deposit Ratio
2. Loans and Advances to Fixed Deposit Ratio
3. Loans and Advances to Saving Deposit Ratio
4. Investment to Total Deposit Ratio

1) Loans and Advances to Total Deposit Ratio

This ratio is calculated by using the following formula:

$$\text{Loans and Advance to Total Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Total Deposit}} \times 100$$

Table 4.6 Loans and Advances to Total Deposit Ratio

In Percentage

Bank	NBL			NSBI		
Year	Loans and Advances	Total Deposit	Ratio (%)	Loans and Advances	Total Deposit	Ratio (%)
2012/13	37855	62989	60.10	28788	58920	48.86
2013/14	41218	69338	59.45	35280	54493	64.74
2014/15	50971	77999	65.35	39979	51628	77.44
2015/16	61250	89410	68.50	46976	65214	72.03
2016/17	71746	93944	76.37	63025	81665	77.18
Mean	69.95			68.05		
S.D.	6.93			11.90		
C.V	10.51			17.49		

Source: NRB bank supervision report 2017

The above table shows that ratio of NBL has ranged between low of 59.45 % in 2013/14 to high of 76.37% in 2016/17 with mean of 69.95% whereas ratio of NSBI bank has ranged between low of 48.86% in 2012/13 to high of 77.44% in 2014/15 with mean of 68.05% which is less than NBL. And, NBL bank has C.V. of 10.51% and NSBI bank with C.V. of 17.49%.

2) Loans and Advances to Fixed Deposit Ratio

This ratio is calculated by dividing the amount of loans and advances by fixed deposits that is calculated below:

$$\text{Loans and Advances to Fixed Deposit Ratio} = \frac{\text{Loans and Advance}}{\text{Fixed Deposit}}$$

Table 4.7 Loan and Advance to Fixed Deposit Ratio Analysis

In Percentage

Bank	NBL			NSBI		
Year	Loans and Advances	Fixed Deposit	Ratio (Times)	Loans and Advances	Fixed Deposit	Ratio (Times)
2012/13	37855	12651	2.99	28788	38179	0.75
2013/14	41218	12123	3.40	35280	28569	1.23
2014/15	50971	11286	4.52	39979	19129	2.09
2015/16	61250	11731	5.22	46976	23019	2.04
2016/17	71746	21288	3.37	63025	41777	1.51
Mean	3.90			1.53		
S.D.	0.93			0.56		
C.V	23.90			36.80		

Source: NRB bank supervision report 2017

The table 4.7 shows that this ratio of both NBL and NSBI bank limited are in fluctuating trend. The mean ratio of NBL has 3.90 times whereas NSBI bank has 3.65 times. The C.V. of NBL is less than NSBI bank limited i.e. (23.90 % < 36.80%) according to calculated C.V., it indicates that loan and advances to fixed deposit ratio are being efficiently and properly utilized by NBL than NSBI bank limited.

3) Loans and Advances to Saving Deposit Ratio

This ratio can be calculated by dividing the amount of loans and advances by the amount of saving deposits. The ratio is calculated as follows:

$$\text{Loans and Advances to Saving Deposit} = \frac{\text{Loans and Advances}}{\text{Saving Deposit}}$$

Table 4.8 Loan and Advance to Saving Deposit Ratio Analysis

In Percentage

Bank	NBL			NSBI		
Year	Loans and Advances	Saving Deposit	Ratio (Times)	Loans and Advances	Saving Deposit	Ratio (Times)
2012/13	37855	28232	1.34	28788	12888	2.23
2013/14	41218	33349	1.24	35280	16611	2.12
2014/15	50971	40682	1.25	39979	21485	1.86
2015/16	61250	50894	1.20	46976	26832	1.75
2016/17	71746	44730	1.60	63025	28660	2.20
Mean	1.33			2.03		
S.D.	0.16			0.22		
C.V	12.30			10.60		

Source: NRB bank supervision report 2017

The table 4.8 shows that ratio of NBL has ranged between lowest of 1.20 times in 2015/16 to highest of 1.60 times in 2016/17 with mean ratio of 1.33 times. Similarly, NSBI bank has ranged between lowest of 1.75 times in 2015/16 to highest of 2.23 times in 2012/13 with mean ratio 2.03 times. In short the mean ratio of NSBI bank is more than the mean ratio of NBL. NSBI bank has more consistency in this ratio with C.V. of 10.60% which is less than C.V. of NBL is 12.30%. It means that NSBI bank is utilizing its saving deposits better than NBL.

4) Investment to Total Deposit Ratio

This ratio is derived by dividing investment by the amount of total deposits in the bank.

$$\text{Investment to Total Deposit Ratio} = \frac{\text{Investment}}{\text{Total Deposit}} \times 100$$

Table 4.9 Investment to Total Deposit Ratio Analysis

In Percentage

Bank	NBL			NSBI		
Year	Investment	Total Deposit	Ratio (%)	Investment	Total Deposit	Ratio (%)
2012/13	10977	62989	17.43	25906	58920	43.97
2013/14	22664	69338	32.69	17722	54493	32.52
2014/15	16902	77999	21.67	9320	51628	18.05
2015/16	12843	89410	14.36	19291	65214	29.58
2016/17	12181	93944	12.97	21043	81665	25.77
Mean	19.82			29.98		
S.D.	7.93			9.58		
C.V	40			31.75		

Source: NRB bank supervision report 2017

The table 4.9 shows that this ratio of NBL has ranged between 12.97% in 2016/17 to 32.69 % in 2013/14 with mean being 19.82%. Similarly, this ratio of NSBI bank is fluctuating in between the range of 18.05% in 2014/15 to 43.97% in 2012/13 with mean being 29.98%. In brief both bank's ratio is following fluctuating trend. Remarkably, higher mean ratio of NSBI bank signifies that NSBI bank has prefers utilizing its deposits in investment portfolio. Conversely, NBL has given less importance in this issue and the bank is less stable as well.

4.1.3 Profitability Ratio

There are many measures of profitability. Each relates the returns of the firm to its sales, assets, equity, or share value. As a group, these measures allow the analyst to evaluate firm's earnings with respect to given level of sales, a certain level of assets, the owner's investments, or share value. The profitability ratios in this study are calculated to measure the operating efficiency and performance of two banks comparatively. Some major profitability identifying ratios used in this study are:

1. Net profit to total deposit ratio

2. Net profit to total asset ratio

3. Return on net worth

1) **Net profit to total deposit ratio**

This ratio is calculated by following formula:

$$\text{Net profit to total deposit} = \frac{\text{Net profit}}{\text{Total Deposit}} \times 100$$

Table 4.10 Net profit to total deposit Ratio Analysis

In Percentage

Bank	NBL			NSBI		
Year	Net Profit	Total Deposit	Ratio (%)	Net Profit	Total Deposit	Ratio (%)
2012/13	792	62989	1.26	771	58920	1.31
2013/14	717	69338	1.03	923	54493	1.69
2014/15	484	77999	0.62	1065	51628	2.06
2015/16	2883	89410	3.22	1332	65214	2.04
2016/17	3118	93944	3.32	1523	81665	1.86
Mean	1.89			1.79		
S.D	1.28			0.31		
C.V	67.8			17.3		

Source: NRB bank supervision report 2017

The table 4.10 shows that the ratio of NBL bank has ranged between lower of 0.62% in 2014/15 to higher of 3.32 % in 2016/17 with the mean being 1.89% whereas the ratio of NSBI bank has ranged between lower of 1.31% in 2012/13 to higher of 2.06% in 2014/15 with mean of 1.79%. The mean ratio of NBL is higher than that of NSBI bank. However, the ratio of NSBI bank is more consistent than that of NBL with C.V. of NSBI bank being 17.30% to NBL's 67.80%. NSBI bank is well equipped than NBL with its profit is highly earned and deposited amount is properly utilized.

2. Net profit to total assets ratio

The ratio is calculated by following formula:

$$\text{Net profit to total asset ratio} = \frac{\text{Net profit}}{\text{Total Assets}} \times 100$$

Table 4.11 Net profit to Total Assets Ratio Analysis

In Percentage

Bank	NBL			NSBI		
Year	Net Profit	Total Assets	Ratio (%)	Net Profit	Total Assets	Ratio (%)
2012/13	792	73782	1.07	771	64796	1.19
2013/14	717	80405	0.89	923	61083	1.51
2014/15	484	88211	0.55	1065	59277	1.80
2015/16	2883	103480	2.79	1332	78515	1.70
2016/17	3118	112057	2.78	1523	99829	1.53
Mean	1.62			1.54		
S.D.	1.08			0.23		
C.V	67			15		

Source: NRB bank supervision report 2017

The table 4.11 shows that the ratio of NBL bank has ranged between lower of 0.55% in 2014/15 to higher of 2.79% in 2015/16 with mean being 1.62% whereas the ratio of NSBI bank has ranged between lower of 1.19% in 2012/13 to higher of 1.80% in 2014/15 with mean of 1.54%. The mean ratio of NBL is higher than that of NSBI bank but NSBI bank has far more consistency than NBL with C.V. of 15% with C.V of NBL being 67%. so NSBI bank has maintained its profitability and also is in better position where as NBL has fall down quickly.

2) Return on net worth

The ratio is calculated by following formula:

$$\text{Return on net worth} = \frac{\text{Net profit}}{\text{Net Worth}} \times 100$$

Table 4.12 Return on Net worth Ratio Analysis

In Percentage

Bank	NBL			NSBI		
Year	Net Profit	Net Worth	Ratio (%)	Net Profit	Net Worth	Ratio (%)
2012/13	792	(173)	(457.80)	771	3799	20.29
2013/14	717	3347	21.42	923	4536	20.35
2014/15	484	3831	12.63	1065	5646	18.86
2015/16	2883	6714	42.94	1332	6920	19.25
2016/17	3118	11452	27.23	1523	10398	14.65
Mean	(70.72)			18.68		
S.D.	216.67			2.35		
C.V	(306.40)			12.56		

The table 4.12 shows that the ratio of NBL has ranged between lower to -457.80% in 2012/13 to higher to 42.94% in 2015/16 with mean being -70.72% whereas the ratio of NSBI bank has ranged between lower to 14.65% in 2016/17 to higher to 20.35% in 2013/14 with mean of 18.68%. The mean ratio of NSBI bank is higher than that of NBL (i.e. mean of NSBI bank is 18.68% > NBL is (70.72) %). However, NBL bank has more consistency than NSBI bank i.e. C.V. of NBL is (306.40) % while that of NSBI bank is 12.56%.

Major Findings of the study

1. The average current ratios of NBL and NSBI are 1.17 times and 1.16 times respectively. Whereas, coefficient of variation (CV) of NBL and NSBI are 5.98% and 3.79% respectively.

2. The average investment on government securities to current assets ratio of NBL and NSBI are 11.38% and 3.77% respectively. Whereas, coefficient of variation (CV) of NBL and NSBI are 6.25% and 2.64% respectively.
3. The average loan and advances to current assets ratio of NBL and NSBI are 56.86% and 57.88% respectively. Whereas, coefficient of variation (CV) of NBL and NSBI are 13.68% and 15.48% respectively.
4. The average cash and bank balance to total deposit ratio (cash reserve ratio) of NBL and NSBI are 15.99% and 14.75% respectively. Whereas, coefficient of variation (CV) of NBL and NSBI are 33.27% and 13.22% respectively.
5. The average cash and bank balance to current assets of NBL and NSBI bank are 13.91% and 12.58% respectively. Whereas, coefficient of variation (CV) of NBL and NSBI are 36.60% and 12.23% respectively.
6. The average loan and advances to total deposit ratio of NBL and NSBI are 69.95 % and 68.05% respectively. Whereas, coefficient of variation (CV) of NBL and NSBI are 10.51% and 17.49% respectively.
7. The average loan and advances to fixed deposit ratio of NBL and NSBI are 3.90 times and 1.53 times respectively. Whereas, coefficient of variation (CV) of NBL and NSBI are 23.90% and 36.80% respectively.
8. The average loan and advances to saving deposit ratio of NBL and NSBI are 1.33 times and 2.03 times respectively. Whereas, coefficient of variation (CV) of NBL and NSBI are 13.30% and 10.60% respectively.
9. The average investment to total deposit ratio of NBL and NSBI are 19.82% and 29.98% respectively. Whereas, coefficient of variation (CV) of NBL and NSBI are 40% and 31.75% respectively.
10. The average of net profit to total deposit ratio of NBL and NSBI are 1.89 % and 1.79% respectively. Whereas, coefficient of variation (CV) of NBL and NSBI are 67.80% and 17.30% respectively.
11. The average of net profit to total assets ratio of NBL and NSBI are 1.62 % and 1.54% respectively. Whereas, coefficient of variation (CV) of NBL and NSBI are 67% and 15% respectively.

12. The average of net profit to net worth of NBL and NSBI are (70.72) % and 18.68% respectively. Whereas, coefficient of variation (CV) of NBL and NSBI are (306.40) % and 12.56% respectively.

CHAPTER – V

CONCLUSIONS

5.1 Summary

Economic development of a country cannot be imagined without the development of commerce and industry. No doubt, banking promotes the development of commerce to its extreme, as banking itself is the part of commerce. Though the economic growth was as snail speed in earlier year, it had caught its full sailing with the restoration of democracy in the country. These days Nepal has been facing severe economic problem due to the unrest condition. At present, political instability is hampering the economic development of Nepal.

In this study the objective, financial positions and strategies of commercial banks have been emphasized and analyze of their financial performance. Here the main finding of the study is the financial performance of these two sample banks NBL and NSBI bank limited has been presented. The financial data, statement of five consecutive years i.e. 2012/13 to 2016/17 has been examined for the study. The study is mainly based on the secondary data, which have been processed first and analyzed comparatively. From this analysis of financial performance of both the banks the various findings are made.

5.2 Conclusion

In conclusion, NBL and NSBI Bank need to improve its solvency position and need to capitalize on the cash and its better utilizations. Comparatively, NSBI bank has benefited more than NBL while making investment in government securities. So NBL need to make good investment decisions. Both banks have similar type of loan and advances so both have to encourage more customers for better results. Cash reserve ratio (CRR) of NBL is very low so bank needs more cash and bank balances to run smoothly. Loan and Advances to total deposits and fixed deposits have better positioned for NBL in compare to NSBI. So NSBI have to make better decisions regarding loan and advances to total and fixed deposits. As for saving deposits loan and advances of NSBI are better placed. Profitability ratio shows NSBI has better

outcome and better profit margins than NBL. So NBL have to make improvements by enhancing its financial activities efficiently.

5.3 Implications

Based on findings of the study following suggestions are given to the NBL and NSBI bank limited to improve their future financial performance.

1. Profit is essential for the survival and growth of banks. But over the study period both the banks are seen unable to earn a satisfactory level of profit. In this context, both the banks are recommended to earn more operational profit either by increasing their operational efficiency, or by decreasing their operational expenses as far as possible. Specially, NBL need to improve its financial performances by increasing its productivity and utilizing its resources in perfect manner.
2. NBL should be more serious to improve the efficiency in utilizing its deposits in loan and advance for generating the profits. But however, both the banks should keep up their efforts in utilizing their assets in performing assets at their best level.
3. Both the banks should need to enhance its solvency position so they can maintain or raise the required standard of banks.
4. Majority of private commercial banks have been found to be profit oriented, ignoring their social responsibility, which is not a proper strategy to sustain in long run. So, both the banks are suggested to render their services even in the rural areas providing special loans to the deprived and priority sectors, which might further intensify the good will of the banks in future.
5. The economic liberalization policy adopted by HMG has created an environment of strict competition even in the banking sectors. In this context, both the banks are suggested to formulate and implement some sound and effective financial and non-financial strategies to meet required level of profitability as well as the social responsibility.
6. Comparatively NSBI is better than NBL but looking at whole both bank need to improve its financial performances to achieve the desired outcome. Both banks have to make critical decisions.

7. These two banks are needed to be opened in rural area so they can get more involvement of middle class and poor people.

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