

# **CHAPTER – I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Financial analysis is a process of synthesis and summarization of financial and operative data with a view to getting an insight into the operative activities of a business enterprise. Balance sheet, profit and loss account and other operative data help to identify the financial status of bank. Financial sector is the backbone in the country economy and it works as a facilitator for achieving sustainable 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. The banking sector has played an important role in the economic growth of a country, which provides service to people in financial matters. Through, its intermediary activities the banking sector fosters the production, distribution, exchange and consumption processing in the economic system. It stimulates the flow of funds in the economic system. Commercial banks are one of the vital aspects of those sectors which deal in the process of channelizing the available resources in the needed sectors. All the economic activities are directly or indirectly channeled through these banks. It is the intermediary between the deficit and surplus of the financial resources. The function of commercial banks has been enhanced in Nepal to sustain the increasing need of the service sector and the economy in general.

Financial analysis consists of comparisons for the same company over periods of time and/or comparisons of different companies either in the same industry or in different industries. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors on aggregation. It includes systematic observation, evaluation of the financial statement to measure the profitability, revenue generation and cash flow of an organization. The financial statement includes profit and loss account or income

statement and balance sheet. Profit and loss account indicates the results of operation for a particular period and balance sheet indicate the financial position regarding assets, total payable and capital. Financial performance analysis plays a vital role in internal control, better financial position and better performance of an organization

Financial performance analysis means the analysis of financial activities of the company directed toward achieving its value maximizing objective. It can be defined as the heart of financial decision. The growth and development of enterprises is fully affected by financial performance of an enterprise. Business organizations are inspired to generate profit. The value of profit earned is also one of the major indications of a good financial performance of a firm (Pradhan, 1994).

Financial performance is the picture of the organization that shows the organization is doing profit. Financial performance shows the financial strength and weakness of the firms. The overall financial performance of an organization is measured through the analysis of financial statement which is prepared at the end of accounting period. The financial statement includes profit and loss account or income statement and balance sheet. The analysis of financial performance helps to establish a strategic relationship between the items of balance sheet and income statement and other operative data to unveil the meaning and significance of such items (Bist, 2004).

Financial statements report both on the firm's financial position at a point in time and on its operations over some past couples of years regarding what they have performed financially, this is reporting about what the company has done in terms of assets, liabilities, income and expenses. Alternatively, they highlight in important financial aspects such as liquidity, profitability, activity capital structure and market capitalization value. Annual report made available to the shareholders in annual general meeting in the basis raw material of financial analysis, comments and interpretation. Shareholders raise various issues regarding irregularities, operational inefficiencies and internal management deficiencies causing poor performance of a company (Bhatta, 2004).

The financial performance of a commercial bank is usually related to how well the bank can use its assets, shareholders equities and liabilities, revenues and expenses. The performance evaluations of bank are important for all parties including depositors, investors, bank managers and regulators. In this study financial ratios and statistical tools are used to measure the financial performance of commercial banks with reference to RastriyaBanijya Bank Limited (RBBL) and Nepal Bank Limited (NBL). RBBL and NBL are two commercial banks which are operating as a joint venture banks and fully government owned commercial bank respectively. Overall performance of these two commercial banks regarding their liquidity, condition of deposit, loan loss provision, condition of equity and its outcomes, condition of profit and future trend analysis etc can be observed while going through this research study.

## **1.2 Profile of the Selected Bank**

### **1.2.1 RastriyaBanijya Bank Limited (RBBL)**

RBB Ltd. - established on January 23, 1966 (2022 Magh 10) - a synonymous of stable and people's bank in Nepal - is one of the pioneer Bank in the country with the history of nearly a half century. Earlier constituted under RBB act 2021 with the full ownership of the government of Nepal, the Bank has been running under Bank and Financial Institute Act ( BAFIA ) and Company Act (CA) 2063 at present. The Bank licensed by NRB as a 'A' class commercial Bank of the country, has grown up as an indispensable component of the Nepalese economy.

RBB Ltd. has made glorious history of contributing for the monetization of the economy, eliminating dual currency in the market, initiating preliminary financial literacy, help flourish industrial, commercial and financial sector of the country has now emerged as a modern and strong financial institute of the country. The Bank with 2600 hands has expanded its wings in the most part of the country through multiple distribution outlets of 201 branches, 17 counters, 93 branch less banking (BLB) and 135 ATMs. The Bank with the highest public confidence- reflected in the highest deposit base and growing demand for branch establishment in the various parts -has stood as a pyramid in the financial arena of the country. The Bank with as many as

1.7 millions satisfied /direct customers ranging from poor to elite ones and millions of indirect ones has drawn important imprint in the picture of country's economy through its significant involvement in the best use of its resources to enhance the production, income and employment opportunities. The Bank is fully committed to contribute its best for the socio economic development of the country and people in the days to come. ([www.rbb.com.np](http://www.rbb.com.np)).

### **1.2.2 Nepal Bank Limited (NBL)**

Nepal Bank limited (NBL) is the first Bank of Nepal, established in November 15, 1937. It is also the commercial Bank that initiates formal banking in Nepal. In that early era of formal banking in Nepal, NBL had authorized capital of NRs. 2.5 million of which raising equity of only Rs. 842,000. NBL was established as a joint venture between Nepal government and Private sector. Out of 2500 equity shares of the Bank in 100 face values, Nepal government held 40% share and rest was by 10 share holders. At present NBL, is under management of “Nepal Rastriya Bank”, the central bank of the country.

Nepal Bank Limited was established as a result of need call from the governmental side. In lack of proper financial institution, development and economic progress of the country was being affected. The oldest Bank of Nepal, NBL has crossed milestone of 75 years in November 15, 2011. The Bank has been providing a boost to the economic operation of the country. Today, there are 28 commercial bank in the country and numerous financial institutions but NBL still is in the same run along with private sector though had suffered from debt in the past.

NBL had largely suffered from unpaid loan and bad management in the past. As a rescue plan, NBL went under the much anticipated reform program under foreign management team, The ICC group of Scotland. However the situation of the Bank was not improved much and the Bank was given to direct supervision of Central Bank of the country. Despite the fact that NBL is still dealing with the debt crisis of net worth Rs. 4.6 billion, it has the assets value of Rs. 10 billion, highest than any other existing other banks in Nepal. The central Bank is preparing to launch the

“recapitalization process” in NRB in near future so that the NBL paid-up capital level up with the other commercial banks. NBL reformation process will reach the logical conclusion within next two years, said the central bank official. After the reformation process, NBL will be as accomplished as other commercial Bank in the market. NBL after decade long loss and unmanaged governing system had managed to gear up in the last few years. The Bank has launched various saving and deposit scheme and many other banking facilities to attract the customer. Altogether NBL have 109 operating branch distributed over 55 district of Nepal. ([www.nbl.com.np](http://www.nbl.com.np))

### **1.3 Focus of the Study**

The focus of this study is "The Financial Performance of RastriyaBanijya Bank Limited and Nepal Bank Limited". Financial performance covers the financial analysis and other portfolios of the RBBL and NBL. Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statements. The goal of financial analysis is to determine the efficiency and the performance of the firms' management as reflected in the financial records and reports.

Besides the financial analysis, the study is also focused on Income and expenditure analysis and statistical analysis. Financial ratio has helped the researcher to make a qualitative analysis about the financial performance of the bank. The income and expenditure analysis is the percentage in relation to total assets or total sales, which has helped the researcher to study trends in financial statements over time. The statistical analysis refers either to quantitative information or to a method of dealing with quantitative information.

### **1.4 Statement of the Problems**

There is high flow of money in the market but less viable and investable projects. In the current situation there is mismatch of deposit and investable funds of banks. Therefore, the introduction of a new bank is just sharing a cake rather than pumping new capital or new technology, as Nepalese market is almost felt safeguarded. Few commercial banks are continuously making profit and satisfying their shareholders

and returning them adequate profit. This has attracted the potential customers to power their money into banks, as there are very few sectors to make profitable investment and the investors are always reluctant to risk. They do not take initiation to invest in other sectors. Therefore, commercial banks have a lot of deposits.

There are 28 commercial banks operating in Nepal. They collected adequate amount from the mass, however they could not find or locate new investment sectors required to mobilize their funds on the changing context of Nepal. Many banks are increasing liquidity, has caused a downward trend in investment sectors. It has ensued bad impacts on interest rate to the depositors, lower dividend to the shareholders, lower contribution to national revenues market value of shares etc. For the assessment of such adverse impact, this study has liquidity position of commercial banks.

The mushrooming of banking and finance companies and about a dozens of rural banks and co-operative societies in short span of times has brewed new comparative scenario and has posed a challenge to the previously government owned banks like RBBL and NBL which is making attractive profits. In the changed scenario these banks need to explore their strength and weakness to improve their performance because their performance. Success depends upon their ability to boost their productivity and financial performance.

Thus the present study seeks to explore the efficiency and weakness of RBBL and NBL attempt is also being made to explore the following questions:

- What are the financial performances of RBBL and NBL during the study period?
- What are the financial strength and weakness of the sampled banks?
- What is the relationship among deposit, loan and advances and investment of sampled banks?
- How efficient these banks are managing their relative financial position like liquidity, efficiency and profitability?

## **1.5 Purposes of the Study**

The objective of the study is to examine and evaluate the financial performance of RBBL and NBL with the help of ratio analysis and other measuring tools. Besides, the following specific objectives are to support the evaluation and comparison of the efficiency and progress of these banks:

- To analyze the financial performance of RBBL and NBL.
- To analyze the financial strength and weakness of sampled bank.
- To examine the relationship between loan and deposit, loan and net profit, deposit and investment of sampled banks.

## **1.6 Significant of the Study**

This study mainly fills gap of the study of financial performance of concerned banks. Especially, this study deals with comparative study of investment policy of Rastriya Banijya Bank Ltd. and Nepal Bank Ltd. of Nepal. The RBBL and NBL mandated by Government of Nepal to provide financial services to the rural population to stimulate income and generate employment in remote areas. This study will find the strengths and weaknesses of the Bank by analyzing the opportunities and threats in its overall conduct in the real ground. This study will also be an important support to the management owner clients, stake holders and other interest groups in analyzing the Bank's economic strength and performance efficiency. As it is a well know fact that the Development Banks can affect the economic condition of the whole country. It will be helpful to the policy makers while formulating the policy regarding both sampled banks and people can understand how benefit is taking by them from the semi-government banks. The study is basically confined to review the financial performance and investment policies of the banks during the five years period. This study is expected to provide a useful feedback to the policy maker of banks and also to the government and central bank (NRB) to formulate the appropriate strategies for improvement in the performance of banks. Moreover, this study can also be used as reference point by the international organization like ADB, World Bank etc.

## **1.7 Limitations of the Study**

This study has attempted to evaluate the comparative analysis of financial performance of the RBBL and NBL. Every study has its own restriction and limitations due to the lack of time, resources and knowledge. This study is also not an exception. The following are the limitations of the study:

- a. This study would only concern with fulfilling in partial requirement in Master's of Business Studies (MBS).
- b. Only secondary data is used for analysis.
- c. The study has been focused on the financial performance of RBBL and NBL with the help of financial tools and doesn't cover other aspects.
- d. It covers the financial performance of RBBL and NBL for the periods from 2069/70—2073/74 only.
- e. The conclusion drawn up from this study may or may not be applicable to other commercial banks in Nepal.
- f. The study deals with selected financial tools such as ratio analysis and statistical tools.

## **1.8 Organization of the Study**

This research work has been divided into five chapters, i.e. Introduction, Review of Literature, Research Methodology, Data Presentation and Analysis and finally Summary, Conclusion and Recommendation.

### **Chapter I: Introduction**

The first chapter includes background of the study, statement of the problem, objective of the study, significance of the study and limitation of the study.

### **Chapter II: Review of Literature**



The second chapter incorporates review of theoretical and related literature regarding the subject matter publications of writers and researchers have been related to the topic.

### **Chapter III: Research Methodology**

This chapter explains the research methodology used in the study, which includes research designs, nature and sources of data, data collection, data analysis technique and different statistical and financial tools used in the study.

### **Chapter IV: Presentation and Analysis of Data**

This chapter deals with the major part of the study. This chapter includes presentation and analysis of data using different statistical tool, and major findings.

### **Chapter V: Summary, Conclusion and Recommendation**

This chapter deals with summary and conclusion of the study and recommendations and suggestion regarding the subject matter.

Beside these references and appendices have also been annex at the end of the thesis. Similarly, acknowledgments, table of contents, list of tables, list of figures, abbreviation have been included in the beginning of this thesis report.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

Review of literature is an essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. A critical review of the literature helps the researcher to develop a thorough understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigating problems that have already been definitely answered.

The purpose of the present chapter is to find out what research studies have been conducted in one's chooser field of study and what remains to be done. It provides the foundation for developing comprehensive theoretical framework from which hypothesis can be developed for testing. Here mainly two parts conceptual framework and review of related research work are included for the bases and to make the study more purposive.

1. Conceptual Framework
2. Review of Journal and articles
3. Review of Thesis

#### **2.1 Conceptual Framework**

Conceptual reviews are a type of intermediate theory that has the potential to connect to all aspects of inquiry. Conceptual reviews act like maps that give coherence to empirical inquiry. The review covers the area of research work and theoretical concepts developed by various scholars. This heading is also categorized under different headings, which are discussed as follows:

##### **2.1.1 Commercial Bank**

Commercial banks are the dominant financial intermediaries engaged in the collection of saving and providing loans as well as offering a wide variety of non-fund based financial services to the customers according their needs and preferences. They supply the financial needs of modern business by various means. They accept deposits from

the public on the condition that they are repayable on demand or on short notice. Commercial banks are restricted to invest their funds incorporate securities. Their business is confined to financing the short-term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash credits and overdrafts. Apart from financing, they also render services like collection of bills and check, safe keeping, of the valuables financial advising etc. to their customers.

According to the commercial bank act 2031, Commercial Banks are those banks which are established under this act to perform commercial function except those which are established for specific purpose like Development Banks, Co-operatives etc. Ordinary banking business consists of changing cash for bank deposits and bank deposits for cash; transferring bank deposits from one person or corporation (one depositors) to another; giving bank deposits in exchange for bills of exchange, government bonds, the secured and unsecured promises of businessman to repay, etc(Sayers, 1994).

The main aim of a commercial bank is to seek profit like any other institution. It's capacity to earn profit like any other institution. Its capacity to earn profit depends upon its investment policy. Its investment policy, in turn, depends on the manner in which it manages its investment portfolio. Thus "Commercial bank investment policy emerges from a straight forward application of the theory of portfolio management to the particular circumstances of commercial bank". Commercial banks earn profit by proper mobilization of their resources. Many commercial banks have been established to provide a suitable service, according to their customers.

### **2.1.2 Financial Statements**

The Financial Statements are the means of presentation of a firm's financial condition and basically consist of two types of statements - The Balance Sheet & Income Statement. These are prepared to report the overall business activities as well as financial status of the firm for a specified period to its stakeholders. These contain

summary of information regarding financial affairs that is organized systematically. The top management is responsible for preparing these statements.

The basic objective of financial statements is to assist in decision making. The analysis and interpretation of financial statements depend on the nature and type of information available. Hence financial statement refers to any formal and original statement that discloses the financial information related to any business concern during a period. The income statements and balance sheet usually prepared at the end of each financial year show the firm's position (Pandey, 1991).

### **A) Balance Sheet**

Balance sheet is one of the basic financial statements of an enterprise. It is also called the fundamental accounting report. As the name suggests, the balance sheet provide information about financial standing or a position of a firm at a particular point of time usually end of the financial year. It can be visualized as a snapshot of the financial status of a company.

Balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment of time, usually at the end of the financial year. Balance sheet is a financial statement, which contains information regarding different capital expenditures made on purchase of assets on particular date and information regarding various sources of funds acquired by the business concern to finance these assets and also the different sources of capital and liabilities at that particular point of time (Pandey, 1991).

### **B) Income Statement**

Income statement is designed to portray the performance of the business firm for specific period of time i.e. for a year or month or quarter. The business revenues and expenses resulting from the accomplishment of the firms operation are shown in the income statements. It is the "Scoreboard" of the firm's performance during particular period of time. It shows the summary of revenues, expenses and net income or loss of a firm for a particular period of time. Income statement also serves as a true measure of the firm's profitability customers (Pandey, 1991).

### **2.1.3 Financial Performance Analysis**

Financial performance analysis can be considered as a heart of the financial decision. The growth and development of any enterprises is directly influenced by the financial policies. Rational evaluation of the financial performance of the financial management in public enterprise is too much involved in record keeping, raising necessary funds and maintaining relationship with the bank or other financial institutions. But financial aspect is one of the most neglected aspects of public enterprises in Nepal. However commercial banks have analyzed financial performance for their corrective actions. But their analysis is limited within the banks themselves.

Financial performance as a part of the financial management is the main indicator of the success or failure of the firm. There are different persons/institutions that affect or are affected by the decision of the firm. Financial condition of business firm should be sound from the point of view of shareholder, debenture holders, financial institution and nation as whole. Though, the type of analysis varies according to the specific interest of the party involved, shareholders of the firm are concerned principally with the present and expected future earnings, the stability of the earnings as well as their variations with the earnings of other enterprises. This indicates that they concentrate their analysis on the profitability of the firm.

Ratio analysis is a powerful tool of financial analysis. A ratio is designed as "the indicated quotient of two mathematical expressions" and as "the relationship between two or more things". "Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account". In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm (Pandey, 1991).

"Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statement. 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. The analyst is attempting to measure the firm's liquidity, profitability and other indications that business is conducted in a rational and orderly way. If a firm doesn't achieve financial norms for its industry or relationships among data that seem reasonable, the analysts note the deviations. The burden of explaining the apparent problems may then be placed upon management" (Hampton, 2006).

"Financial statement analysis includes the study of relationship within a set of financial statement at a point in time and with trends in these relationships over the time" (Foster, 2002).

Effective management of working capital is one of the important aspects of the corporation to ensure the liquidity. Ineffective management of working capital put the company into serious liquidity crises and many other financial panics. Most of the Nepalese corporations are facing the problem of working capital management. Hence, they are failure to maintain liquidity. Shrestha has found in his study the fact that low paid up capital or inadequate provision of working capital poor inventory management and high accounts receivable contribute to creating liquidity problem in corporation in Nepal.

Financial performance of corporation is depends upon how effective plan and policy the firm has followed. Financial planning involves analyzing the financial flow of the firm as a whole forecasting the consequences of various investment financing and dividend decisions and weighing the effects of various alternatives. The idea is to determine where the firm has been where it is now, and where it is going not only the most likely course of events, but also the most likely course of events, but deviations from the most likely outcome. If things become unfavorable, the company should have a backup plan, so that it is not caught flat – fooled, without financial alternatives (Van Horne, 1988).

It is useful to provide feedback information for drawing the attention of Management regarding what should be done for strengthen the financial performance. Hence, analysis of financial performance is a crucial part of financial decision-making

process. Financial performance is evaluated from the standpoint of profitability, liquidity and solvency.

Financial performance as a part of the financial management is the main indicator of the success or failure of the enterprises. There are different personal institutions that are affected by the decision of the enterprises stockholders such as owners, managers, creditors, investors, customers; tax authorities etc are indirectly interested about the financial performance, of the enterprise. Though the type of analysis varies according to the specific interest of the party involved. Shareholders of the enterprise are concerned principally with the present and expected future earning and the stability of the earning of other enterprises. This shows that they concentrate their analysis on the profitability of the enterprises. Management of the enterprises is interested in all aspects of financial analysis to adopt a good financial management system and for interested in the liquidity position to see the ability of the enterprises to pay their short term claims, long term creditors are more interested in the cash flow ability of enterprises to services debt over a long run. Similarly, all the concerned groups are interested either directly or indirectly about the financial performance of the company.

Thus financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of the balance sheet and profit and loss account. In sum it is a process of evaluating the relationship between component part of financial statement to obtain a better understanding of a firm's position and performance. This statement is prepared in order to reveal clearly the various sources from where the fund are procured to finance the activities of a business concern during the accounting period this also brings highlight to the use in which these funds are put during the same period (Gitman, 1998).

#### **2.1.4 Objectives of Financial Performance Analysis**

Financial Analysis enables us to explore various facts related to the past performance of business and predicts about the future potentials for achieving expected results.

Major objectives of analysis of financial statement are to assess various factors in relation to the business firm as presented below:

- The present and future earning capacity or profitability of the concern.
- The operational efficiency of the concern as a whole, and of its various parts or departments.
- The short-term and long-term solvency of the concern.
- The comparative study regarding to one firm with another firm.
- The possibility of developments in the future making future forecasts and preparing budgets.
- The financial stability of business concern,
- The real meaning and significance of financial data,
- The long term liquidity of its fund.

#### **2.1.5 Need of Financial Performance Analysis/ Financial Statement Analysis**

The need for the Analysis of financial statement arises in order to address the following questions:

- How was the firm doing in the past? Was there any problem? If so, in what Area?
- How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what areas?
- What about the future? Is there any likely problem on the way in the future and what will its position be in the future?
- What corrective actions can be taken now to solve the problems and improve the performance? How will the recommendation of any course of actions or changes in the policy or practice help solve problems and improve the company's position?
- What are the expected results of recommendations? Are there any improvements?



## **2.2 Review of Related Studies**

It gives the detail information about different books, journals and thesis reviewed by the researcher. This section examines recent research studies that act as a basis for the researcher's study. The reviewed studies are follows:

### **2.2.1 Review of Journals and Articles**

Pradhan(1994), in his research has studied about the major feature of financial management practices in Nepal. To address his issue, distributing a multiple questionnaire, which contained questions on various aspects of financial management practices in Nepal, carried out a survey of 78 enterprises. He found the among the several finance functions, the most important finance function appeared to be working capital mana. The finding reveals that banks and retained earnings are the two most widely used financing sources. Most enterprises do not borrow from one bank only and they do switch between banks to whichever offers best interest rates. Most enterprises find that banks are flexible in interest rates and covenants. He further found that among the bank loans, bank loans of less than one year are more popular in public sector where as bank loans of 1-5 years are more popular in private sector. In period's tight money, the majority of private sector enterprises fill that bank will treat all firms equally while public sector does not feel so. Similarly he concluded that the majority of enterprises in trade sector find that banks, interest rate is just right while the majority in non-traded sector find that the same is one higher side.

Boyd and Nicolo (2005) Hasexplained that when confronted with increasing competition moral hazard is exacerbated and bank intentionally take on more risk , shown that a positive relationship between the number of bank competitors and risk seeking is fragile. In particular it makes an enormous difference when one allows for the existence of loan markets and requires that there be the same number of banks competing for both deposits and for loan. They assumed that borrowers entirely determine project risk conditional on the loan rate set by banks. In effects bank a raised portfolio problem and transform it into a contracting problem with moral hazard. Without structure, banks use increasing market power to raised loan rates and

when confronted with increased funding cost, borrowers optimally choose higher risk projects.

Pant (2006), explain that Globalization and Liberalization have flourished across the world no longer it is choice but reality. A financial service is the key sector that underpins global economic growth and plays a major role in the development of infrastructure for trade in goods and services. Liberalization of trade in goods and services, when undertaken in conjunction with transparent and strong regulatory regimes, benefits countries in many ways, with this said, there is mammoth proportion to gain for Nepal from the liberalization of the financial sector. But insurgency and the political instability have raised the risk for foreign investors to invest in the country. Risk rating of Nepal is at the highest degree.

Pradhan (2009), in his research paper he studied about the strong role and impact of saving, investment and capital formation by collection of deposit of Nepalese commercial banks. This study is based on secondary data only. The necessary data is on saving, investment, capital formation. The role and impact of saving, investment and financial performance and economic development were analyzed by using various regression models. The regression equation used in this study have been estimated at current prices as well as in real term with the entire study period divided into different sub-period. The results presented in this paper suggested that in all cases is significantly associated with saving. Investment and financial performance is the results of the empirical analysis led to three important conclusions; saving, investment and financial performance.

Shrestha (2010), in his article concluded that joint venture banks are operationally more efficient having superior performance while comparing with joint venture banks. Better performance of joint venture bank is due to their sophisticated technology, prompt customer's service and skills. Their better performance is also due to the burden the banks facing government branching policy in rural areas and financing public enterprises. Local banks are efficient and in rural sectors, but having numbers of deficiencies. So, local banks have to face growing constraint of social,

economic, political system on one spectrum and that of issues and challenges of joint venture banks commanding significant banking business on other spectrum.

Helhel (2015) evaluated the financial performance of domestic and foreign banks in Georgia for the period from 2009 to 2013 for the data of 9 foreign and 6 domestic banks by using profitability ratios which were measured in term of ROA, ROE, NIM and PEM. The results showed that there are significant differences of profitability between domestic and foreign banks in terms of ROA, ROE and NIM.

Ramya N. (2017) This report makes an attempt to examine the performance of the three different public banks of India. Data is collected from reliable sources. They were then interpreted and analyzed with the help of significant ratios. All the ratios are being calculated in order to determine the strength and weakness of the selected public banks. The findings are justified with the Inference and analysis and on that basis appropriate suggestions are given to the banks to improve upon some parameters which are major part of their financial performance financial strength of a bank and to suggest suitable measures to improve the weakness of a bank. In the present study CAMEL ranking approach is used to assess relative performance of Indian public sector banks. It is found that during the year 2012-2016 the top two performing banks in all the categories of CAMEL are Indian bank and Canara bank because of high capital adequacy and asset quality. The lowest performer is Punjab National bank during the study period because of management inefficiency, low capital adequacy, poor assets and liquidity. The study recommends that Punjab National bank has to improve its management efficiency, assets quality and liquidity.

### **2.2.2 Review of Related Thesis**

Luitel (2003), Conducted his master's thesis with main objectives to evaluate the bank's efficiency to face the challenges and measure the comparative financial strength and weakness and analyze the banks performance under priority sectors of government. Operating profit for some year has gone negative. The study period on an average showed negative net profit.

The only positive aspect is if risk can be managed, percentage of loan and advance on total deposit has increased. But due to the bank's failure in collecting earned interest and matured loan, it has suffered continuous loss. The net worth for some year is negative due to the heavy loss during the year long-term debts, total debts and total deposit ratios have gradually decreased. It indicates that bank has not followed any experienced negative EPS and P/E ratio have also heavily fluctuated during the study period. Thus, it can be said the financial position of the NBL is worse due to its failure to utilize its resources efficiently and due to worse management.

Pokharel (2004) The main objectives to analyze the liquidity, examine the profitability position and find out the market price position of the joint venture banks, and conducted that current ratio of NSCB is more significant to meet the short-term obligation than other joint venture bank. Cash and bank balance to deposits and bank balance to deposits (excluding fixed deposits) ratio of NSBI has very sound position for ready to serve against its customer deposits than others TVC. It indicates that NSBI has followed conservative working capital policy and selective lending policy whereas other JVBs have followed aggressive working capital policy and they have invested more assets for income generating purpose. Similarly NSCB has high net profit to total assets ratio, net profit to total deposits ratio, return on net worth ratio, return on loan and advance ratio, earning per share.

Shrestha (2005), In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis. The specific objectives of this research is to analyze the functions, objectives procedure and activities of the NB bank and to analyze the lending practices and resources utilizations of NB bank.

The researcher found that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps

to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged. The research finding of the study is the major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank

Gautam (2006), Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score. The objectives of this research is to study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability. He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB's are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB's viz. SCBNL and NBBL to examine and evaluation the financial data. The research findings of the study is the research sample JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim.

Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank.

Shakya (2009), The main objectives were to analyze comparative financial performance of these banks and to study comparative position of selected banks. He has concluded that commercial bank except SCBNL and NABIL are not maintaining constant DP ratio, it is recommended to maintain a constant DP ratio so as to have the confidence of general shareholders. Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining

higher DP ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

Upreti (2010), The main objectives are to do the comparative study about the financial performance of these banks with regard to their profitable, liquidity, efficiency and capital structure. The major finding of this study are among all the sample banks HBL has the lowest ratio and EBL has not mobilized its assets into profit generating projects and SCBNL has been successful in earning more net profit by the proper use of its available assets. EBL with highest ratio has been successful in generating more interest by the proper use of its available assets. EBL and HBL seem to have held more cash and bank balance rather other commercial banks.

Dahal (2012) The main objectives are to analyze the financial performance through the use of appropriate financial and statistical tools and to identify various aspects relating to financial performance of NBBL and HBL for the period of last 5 years. To meet the above objectives, Mr. Dahal has used both financial (i.e. different ratio) and statistical tools (i.e. mean, standard deviation, coefficient of variation).

He has concluded that the liquidity ratio measures the ability of a firm to meet its short term obligations and select the short term financial solvency of a firm. The liquidity position of the banks in term of current ratio shows that the ratios of NBBL are always above than normal standard where as HBL current ratio is always below than normal standard. It shows that the liquidity position in term of current assets to current liability of NBBL is better than HBL.

The activity turnover ratio is used to examine the efficiency with the firm manages and utilize its assets. The activity turnover of NBBL in term of loan and advances to total deposit ratio is better than that of HBL. From the analysis, it is concluded that the NBBL has been successfully utilize their deposit in terms of loan and advances for profit generating purpose as compared to HBL.

Net profit to total deposit ratio of NBBL is in fluctuating trend, whereas the same ratio of HBL is decreasing trend. It can be concluded that HBL seems to be more

successful in mobilizing its customer's saving in much more productive sectors as its average ratio is very high in comparative to that of NBBL.

Shrestha (2015), He has selected EBL to the sample. The main objectives of his study are to highlight the features and problems of financial performance of commercial banks and their implementation in practical life and to study priority sector investment and repayment rate of commercial banks in Nepal through intensive banking program.

He has found that commercial banks are more emphasized to be making loan on short term basis against movable merchandise. Commercial banks have lots of deposits but very little investment opportunities. They are even discouraging people by offering very low interest rates and minimum threshold balances. EBL loan and advances to total deposit ratio is lower at all, therefore it is recommended to follow liberal lending policy for enhancement of lend mobilization. It was found that EBL had invested its fund on share & debenture of other companies. It is suggested to enhance off balance sheet transactions, diversifying investment, open new branches, play merchant banking role & investment their risky assets and share holders fund to gain higher profit margin.

Pangeni (2016), To achieve the main objectives to examine the relationship between deposit collection and lending of NBL and RBBL, various financial and statistical tools have been used in this study. This study conclude that the liquidity position of RBBL is better than NBL. RBBL is comparatively successful in deposit mobilization because assets management ratio of RBBL is higher than NBL. It show that RBBL has higher efficiency and NBL is really facing the problems in investing their excess fund in profitable investment. It is recommend that NBL should increase current assets and mobilize the available assets in profitable field.

Dhakal(2017), main objectives to analyze the financial performance of ADBL and NBL and to examine the relationship between loan and deposit, loan and net profit of ADBL and NBL. From this study it conclude that the liquidity position of NBL is better than ADBL. The activity ratio of ADBL is higher than NBL which concludes the efficient utilizations of assets by ADBL. ADBL has been mobilize its deposit

through loan and advances and acquiring high profit. ADBL and NBL have strong synchronization between total deposit and investment, loan and advance and total deposit, loan and advance and net profit since the relationship between them was statistically significant. Both bank are not meeting standard ratio therefore both bank should increase current assets. NBL should increase lending proportion for proportion of increasing profit. Non-performing loan (NPL) of both bank are in increasing trend, it is recommended to make necessary effort to reduce NPL.

### **2.3 Research Gap**

Most of the research studies were about financial performance those are basically related to financial system of manufacturing organization or production oriented activities and private sector commercial banks. The researcher could not find study so far to financial performance of a government sector commercial bank. All dissertations have pointed out that there is no proper planning and implementation of financial planning and controlling system in the concerned institutions.

This study shall be a new one in this field as no study has been based of financial performance analysis of commercial banks. Many affiliated researchers have been done in this area but these have been very few exclusive researchers on this subject. In this study of financial performance of RBBL and NBL is measuring by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. This study tries to define of financial performance by applying and analyzing various financial tools like liquidity ratio, asset management, activity ratio, profitability ratio, credit risk ratio and other ratio as well as different statistical tools like coefficient of correlation and trend analysis.



## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well-thought-out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Thus, the entire process by which attempt to solve problems or search the answers to question is called research. That can define research as an organized, systematic, database and critical scientific inquiry of investigation into a specific problem, undertaken with the objective of finding answer or solution to it. Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain object in view. Research methodology describes the methods and process in the entire aspect of the study. In other words, research methodology is a systematic way to solve the research problem. It refers to the various sequential steps to be adopted by the researcher in studying the problems with certain objectives. It is the methods or process applied to solve the defined research process. A focus is given to research design, sample selection, data collection procedures, data processing, etc (Sekaran, 1992).

The basic objective of the study is to evaluate the comparative analysis of financial performance of Agriculture Development Bank Ltd. and Nepal Bank Ltd. In order to reach and accomplish the objectives, the following methodologies have been adopted which includes research design, sources of data, data collection, analysis technique and so on.

#### **3.1 Research Design**

Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operation to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme and the paradigm of the operation of the variables (Kerlinger, 1986).

Research design is like a philosophy of life; no one is without one, but some people are more aware of theirs and thus able to make more informed and consistent decisions. A research design always exists, it is important to make it explicit, to get it out in the open where its strengths, limitations and implications can be clearly understood (Maxwell, 1996).

To achieve the objectives of this study, descriptive and analytical research design has been used. This study is based in past data of bank. The research methodology is based on the secondary type of data. Some financial and statistical tools have been applied to examine facts. Descriptive techniques have been adopted to evaluate the financial performance of RBBL and NBL.

### **3.2 Population and Sample**

The population refers to the industries of the same nature and its services and product in general. Thus, 28 commercial banks operating in Nepal constitute the population of the data and the bank under study constitutes the sample for the study. Among them only two banks namely; Rastriya Banijya Bank Limited and Nepal Bank Limited are selected as the sample bank to carry out the study.

### **3.3 Nature and Sources of Data**

Data may be obtained from several sources. Each research project has its own data need and data sources. This study is conducted mainly in the basis of secondary data. The data required for the analysis are directly obtained from the balance sheet and P/L account of concerned bank's annual reports. Some supplementary data and information are collected from the periodicals, economic journals, managerial magazines and other published and unpublished reports and documents from various source and web sites.

### **3.4 Data Collection Technique**

The required financial data and information have been collected from the balance sheet and profit and loss account of the bank. Secondary data are collected through

the annual report of RBBL and NBL, which were collected from concerned bank, and other reports were downloaded from websites. Various publication of NRB was collected from concerned department of NRB.

Beside the above stated sources of data detailed reviews of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information and other reference materials were collected from libraries of ShankerDev Campus and Central Library T.U. that helped a lot in conducting the study.

### **3.5 Data Analysis Technique**

The balance sheet, income statements and profit and loss accounts of the company for 5 years create from 2069/70 to 2073/74 are collected for the convenience of the study. The major tool employed for the analysis of this study is the ratio analysis that established the quantitative relationship of two variables of the financial statements. Ratio Analysis is the basic tool used for the study and is considered to be the powerful tool of financial analysis. Beside ratio analysis, various other financial and statistical tools have been used to achieve the objective of the study.

#### **3.5.1 Financial Tools**

Financial analysis is used to determine the relative strengths and weakness of a company. Financial analysis involves a study of the relationships between the items of income statement, cash flow statement, profit and loss account and balance sheet. Ratio Analysis is the basic tool used for the study. It refers to the numerical or quantitative relationship between two items or variables. These tools are used for the analysis and interpretation of financial data.

##### **3.5.1.1 Liquidity Ratios**

The liquidity ratios measure the ability of a firm to meet its short-term obligation. It reflects the short-term financial strength of the business. These ratios are used to know the capacity if the concern to repay short-term liability. Short-term creditors are

generally very interested in the liquidity ratios. Higher liquidity levels indicate that we can easily meet our current obligations.

The following are the different ratios which are calculated under liquidity ratio:

**a) Current Ratio**

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

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

Current assets are those assets, which are convertible in cash within a year or so. They include cash and bank balance, investment in treasury bills, money at short call or placements, short term loans and advances, bill purchased and discounted, overdrafts, bills for collection, prepaid expenses, other receivables etc.

Current liabilities are those obligations maturing in the year. It includes current account deposit, saving account deposit, margin deposits call deposit, intra-bank reconciliation account, bills payable, bank overdrafts, provisions, accrued expenses, bills for collection, customers acceptance liabilities etc.

A low current ratio would imply possible insolvency problems. A very high current ratio might imply that management is not investing idle assets productively. Generally, we want to have a current ratio that is proportional to our operating cycle. We will look at the Operating Cycle as part of assets management ratios.

**b) Cash and Bank Balance to Current Asset Ratio**

Cash and bank balance is the most liquid form of the current assets. The cash and bank balance ratio indicates the percentage of readily available funds within the bank. The cash and bank balance to current asset ratio is calculated by using the following formula:

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

**c) Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)**

This ratio is calculated by dividing cash and bank balance by total deposit.

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

Total deposit consists of current deposit, saving deposit, fixed deposit, money at call and short notice and other deposits. The ratio shows the proportion of total deposits held as most liquid assets. High ratio shows the strong liquidity position of the bank. But too high ratio is not favorable for the bank because it produces adverse effect in profitability due to idleness of high interest bearing fund.

**3.5.1.2 Activity/Assets Management Ratio**

Assets management ratio measures how effectively a firm is managing its assets and whether the level of those assets is properly related to the level of operations as measured by sales. It measures how effectively the company's employs the resources at its command. Funds are created by the collection of shares as well as debt from the owner, creditor and outside parties. Those funds are invested in procuring various kinds of assets to generate profits or income. Activity ratios, thus, involve a relationship between sales and assets. That can say that activity ratios show the working efficiency of the assets to measure sales. Higher the ratio is an indicator of improved efficiency of resources and lower the ratio is an indicator of inefficiency of resources for sales activities. The following are the different ratios, which are calculated under activity ratio:

**a) Loan and Advances to Total Deposit Ratio**

This ratio measures the extent to which the banks are successful to utilize the outsiders' fund (Total Deposit) for the profit generating purpose on the loan and advance. Generally, a high ratio reflects higher efficiency to the utilization of fund

and vice versa. This ratio is also called as credit deposit ratio (C D ratio). This ratio can be expressed as:

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

#### **b) Loans and Advances to Total Assets Ratio**

Loans & advances is the major part of total assets for the bank. This ratio indicates the volume of loans & advances out of the total Assets. A high degree of the ratio indicates that the bank has been able to mobilize its fund through lending function. However lending always carries a certain risk of default. Therefore a high ratio represents low liquidity and low ratio represents low productivity with high degree for safety in terms of liquidity.

$$\text{Loan and Advance to total Assets ratio} = \frac{\text{Loan and Advances}}{\text{Total Assets}} \times 100$$

#### **c) Total Investment to Total Deposit Ratio**

This ratio measures the extent to which the banks are able to mobilize their deposit on investment on various securities. A high ratio indicates the success in mobilizing deposits in securities and vice versa.

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

### **3.5.1.3 Profitability Ratios**

Profit is the difference between total revenues and total expenses over a period of time. 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 bank in terms of profits. Profitability ratios measure the success of the firm in earning, net return on sales or on investment. A profitability ratio shows the combined effects of liquidity, assets management, debt management

on operating result and the overall efficiency of the business concern. Higher the profitability ratios better the financial performance of the bank and vice versa. Profitability ratio can be calculated by following different ratio.

**a) Return on Total Assets**

This ratio measures the productivity of the assets. It shows the relationship of net profit and total assets and determines how efficiently the total assets have been used by the management. This ratio evaluates the overall return on investment earned by the firm. This ratio indicates the ability of generating profit per rupees of total assets. It also evaluates the present return on the total assets as a guide for return ratio shows the more efficient operating of management and lower the ratio shows the low efficient operating of management. The ratio is computed by;

$$\text{Return on Total Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100$$

**b) Return on Shareholder's Equity**

The ratio shows the relationship between the net incomes to fund actually contributed by the owner of the bank. In other words, the ratio measures how much of amount flowing to the shareholders in their equity investment. The ratio is calculated by dividing net profit by total equity capital (net worth).

This can be computed as;

$$\text{Return on Shareholder's Equity} = \frac{\text{Net Profit After Tax}}{\text{Total Shareholder's Equity}} \times 100$$

**c) Total Interest Expenses to Total Interest Income Ratio**

Total interest expenses consist of interest expenses incurred for deposits, borrowing and loans taken by the bank. Total interest income includes interest income received from loans, advances, cash credit, overdraft and government securities, interbank and other investment. Lower ratio is favorable from profitability point of view. This ratio is calculated by dividing total expenses by total interest income as follows.

$$\text{Total Interest Expenses to Total Interest Income Ratio} = \frac{\text{Total Interest Expenses}}{\text{Total Interest Income}} \times 100$$

#### **d) Net profit to Loan and Advances Ratio**

This ratio indicates the proportion of the return over total loans and advances. It describes how efficiently the bank has employed its resources in the form of loans and advances of the bank.

$$\text{Net profit to Loan and Advances} = \frac{\text{Net Profit}}{\text{Total Loan and Advances}} \times 100$$

#### **3.5.1.4 Lending Efficiency Ratio**

This ratio has been used to evaluate managerial efficiency and proper utilization of assets for credit management. It is necessary for every bank to control risk and reduce the risk related to deposits. Following ratios have been made to analyze the credit efficiency of Rastriya Banijya Bank Limited and Nepal Bank Limited.

##### **a) Loan Loss Provision to Total Loan and Advances Ratio**

The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases its profit and results in a decrease in dividends. But its positive impact is to strengthen the financial conditions of banks by controlling the credit risk and reducing the risks related to deposits. The low ratio indicates the good quality of assets in total volume of loan & advances. High ratio indicates more risky assets in total volume of loan & advances.

Loan Loss provision to

$$\text{Total Loan and advance Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Loan and Advance}} \times 100$$



### b) Non-Performing Loans to Total Loan and Advances Ratio

NRB has directed all the commercial banks to create loan loss provision against the doubtful and bad debts. This ratio helps in minimizing the non performing assets and helps to control the Credit.

The net NPA to loans (advances) ratio is used as a measure of the overall quality of the bank's loan book. An NPA are those assets for which interest is overdue for more than 90 days (or 3 months). Higher ratio reflects rising bad quality of loans ([www.wikipedia.com](http://www.wikipedia.com)).

Non- Performing Loans to

$$\text{Total Loan and advance Ratio} = \frac{\text{Non - Performing loans}}{\text{Total Loan and Advance}} \times 100$$

### c) Non-Performing Loans to Total Assets Ratio

This ratio shows the relationship of Non-Performing loans and total assets and it is determine how efficiently the total asset used by management. Lower the non-performing loans ratio is good and higher the ratio is bad. This ratio measures lending opportunity of the bank.

$$\text{Non-Performing Loans to Total Assets Ratio} = \frac{\text{Non - Performing loans}}{\text{Total Assets}} \times 100$$

## 3.5.2 Statistical Tools

In this research study some statistical tools are used to analysis the data more accurately, which are given below:

### Mean (X)

The arithmetic mean or average is the sum of total values to the number of observations in the sample. It represents the entire data which lies almost between the two extremes. For this reason an average is frequently referred as a measure of central tendency. It is calculated as:

Mean ( $\bar{X}$ ) =  $x_1 + x_2 + x_3 + x_4 + \dots + x_n$

Or,  $\bar{X} = \frac{\sum x}{n}$

Where,

$\bar{X}$  = Arithmetic Mean return

$x_1, x_2, x_3, x_4, \dots, x_n$  = Set of Observation

$\sum x$  = Sum of given Observation

$n$  = Total number of Observations

### Standard Deviation

Standard deviation is defined as the positive square root of the mean as square of the deviation takes from the arithmetic mean. It indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the standard deviation Higher will be the variability and vice versa. Dispersion measures the variation of the data from the central value. In other words, it helps to analyze the quality of data regarding its variability. It is calculate as:

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{\sum (x - \bar{x})^2}{n}}$$

### Coefficient of Variation (CV)

Standard deviation is the absolute measure of dispersion. The relative measure of dispersing based on the standard deviation is known as the measurement of coefficient of standard deviation. The percentage of measure of co-efficient of SD is called co-efficient of variation. Less CV is the more uniformity and consistency and vice versa. Only standard deviation is not appropriate to compare two pairs of variables but also CV is capable to compare two variables independently in terms of their variability. It is calculated as under:

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

### **Pearson's Coefficient Correlation Analysis**

Out of several mathematical method of measuring correlation the Karl Pearson popularity known as Pearson's coefficient of correlation widely used in practice to measure the degree of relationship between two variables. Two variables are said to have correlation when the value of one variable is accompanied by the change in the value of the other. Therefore, it is measured by following formula using two variables. It is denoted by small 'r'.

$$\text{Correlation Coefficient (r)} = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}}$$

Where,

r = coefficient of correlation

$\sum xy$  = Sum of product of two series.

$\sum x^2$  = Sum of squared in X series

$\sum y^2$  = Sum of squared in Y series

n = number of years

The value of this coefficient can never be more than + 1 or less than -1. Thus, + 1 and -1 are the limit of this coefficient. The value of r = + 1 implies the correlation between variables is positive and vice-versa. And zero denoted no correlation.

### **Trend Analysis**

Trend analysis measures the scenario of the variables for the different period. This tool is used to find out the trend of different financial indicators. To find out the actual situation of the different factors for various years, trend analysis is most useful. It does not provide the analytical figures as cause and effects but it shows the actual figures. It may be downward sloping, upward sloping of constant over the period. One of the most popular and mathematical method of determining the trend of time series is the least square method. By using this method, we can estimate the future trend values of different variables. Hence, for the estimation of linear trend line following formula issued.

$$Y = a + bx$$

Where,

Y = Trend value

a = Y Intercept

b = Slope of trend line of the amount of change in Y Variable that is an associate with change in 1 unit in X variable

X = Time variable.

### **t- Statistics**

It was developed by Gosset in 1908. Then this distribution is explained by R.A. Fisher. To test the validity of assumption of the study for small samples, t- test is used. For applying t distribution, the t- values are calculated first and compared with the critical values at a certain level of significance for given degree of freedom. If the computed value of “t” exceeds the table value, it is known that the difference is significant at 5 percent level of significance but if t- values are less than the corresponding critical of the 't' distribution, the difference is not termed as significant. Under H<sub>0</sub>, the t statistic is:

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n} - 2$$

Where,

t=calculated value of t

r= correlation of coefficient between the variables.

n= number of sample.

### **3.5.3 Diagrammatic and Graphical Representation**

Graphs and diagrams are the presentation of statistical data in the form of geometrical figures like points, lines, bars, rectangles, circles etc. They represent the data in simple and readily comprehensive form. A clear picture of the variation in the values of variable are much more easily obtained by diagrams or graphs than the values

given at the table. So, an attempt has been made to present time major types of graphs and diagrams, which is tenderly used in presenting the statistical data. Hence, various bar diagrams, pie charts, and graphs have been used for presentation and analysis of data.

## **CHAPTER – IV**

### **PRESENTATION AND ANALYSIS OF DATA**

Presentation and analysis data is the process of organizing the data by tabulating and then placing that data in presentable form by using various tables, figures and sources. Present chapter has discussed the various aspects of financial performance and their actual accomplishment. The data can be analyzed by using various financial and statistical tools to meet the stated objectives of the study. It also compares the data between selected banks. Besides, it also presents the various finding generated from data analysis. For analysis balance sheet and income statement of financial year from 2069/70 to 2073/74 have presented.

#### **4.1 Financial Tools**

Ratio analysis involves the methods of calculating and interpreting financial ratios in order to assess the firm's performance and status. The basic input to ratio analysis is the firm's income and expenditure statement and balance sheet for the periods to be examined. The study consists of the following ratios to analyze the financial performance of NBL and RBBL.

##### **4.1.1 Liquidity Ratios**

Liquidity ratio measures the firm's ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short-term solvency. The following ratios have applied to find out liquidity position of the banks.

###### **4.1.1.1 Current Ratio**

Current assets include normally those assets of a firm, which are converted into cash within one year. These assets of a firm includes cash, bank balance, investment in treasury bills, discounts, overdrafts, short term advance loans, foreign currency loan, bills for collection, customer acceptance, outstanding expenses, dividend payable,

provision for taxation. Although there is no hard and fast rule for measuring this ratio, conventionally a current ratio of 2:1 is the considered satisfactory.

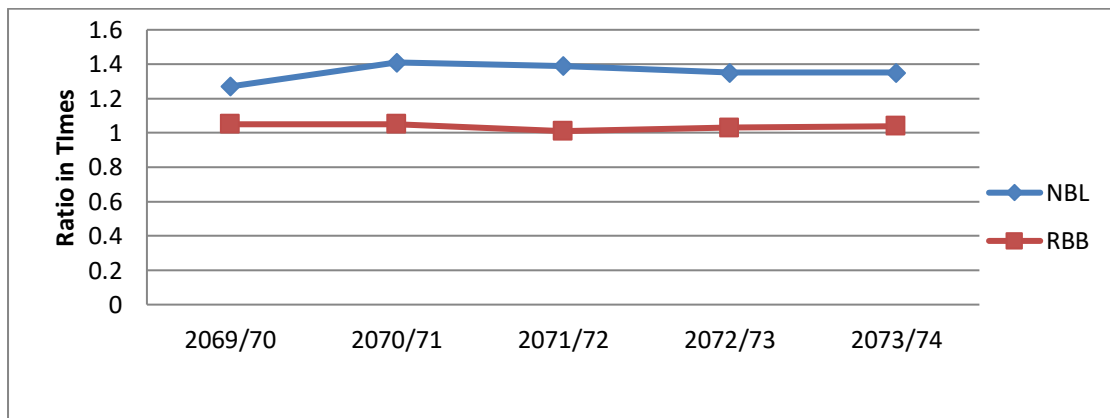
**Table 4.1**  
**Current ratio**

(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	CA	CL	TIMES	CA	CL	TIMES
2069/70	70,409	55,623	1.27	97,537	92,934	1.05
2070/71	75,755	53,570	1.41	119,411	113,972	1.05
2071/72	80,450	58,060	1.39	118,032	116,376	1.01
2072/73	85,689	63,415	1.35	151,324	147,305	1.03
2073/74	99,401	73,515	1.35	161,261	154,585	1.04
<b>MEAN</b>	<b>1.35</b>			<b>1.04</b>		
<b>S.D.</b>	<b>0.048</b>			<b>0.015</b>		
<b>C.V.</b>	<b>3.55%</b>			<b>1.44%</b>		

(Source: Annual reports of NBL & RBBL and Appendix- I and II)

**Figure 4.1**  
**Current Ratio**



The table 4.1 and figure 4.1 shows that the sample bank's current ratio is different all over the study period. The current ratio of NBL ranges the higher of 1.41 times in the fiscal year 2070/71 and the lower of 1.27 times in the fiscal years 2069/70. Likewise,

the ratio of RBB is the higher of 1.05 times in the fiscal year 2069/70 and the lower of 1.01 in the fiscal years 2071/72.

The ratio of NBL is 1.35 times, which is greater than RBBL i.e. 1.04 times. It can be concluded that the both banks are not meeting the standard ratio i.e. 2:1, although its current ratio can be considered good, as its current assets excess current liabilities but ratio of RBB has not been satisfactory. By meeting coefficient of variance, RBBL is more uniformity since it has lower C.V. of 1.44% than NBL i.e. 3.55%. Current ratio should be 2:1 but for banks any current ratio above 1 also considered healthy and sound.

#### 4.1.1.2 Cash and bank balance to current assets ratio (CBBCA)

Cash and Bank balance to current assets ratio reveals the position of cash and bank into cash and bank balance in total of current assets. In the present study cash and bank balances includes cash on hand including foreign check other cash item and balance with domestic banks and abroad. Cash and bank balances are highly liquid assets than other current assets. So this ratio scans higher liquidity position than current ratio. The table 4.2 shows the data relating to cash and bank balance to current assets.

**Table 4.2**  
**Cash and Bank balance to Current Assets Ratio**

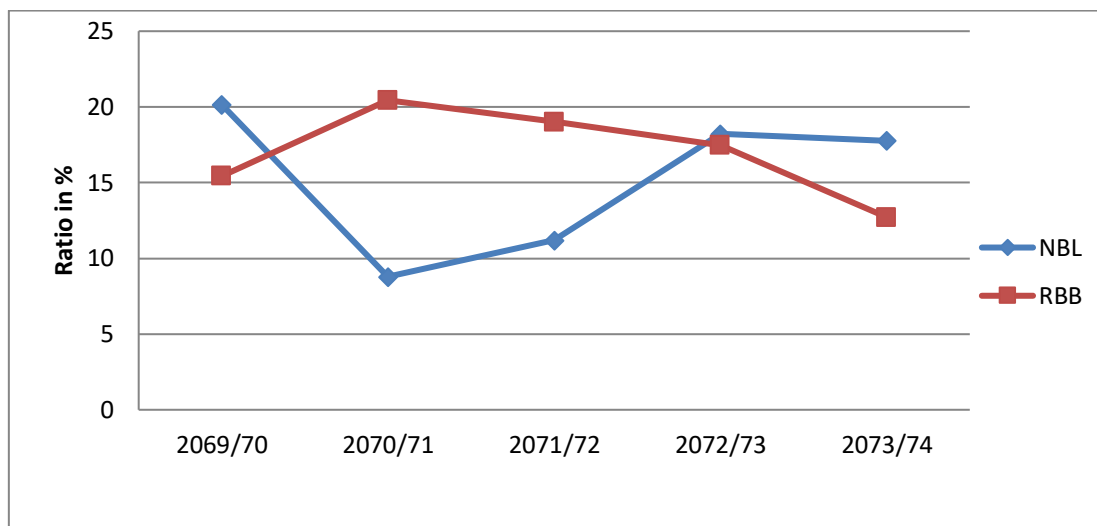
(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	C&BB	CA	Ratio%	C&BB	CA	Ratio %
2069/70	14,188	70,409	20.15	15,059	97,537	15.44
2070/71	6,660	75,755	8.79	24,407	119,411	20.44
2071/72	9,011	80,450	11.20	22,445	118,032	19.02
2072/73	15,615	85,689	18.22	26,443	151,324	17.47
2073/74	17,673	99,401	17.78	20,517	161,261	12.72
<b>MEAN</b>			<b>15.23</b>			<b>17.02</b>
<b>S.D.</b>			<b>4.41</b>			<b>2.72</b>
<b>C.V.</b>			<b>28.96%</b>			<b>15.98%</b>

(Source: Annual reports of NBL & RBBL and Appendix- I and II)



**Figure 4.2**  
**Trend of Cash and Bank Balance to Current Assets Ratio**



The table 4.2 and figure 4.2 shows the cash and bank balance to current assets ratio of NBL and RBBL. The ratio of NBL ranges the highest of 20.15% in the fiscal year 2069/70 and the lowest of 8.79% in the fiscal year 2070/71. Likewise, the ratio of RBBL is the highest of 20.44% in the fiscal year 2070/71 and the lowest of 12.72% in the fiscal year 2073/74. The average cash and bank balance to current assets ratio of NBL & RBBL are 15.23% and 17.02% respectively. RBBL has maintain the highest ratio than NBL so, RBB is better position during the study period as the bank shows the ability to manage the deposit with drawl from the customers and less interest is required to be paid against the cash deposit. By measuring coefficient of variation, RBB is more uniformity since it has lower CV of 15.98% than NBL i.e. 28.96%.

#### **4.1.1.3 Cash and Bank Balance to Total Deposit Ratio (CBBTDR)**

Total deposits consist of current deposits, saving deposit, fixed deposit, money at call or short notice and other deposits. This ratio shows the proportion of total deposits held as compared to the most liquid assets. High ratio shows the strong liquidity position of bank and vice-versa. But high ratio of liquidity position doesn't produce appropriate profit to bear the high interest and which may not be favorable to bank. This ratio is calculated by dividing cash bank balance by total deposits.

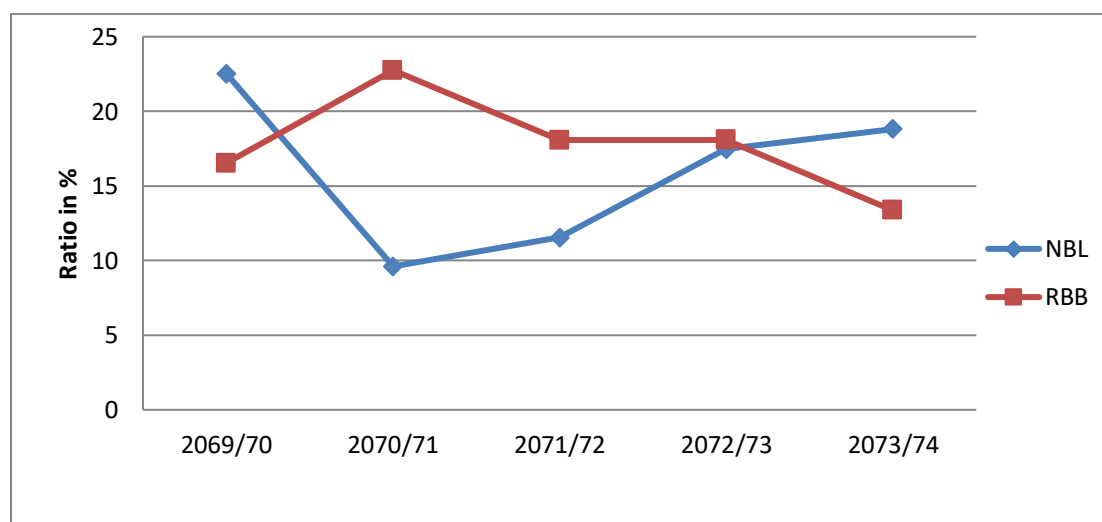
**Table 4.3**  
**Cash and Bank Balance to Total Deposit Ratio**

(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	C&BB	TotalDeposit	Ratio %	C&BB	Total Deposit	Ratio %
2069/70	14,188	62,984	22.53	15,059	91,094	16.53
2070/71	6,660	69,338	9.61	24,407	107,270	22.75
2071/72	9,011	77,999	11.55	22,445	124,222	18.07
2072/73	15,615	89,410	17.46	26,443	146,208	18.09
2073/74	17,673	93,944	18.81	20,517	153,581	13.36
<b>MEAN</b>			<b>16</b>			<b>17.76</b>
<b>S.D.</b>			<b>4.76</b>			<b>3.03</b>
<b>C.V.</b>			<b>29.75%</b>			<b>17.06%</b>

(Source: Annual reports of NBL & RBB and Appendix- I and II)

**Figure 4.3**  
**Trend of Cash and Bank Balance to Total Deposit Ratio**



The table 4.3 and figure 4.3 reveal that the sample bank's cash and bank balance to total deposit ratio in different all over the study period. The ratio of NBL ranges the highest of 22.53 % in the fiscal year 2069/70 and the lowest of 9.61 % in the fiscal

year 2070/71. Likewise, the ratio of RBBL is the highest of 22.75 % in the fiscal year 2070/71 and the lowest of 13.36 % in the fiscal year 2073/74.

The mean ratio of NBL is 16 % which is lower than RBBL i.e. 17.76%. It indicates that RBB is strong liquidity position but very high ratio is not favorable the bank because doesn't produce appropriate profit to bear the high interest. The analysis specifies that the both banks are volatile to maintain cash reserve ratio as per NRB directives. By measuring coefficient of variation, RBBL is more uniformity since it has lower CV of 17.06 % than NBL i.e. 29.75%. In general item be said that both banks have sound ability to meet their short term obligations.

#### **4.1.2 Activity Ratio**

Asset management means manage or utilization of all about of asset. It is also known as turnover or efficiency ratio or assets management ratio. It measures how efficiently the firm employs the assets. Turnover means; how much number of times the assets flow through a firm's operations and into sales Greater rate of turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets, being other things equal. There are some ratios are examined under.

##### **4.1.2.1 Loan and Advance to Total Deposit Ratio**

Credit and advances is the investing activities of the bank and total deposit is the deposit amount of the bank collected from its customers or depositor. So, it is trying to find out the ratio between credit & advances to total deposit. This ratio measures the extent to which the bank is successful to manage its total deposit on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of collected deposit and vice-versa. However, it should be noted that too high ratio might not be better from liquidity point of view.

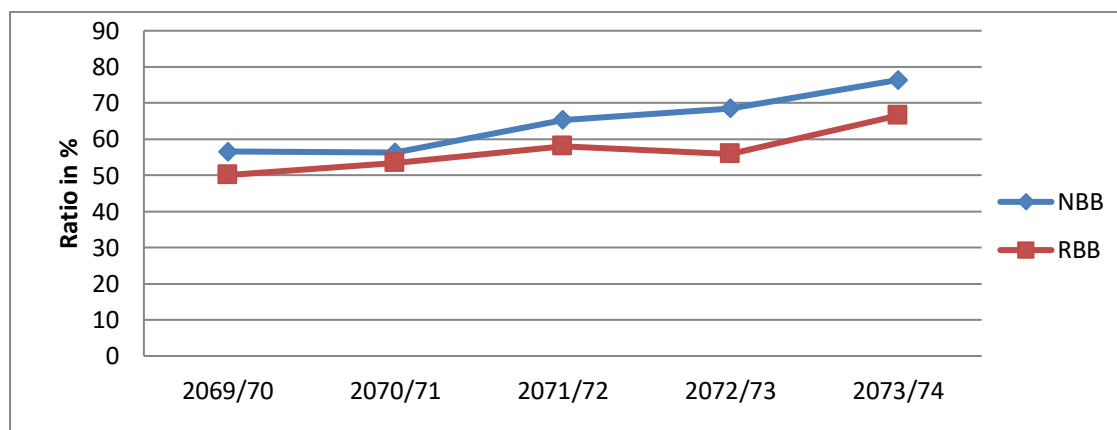
**Table 4.4**  
**Loan and Advance to Total Deposit Ratio**

(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	Loan & Advances	Total Deposit	Ratio %	Loan & Advances	Total Deposit	Ratio %
2069/70	35,612	62,984	56.54	45,599	91,094	50.06
2070/71	39,035	69,338	56.30	57,293	107,270	53.41
2071/72	50,971	77,999	65.35	72,079	124,222	58.02
2072/73	61,250	89,410	68.50	81,778	146,208	55.93
2073/74	71,746	93,944	76.37	102,161	153,581	66.52
<b>MEAN</b>			<b>64.61</b>			<b>56.79</b>
<b>S.D.</b>			<b>7.59</b>			<b>5.54</b>
<b>C.V.</b>			<b>11.75%</b>			<b>9.76%</b>

(Source: Annual reports of NBL & RBBL and Appendix- I and II)

**Figure 4.4**  
**Trend of Total Loan and Advance to Total Deposit Ratio**



The table 4.4 and figure 4.4 represents that the both bank's loan and advances to total deposit ratio are in increasing trend. NBL has the highest ratio of 76.37 % in the F/Y2073/74 and the lowest ratio is 56.30 % in the F/Y 2070/71. Similarly, RBBL's the highest ratio is 66.52 % in the F/Y 2073/74 and the lowest ratio is 50.06 % in the F/Y 2069/70. The mean ratio of RBBL is the lowest with 56.79% than NBL with the mean ratio of 64.61%. It can conclude that NBL is the most successful to mobilize its

total deposit as loan and advances and acquiring high profit through it is less consistent than RBB. By the coefficient of variation of the ratios, we can conclude that RBB has seen more consistent with the lowest C.V. 9.76%.

#### 4.1.2.2 Loan and Advances to Total Assets Ratio

Loan & advances is the major part of total assets for the bank. This ratio indicates the volume of loans & advances out of the total assets. A high degree of the ratio indicates that the bank has been able to mobilize its fund through lending function. However lending always carries a certain risk of default. Therefore a high ratio represents low liquidity & low ratio represents low productivity with high degree for safety in terms of liquidity. Following are the summarized picture of total loans & advances and total assets of NBL and RBBL.

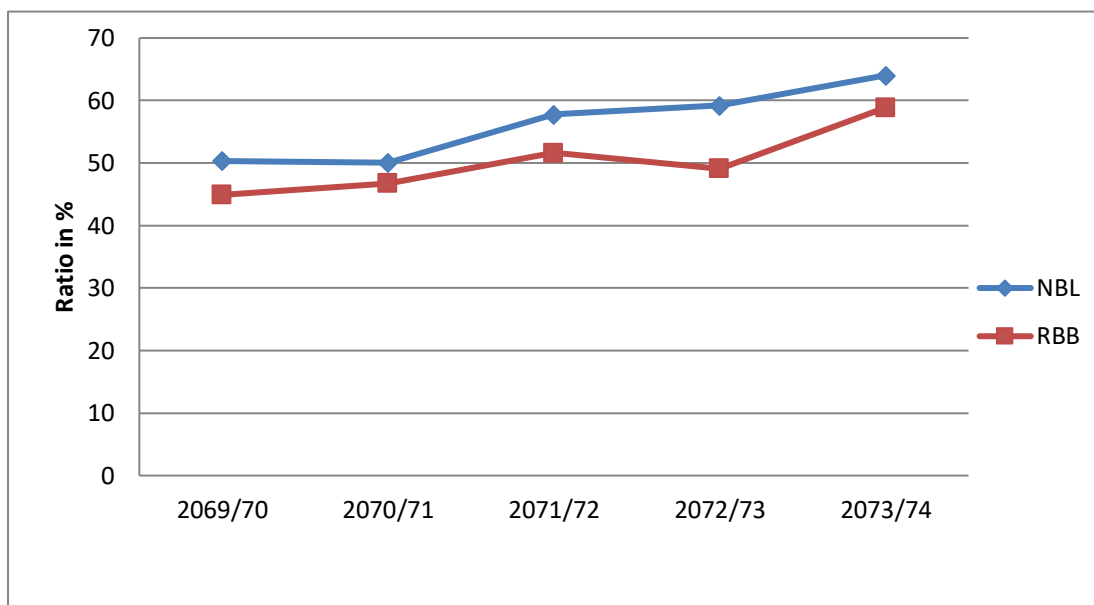
**Table 4.5**  
**Loan & Advance to Total Assets Ratio**

(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	Loan & Advances	Total Assets	Ratio %	Loan & Advances	Total Assets	Ratio %
2069/70	35,612	70,777	50.32	45,599	101,523	44.91
2070/71	39,035	77,981	50.06	57,293	122,561	46.75
2071/72	50,971	88,211	57.78	72,079	139,561	51.65
2072/73	61,250	103,480	59.19	81,778	166,432	49.14
2073/74	71,746	112,057	64.03	102,161	173,544	58.87
<b>MEAN</b>			<b>56.28</b>			<b>50.26</b>
<b>S.D.</b>			<b>5.38</b>			<b>4.86</b>
<b>C.V.</b>			<b>9.56%</b>			<b>9.76%</b>

(Source: Annual reports of NBL & RBBL and Appendix- I and II)

**Figure 4.5**  
**Trend of Loan and advances to Total Assets Ratio**



The table 4.5 and figure 4.5 present that the ratio of total loan & advances to total assets in five years for the commercial banks. Total loan to total assets ratio of NBL ranges the highest of 64.03 % in the F/Y 2073/74 and the lowest ratio of 50.06 % in the F/Y 2070/71. Likewise, the ratio of RBBL is the highest of 58.87 % in the F/Y 2073/74 and the lowest of 44.91 % in the F/Y 2069/70. The mean ratio of NBL is 56.28 % which is the highest than RBBL i.e. 50.26 %. It can be concluded that NBL is better mobilizing of fund as loans & advances so, it seems efficient in assets management than RBBL. By measuring coefficient of variance, NBL is more uniformity than RBBL since NBL has lesser CV of 9.56% than that of RBBL i.e. 9.76 %.

The proportion of loans and advances to total assets of NBL is higher than RBBL. So NBL is efficient in assets management. Loan and advances is the main income generating component of total assets.

#### **4.1.2.3 Investment to Total Deposit Ratio**

A commercial bank may mobilize its bank deposit by investing its fund in different securities issued by government and other financial or non-financial companies. Now

effort has been made to measure the extent to which the banks are successful in mobilizing the total deposit on investments. In the process of portfolio management of bank assets, various factors such as availability of fund, liquidity requirement, central bank's norms etc. are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice versa. As investment only includes government securities, share, debenture and other and NRB bond. This ratio is calculated by dividing total investment by total deposit.

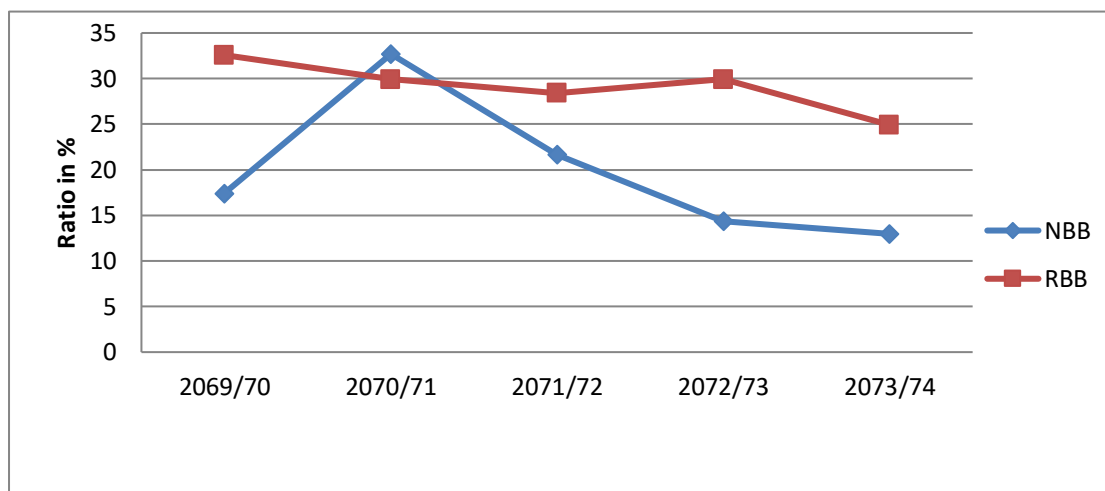
**Table 4.6**  
**Investment to Total Deposit Ratio**

(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	Investment	Total Deposit	Ratio %	Investment	Total Deposit	Ratio %
2069/70	10,979	62,984	17.43	29,672	91,094	32.57
2070/71	22,664	69,338	32.69	32,089	107,270	29.91
2071/72	16,902	77,999	21.67	35,310	124,222	28.42
2072/73	12,843	89,410	14.36	43,769	146,208	29.94
2073/74	12,181	93,944	12.97	38,276	153,581	24.92
<b>MEAN</b>			<b>19.82</b>			<b>29.16</b>
<b>S.D.</b>			<b>7.09</b>			<b>2.5</b>
<b>C.V.</b>			<b>35.77%</b>			<b>8.57%</b>

*(Source: Annual reports of NBL & RBBL and Appendix- I and II)*

**Figure 4.6**  
**Trend of Investment to Total Deposit Ratio**



This ratio is employed to which banks mobilized the total deposits on investment properly. The table 4.6 and figure 4.6 has shown that both in NBL and RBBL the ratios are in fluctuating trend. The policy of investment by total deposit ratio is better financing policy of a bank. In NBL, the highest ratio is 32.69% in the fiscal year 2070/71 and the lowest ratio is 12.97% in the fiscal year 2073/74. Similarly, the highest ratio of RBBL is 32.57% in the fiscal year 2069/70 and the lowest in fiscal year 2073/74 is 24.92%. The average ratio of RBBL is higher than that of NBL i.e. 29.16 > 19.82%. The C.V. of NBL is higher than that of RBBL which is 35.77% > 8.57%. It shows that greater fluctuation in ratios of NBL than RBBL. From the above analysis it is employed that RBBL is utilizing its deposits more on investment. It has better position in utilizing its proportion of deposits.

#### 4.1.3 Profitability Ratio

Profit is major objective of any business organization. Profit is engine that drives the business enterprises. Profitability ratios are very helpful to measure the overall efficiency in operation of a financial institution. Profitability ratio is calculated based on sales and investment. In the context of banks, no bank can survive without profit. Profit is one the major indicates or efficient operation of a bank. The banks acquire profit by providing different services to its customers or by providing loan and



advances and making various kinds of investment opportunities. Profitability ratios measure the efficiency of bank. A higher profit ratio shows the higher efficiency of a bank. The following ratios are calculated:

#### 4.1.3.1 Return on Total Assets Ratio (ROA)

This ratio is related to net profit after tax (NPAT) and total assets. How efficiently the assets of a firm will able to generate more profit are measured by this ratio. This ratio is calculated by dividing NPAT by total assets. This ratio provides the foundation necessary for a company to deliver a good return on equity. Return on total assets ratios of NBL and RBBL for the period of 2069/70 to 2073/74 is presented in the table 4.7.

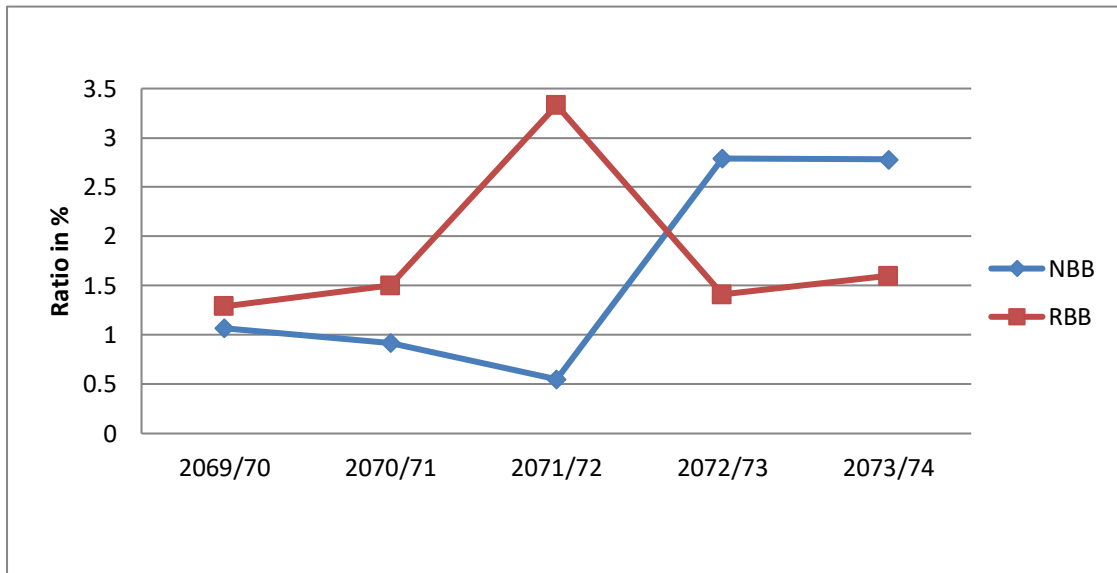
**Table 4.7**  
**Return on Total Assets Ratio**

(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	Net Profit	Total Assets	Ratio %	Net Profit	Total Assets	Ratio %
2069/70	756	70,777	1.07	1,310	101,523	1.29
2070/71	717	77,981	0.92	1,837	122,561	1.50
2071/72	484	88,211	0.55	4,643	139,561	3.33
2072/73	2,883	103,480	2.79	2,355	166,432	1.41
2073/74	3,118	112,057	2.78	2,776	173,544	1.60
<b>MEAN</b>			<b>1.62</b>			<b>1.83</b>
<b>S.D.</b>			<b>0.96</b>			<b>0.76</b>
<b>C.V.</b>			<b>59.26%</b>			<b>41.53%</b>

*(Source: Annual reports of NBL & RBBL and Appendix- I and II)*

**Figure 4.7**  
**Return on Total Assets**



The table 4.7 and figure 4.7 reveal that the return on assets of the sample banks over the five year study period. The ratio of NBL manages the highest of 2.79% and the lowest is 0.55% in F/Y 2072/73 and 2071/72 respectively. Likewise, the ratio of RBBL is the highest 3.33% and the lowest of 1.29% in F/Y 2071/72 and 2069/70 respectively.

The mean ratio for return on assets is 1.62% and 1.83% of NBL and RBBL respectively. It indicates that, RBBL could manage their overall operations due to higher ratio than NBL. By measuring coefficient of variation, RBBL is more uniformity since it has lesser CV i.e. 41.53% than NBL with CV of 59.26%.

#### **4.1.3.2 Return on Equity (ROE)**

The shareholder equity consists of preference share capital, ordinary share capital, share premium and reserve & surplus less accumulated losses. This ratio can be computed as net profit after tax (NPAT) dividing by average total shareholder's equity. This ratio is presented in the table 4.8:

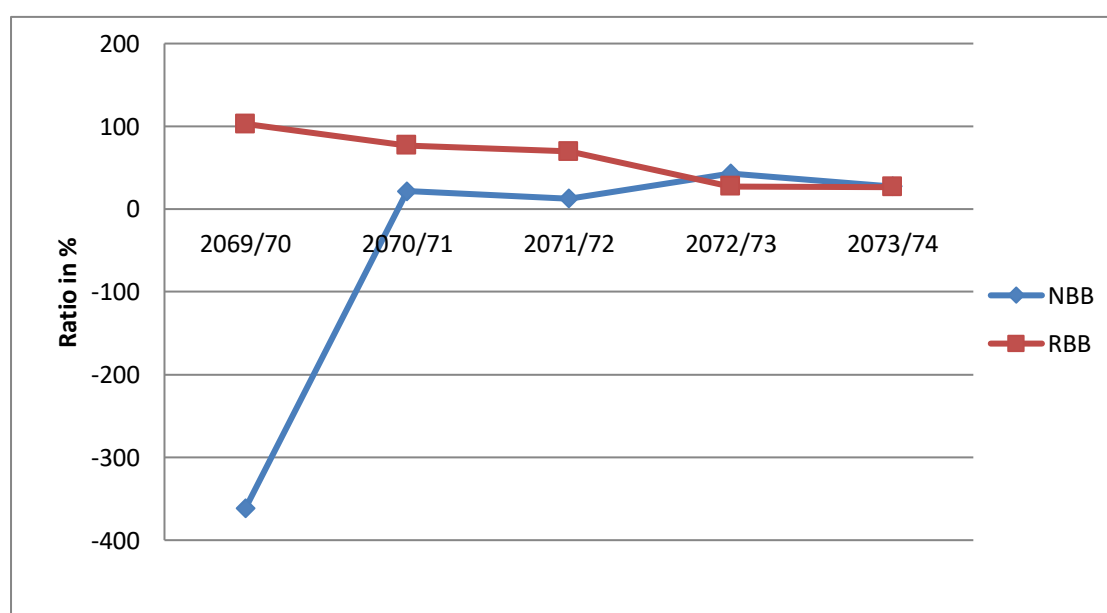
**Table 4.8**  
**Return on Equity**

(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	Net Profit	Total Equity	Ratio %	Net Profit	Total Equity	Ratio %
2069/70	756	-209	-361.72	1,310	1,273	102.91
2070/71	717	3,347	21.42	1,837	2,387	76.96
2071/72	484	3,831	12.63	4,643	6,676	69.55
2072/73	2,883	6,714	42.94	2,355	8,606	27.36
2073/74	3,118	11,452	27.23	2,776	10,484	26.48
<b>MEAN</b>			<b>-51.5</b>			<b>60.65</b>
<b>S.D.</b>			<b>155.42</b>			<b>29.69</b>
<b>C.V.</b>			<b>301.79%</b>			<b>48.95%</b>

(Source: Annual reports of NBL & RBBL and Appendix- I and II)

**Figure 4.8**  
**Return on Equity**



The table 4.7 and figure 4.7 presents the result of return on equity of the sample banks. The average of this ratio is -51.5% and 60.65% for NBL and

RBBL respectively. This indicates that the return on equity for NBL is not good i.e. not effectiveness of management in earning profit. Likewise, standard deviations of NBL & RBBL are 155.42 and 29.69 respectively. Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 301.79% and 48.95% for NBL and RBBL respectively. That's why RBBL is more uniformity because its CV is lesser than the NBL.

This explains that RBBL's ratio is less fluctuating over the study period than NBL with comparing between NBL and RBBL has higher average ratio than NBL.

#### 4.1.3.3 Total Interest Expenses to Total Interest Income

The numerators consist of total interest on deposit liabilities, loan and advances and other deposits. The denominator comprises total interest earned or retained from loan and advances, cash credit and overdraft, government securities, interbank and other investment. This ratio indicates how much interest expenses have been made in relation to interest income received. The higher ratio shows unfavorable profitability situation of the bank.

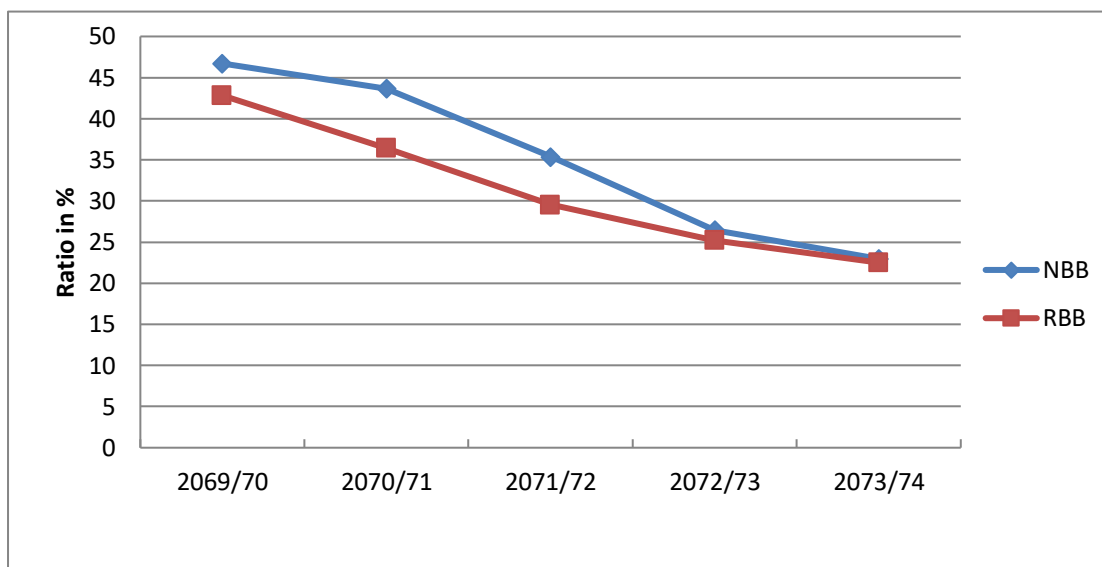
**Table 4.9**  
**Interest Expenses to Interest Income Ratio**

(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	Interest Expenses	Interest Income	Ratio %	Interest Expenses	Interest Income	Ratio %
2069/70	2,214	4,740	46.71	2,462	5,749	42.82
2070/71	2,188	5,011	43.66	2,224	6,105	36.43
2071/72	1,811	5,122	35.36	1,925	6,520	29.52
2072/73	1,658	6,264	26.47	1,873	7,423	25.23
2073/74	1,728	7,527	22.96	2,000	8,888	22.50
<b>MEAN</b>			<b>35.03</b>			<b>31.30</b>
<b>S.D.</b>			<b>9.27</b>			<b>7.44</b>
<b>C.V.</b>			<b>26.46%</b>			<b>23.77%</b>

(Source: Annual reports of NBL & RBBL and Appendix- I and II)

**Figure 4.9**  
**Interest Expenses to Interest Income Ratio**



The table 4.9 and figure 4.9 reveal that the ratio of total interest expenses to total interest income in five years for the sample commercial banks. The total interest expenses to total interest income ratio of NBL ranges the highest of 46.71% in the F/Y 2069/70 and the lowest of 22.96% in the F/Y 2073/74.

Likewise, the ratio of RBB is the highest of 42.82% in the F/Y 2069/70 and the lowest of 22.50% in the F/Y 2073/74. The mean ratio of RBB is 31.30% which is lower than NBL of 35.03%. It indicates that the RBB has lower ratio shows favorable profitability situation of the bank. By measuring coefficient of variation, RBB is more uniformity than NBL since RBB has lesser CV of 23.77% than that of NBL 26.46%.

#### **4.1.3.4 Net Profit to Loan and Advances Ratio**

Net profit reveals the performance of bank. It shows efficiency of management and the capacity of management in utilizing available deposits. Net profit increment plays vital role of the bank. The ratio of net profit total loan and advances reveals profit in comparison to total loan and advance disbursed.

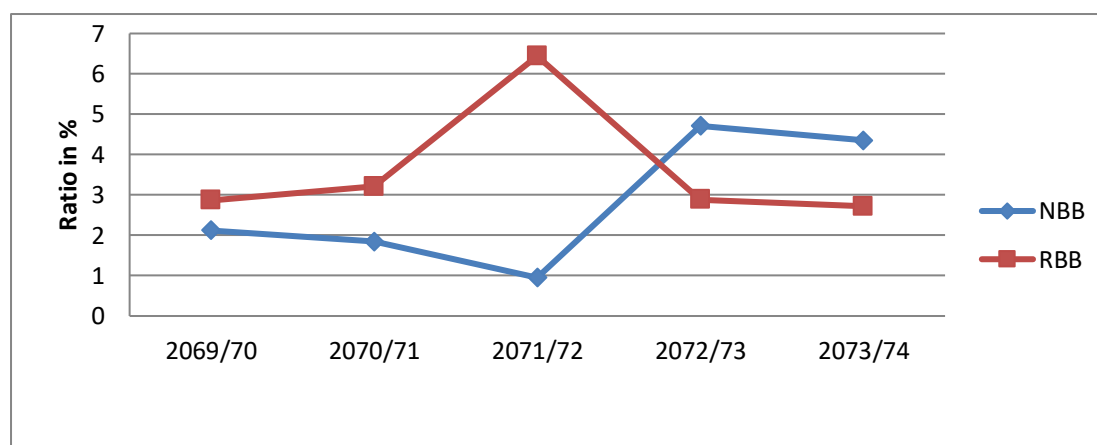
**Table 4.10**  
**Net Profit to Loan and Advance Ratio**

(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	Net Profit	Loan & Advances	Ratio %	Net Profit	Loan & Advances	Ratio %
2069/70	756	35,612	2.12	1,310	45,599	2.87
2070/71	717	39,035	1.84	1,837	57,293	3.21
2071/72	484	50,971	0.95	4,643	72,079	6.44
2072/73	2,883	61,250	4.71	2,355	81,778	2.88
2073/74	3,118	71,746	4.35	2,776	102,161	2.72
<b>MEAN</b>			<b>2.79</b>			<b>3.62</b>
<b>S.D.</b>			<b>1.47</b>			<b>1.42</b>
<b>C.V.</b>			<b>52.69%</b>			<b>39.23%</b>

(Source: Annual reports of NBL & RBBL and Appendix- I and II)

**Figure 4.10**  
**Trend of Net Profit to Loan and Advance Ratio**



The table 4.10 and figure 4.10 describe that the net profit to loan and advance over the five year study period of sample banks. The ratio of NBL is the highest of 4.35% and the lowest of 0.95% in F/Y 2073/74 and 2071/72 respectively. Likewise, the RBBL ranges the highest of 6.44% and the lowest is 2.72% in F/Y 2071/72 and 2073/74 respectively. The mean net profit to loan and advance of NBL and RBBL are 2.79% and 3.62% respectively. It indicates that the RBB has high volume of interest income

is an indicator of good performance of lending activities than NBL. By measuring coefficient of variation, RBBL is more uniformity since it has less CV 39.23% than NBL with CV of 52.69%.

#### 4.1.4 Lending Efficiency Ratio

Lending Efficiency indicate the how properly or efficiently use the asset and funds. It's also known as risk ratio. The efficiency of firm depends largely on the efficiency with which its assets are managed and utilized. This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility to available fund. The following are the various type of lending efficiency ratio:

##### 4.1.4.1 Loan loss provision to Loan and Advances Ratio

The provision for loan loss reflects the increasing probability of non-performing loan. Increase in loan loss provision decreases its profit and result to decrease in dividends. But its positive impact is to strengthen the financial conditions of bank by controlling the credit risk and reduced the risk related to deposit. The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan and advances.

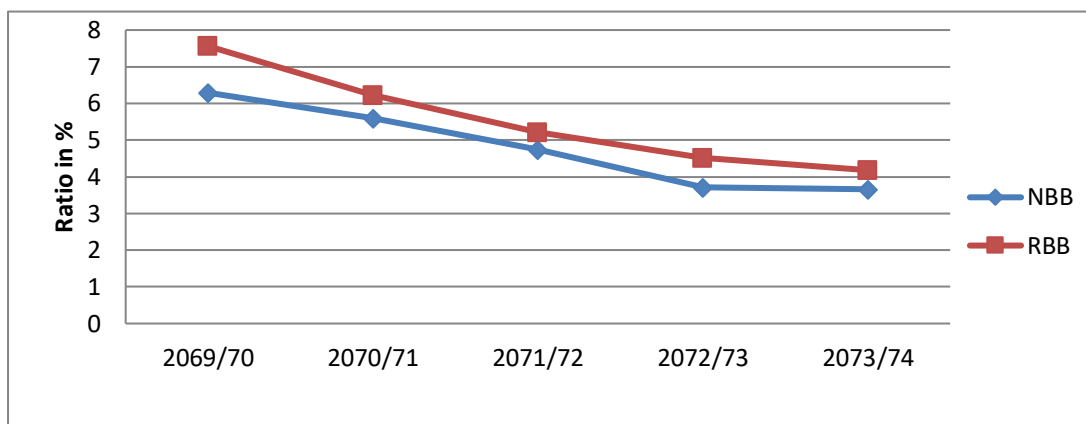
**Table 4.11**  
**Loan loss provision to Loan and Advance Ratio**

(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	Loan loss Provision	Loan & Advance	Ratio %	Loan loss Provision	Loan & Advance	Ratio %
2069/70	2,240	35,612	6.29	3,446	45,599	7.56
2070/71	2,183	39,035	5.59	3,562	57,293	6.22
2071/72	2,418	50,971	4.74	3,757	72,079	5.21
2072/73	2,274	61,250	3.71	3,692	81,778	4.51
2073/74	2,627	71,746	3.66	4,270	102,161	4.18
<b>MEAN</b>			<b>4.80</b>			<b>5.54</b>
<b>S.D.</b>			<b>1.03</b>			<b>1.23</b>
<b>C.V.</b>			<b>21.46%</b>			<b>22.20%</b>

(Source: Annual reports of NBL & RBBL and Appendix- I and II)

**Figure 4.11**  
**Trend of Loan loss provision to Loan and Advance Ratio**



The table 4.11 and figure 4.11 highlight that the loan loss provision to total loan and advance ratio of selected commercial banks over five year study period. The ratio of NBL is the highest 6.29% in the fiscal year 2069/70 and the lowest 3.66% in the fiscal year 2073/74. The average ratio of NBL is 4.80%. Likewise, this ratio of RBBL is the highest 7.56% in the fiscal year 2069/70 and the lowest 4.18% in the fiscal year 2073/74. It has mean ratio is 5.54%. Here, average loan loss provision to total loan ratio of RBB is the highest than NBL. RBBL has huge amount to be made for provision for loan losses. Therefore, RBBL has not been able to earn a profit from the point of view of average. But both banks can be manages loan properly because they are in decreasing trend in recent year. By measuring coefficient of variation, NBL is more uniformity since it has lesser CV of 21.46% than RBBL i.e. 22.20%.

#### 4.1.4.2 Non-Performing Loan to Total Loan and Advances Ratio

This ratio shows the relationship of Non-performing loan and total loan and advance. It is known as unproductive loan. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management. NRB has directed all the commercial banks to create loan loss provision against the doubtful and bad debts. This ratio helps in minimizing the non-performing loan and helps to control the credit.



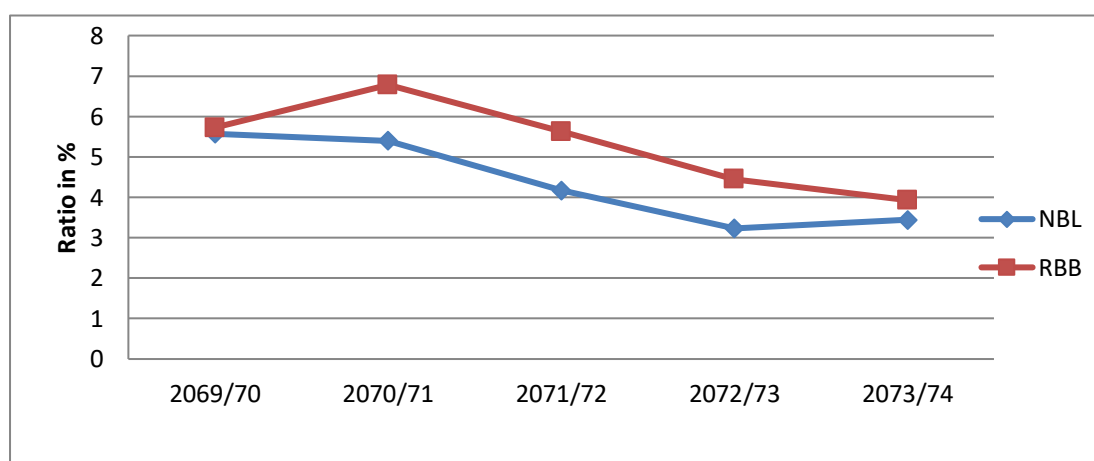
**Table 4.12**  
**Non-Performing Loan to Total Loan and Advances**

(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	Non- Performing Loan	Loan & Advance	Ratio %	Non- Performing Loan	Loan & Advance	Ratio %
2069/70	1,982	35,612	5.57	2,610	45,599	5.72
2070/71	2,109	39,035	5.40	3,885	57,293	6.78
2071/72	2,126	50,971	4.17	4,058	72,079	5.63
2072/73	1,979	61,250	3.23	3,636	81,778	4.45
2073/74	2,470	71,746	3.44	4,016	102,161	3.93
<b>MEAN</b>			<b>4.36</b>			<b>5.30</b>
<b>S.D.</b>			<b>0.97</b>			<b>1.01</b>
<b>C.V.</b>			<b>22.25%</b>			<b>19.06%</b>

(Source: Annual reports of NBL & RBBL and Appendix- I and II)

**Figure 4.12**  
**Trend of Non-Performing Assets to Total Loan and Advances**



The table 4.12 and figure 4.12 depict that the non-performing loan to total loan over the five year study period. The ratio of NBL ranges the highest of 5.57% and the lowest is 3.23% in F/Y 2069/70 and 2072/73 respectively. Likewise, the ratio of

RBBL is the highest of 6.78% and the lowest is 3.93% in the F/Y 2070/71 and 2073/74 respectively.

The mean non-performing loan to total loan of NBL and RBBL are 4.36% and 5.30% respectively. NBL has the lowest non-performing loan to total loan and advances thus, NBL performing good or maintaining their non-performing loan perfectly than RBBL. But RBBL's ratio has also decreasing trend. By measuring coefficient of variation, RBBL is more uniformity since it has less CV 19.06% than NBL with CV of 22.25%.

#### 4.1.4.3 Non-Performing Loan to Total Assets Ratio

This ratio shows the relationship of non-performing loan and total assets. It determines how efficiently the total assets used by management. Lower the non-performing loan ratio is good and higher the ratio is bad. This ratio measures lending opportunity of the bank. This ratio is presented in the table 4.13 and figure 4.13.

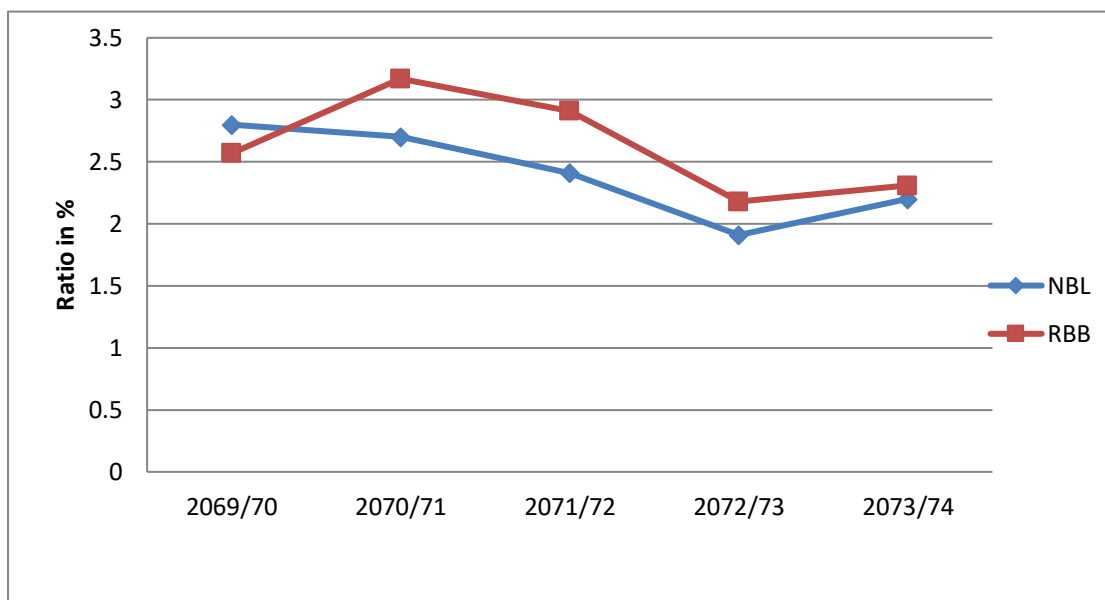
**Table 4.13**  
**Non-Performing Loan to Total Assets Ratio**

(Rs. In million)

FISCAL YEAR	NBL			RBBL		
	Non- Performing Loan	Total Assets	Ratio %	Non- Performing Loan	Total Assets	Ratio %
2069/70	1,982	70,777	2.80	2,610	101,523	2.57
2070/71	2,109	77,981	2.70	3,885	122,561	3.17
2071/72	2,126	88,211	2.41	4,058	139,561	2.91
2072/73	1,979	103,480	1.91	3,636	166,432	2.18
2073/74	2,470	112,057	2.20	4,016	173,544	2.31
<b>MEAN</b>			<b>2.40</b>			<b>2.63</b>
<b>S.D.</b>			<b>0.33</b>			<b>0.37</b>
<b>C.V.</b>			<b>13.75%</b>			<b>14.07%</b>

(Source: Annual reports of NBL & RBBL and Appendix- I and II)

**Figure 4.13**  
**Trend of Non-Performing Assets to Total Assets Ratio**



The table 4.13 and figure 4.13 shows that the non-performing assets to total assets ratio of NBL and RBBL over the five year study period. The highest ratio of NBL is 2.80% in year 2069/70 and the lowest ratio is 1.91% in year 2072/73. Similarly, the highest ratio of RBBL is 3.17% in year 2070/71 and the lowest ratio is 2.18% in year 2072/73. The average mean ratio of NBL is 2.40% and RBBL is 2.63% which shows that RBBL's credit management is not good position than NBL. RBBL more extend to decrease the ratio. By measuring coefficient of variation, NBL is less volatility since it has less CV of 13.75% than that of RBBL is 14.07%.

## 4.2 Statistical Tools

In this part of data analysis, the statistical tools such as coefficient of correlation analysis between various variables, Trend analysis of different variables have been used. They are as follows:

### 4.2.1 Coefficient of Correlation

Correlation is the statically tool, which measure the relationship between two or more variables of a population or a sample. In other words, it describes the degree to which

one variable is linearly related to another. The coefficient of correlation measure the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in this study. The result of coefficient of correlation is always between +1 to -1 when r is +1, it means there is perfect relationship between two variables and vice-versa. When r is 0 it means there is no relationship between two of them.

#### 4.2.1.1 Correlation between Total Deposit and Total Investment

Deposit has played a very important role in performance of a commercial bank and similarly investment is important to mobilize the collected deposits. Coefficient of correlation between deposit and investment measure the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and investment is dependent variable(Y). The main objective of computing "r" between these two variables is to justify whether deposits are significantly used as investment in a proper way or not. The purpose of calculating 'r' is to judge whether deposits are significantly mobilized as Investments or not.  $T_{cal}$  &  $T_{tab}$  refers to calculated value of t-statistic and tabulated value or t-statistics at 5% level of significance at 3 degree of freedom respectively. The table 4.14 shows the value of 'r',  $r^2$ ,  $T_{cal}$ . &  $T_{tab}$ . of NBL and RBB during the study period.

**Table 4.14**  
**Correlation between total deposit and investment**

Name of Bank	r	$r^2$	tcal.	ttab.	Result
NBL	(0.0450)	0.0020	(0.0035)	3.182	Insignificant
RBBL	0.8932	0.7978	2.28	3.182	Insignificant

(Source: Appendix- III)

The coefficient of correlation 'r' between total deposits and investment in case of NBL is -0.0450, this indicates that there is a negative low degree of relationship between deposit and investment. It indicates that though the deposit increased, the investment decreases but in low degree negative correlation between total deposits and investment. Coefficient of determination ( $r^2$ ) is 0.0020, this means 0.20% of variation

of the dependent variable has been explained by independent variable. The coefficient of correlation 'r' between total deposits and investment in case of RBBL is 0.8932, which indicates a positive relationship between the two variables. The coefficient of determination ( $r^2$ ) is 0.7978. This indicates that 79.78% of the variation of the dependent variable has been explained by independent variable, which further states that there is a significant relationship between deposits and total investment.

By testing t-statistics, the calculated value  $t_{cal}$  of NBL and RBBL are (0.0035) and 2.28 respectively. Which is lower than tabulated 't' at 5% significance level at 3 degree of freedom for two tailed test (3.182). It indicates that correlation coefficient between total deposits and investment of NBL and RBBL are insignificant.

In Comparison, the value of 'r' of the NBL is lower than that of RBBL. It indicates the deposit and investment of RBBL is much correlated than NBL. When the deposit increases, consequently the investment also increases in higher ratio than RBBL. In conclusion, it can be said that both the banks show insignificant relationship between total deposits and investment.

#### **4.2.1.2 Correlation between loan & advance to net profit**

Co-efficient of correlation between loan and advances and net profit is used to measure the degree of relationship between two variable i.e. loan & advances and net profit during the study period. Where loan & advances are independent variable (x) and net profit is dependent variable (y). The main objectives of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan & advances through coefficient of determination. The following table shows the correlation coefficient between the total loan & advances and net profit denoted by r.  $r^2$  indicates the coefficient of determination,  $t_{cal}$  and  $t_{tab}$  refers to calculated value of t-statistic and tabulated value of t-statistic at 5% level of significance at 3 degree of freedom respectively. The following results are worth highlighting.

**Table 4.15**  
**Correlation between loan & advance to net profit**

Name of Bank	r	r <sup>2</sup>	t <sub>cal.</sub>	t <sub>tab.</sub>	Result
<b>NBL</b>	0.8736	0.7632	2.04	3.182	Insignificant
<b>RBBL</b>	0.4325	0.1871	0.33	3.182	Insignificant

*(Source: Appendix- IV)*

The table 4.15 presents the relationship between total loan and net profit of NBL and RBBL. The coefficient of determination  $r^2$  of NBL and RBBL are 0.7632 and 0.1871 respectively, which indicates that 76.32% and 18.71% of loan and advance is explained by net profit. By testing t-statistic, the calculated value  $t_{cal}$  of NBL and RBB are 2.04 and 0.33 respectively which are lower than tabulated 't' at 5% significance level at 3 degree of freedom for two tailed test (3.182). It indicates that correlation coefficient between loan & advances and net profit of NBL and RBBL are insignificant. It means null hypothesis ( $H_0$ ) is accepted of both banks.

#### **4.2.1.3 Correlation between Total Deposit and Loan and Advances**

The coefficient of correlation between deposits and loan and advances measures the degree of relationship between them. In our study, we have taken deposit as an independent variable denoted by (x) and loan and advance as dependent variable (y). The main objective of calculating 'r' between these two variables is to justify whether deposits are significantly used as loan and advances or not.  $r^2$  indicates the coefficient of determination, and  $t_{tab}$  refers to calculated value of t-statistic and tabulated value of t-statistic at 5% level of significance at 3 degree of freedom. The following results are worth highlighting.

**Table 4.16**  
**Correlation between total deposits and loan & advances**

Name of Bank	r	r <sup>2</sup>	t <sub>cal.</sub>	t <sub>tab.</sub>	Result
<b>NBL</b>	0.9882	0.9765	7.84	3.182	Significant
<b>RBB</b>	0.9721	0.9450	5.00	3.182	Significant

*(Source: Appendix- V)*

The table 4.16 highlights that the coefficient of correlation between deposits and loan & advances of NBL and RBBL are 0.9882 and 0.9721 respectively. It shows the positive relationship between these two variables of both banks. The positive relationship shown by their correlation coefficient points out the fact that the changes in each variable are taking place in the same direction, i.e. an increase in total deposits is supported by increase in the total loan. The coefficient of determination  $r^2$  of NBL and RBBL are 0.9765 and 0.9450 respectively, which indicates that 97.65% and 94.50% of total deposit is explained by loan and advances. By testing t-statistic, the calculated value  $t_{cal}$  of NBL and RBBL are 7.84 and 5.00 respectively which are higher than tabulated 't' at 5% significant level at 3 degree of freedom for two tailed test (3.182). It indicates that correlation coefficient between loan and advances and total deposits of NBL and RBBL are significant.

#### **4.2.2 Trend Analysis**

Trend analysis is done to predict the future scenario. This analysis is very important for business. Business environment is more complex and dynamic than ever before so firm want to know future scenario in advance. This scenario helps to build strategies and tune to the unseen changes in the economy. So this statistical tool helps businessman to estimate future. The estimation is based upon past data or information. Among various methods of estimating trend the least square methods is used in this research.

##### **4.2.2.1 Trend Analysis of Total Deposit**

Deposits are the important part in banking sector hence its trend for next five years will be forecasted for future analysis. Here, the trend value of total deposit of NBL and RBBL has been calculated for further five year. The Table 4.17 shows the actual and trend values of NBL and RBBL.

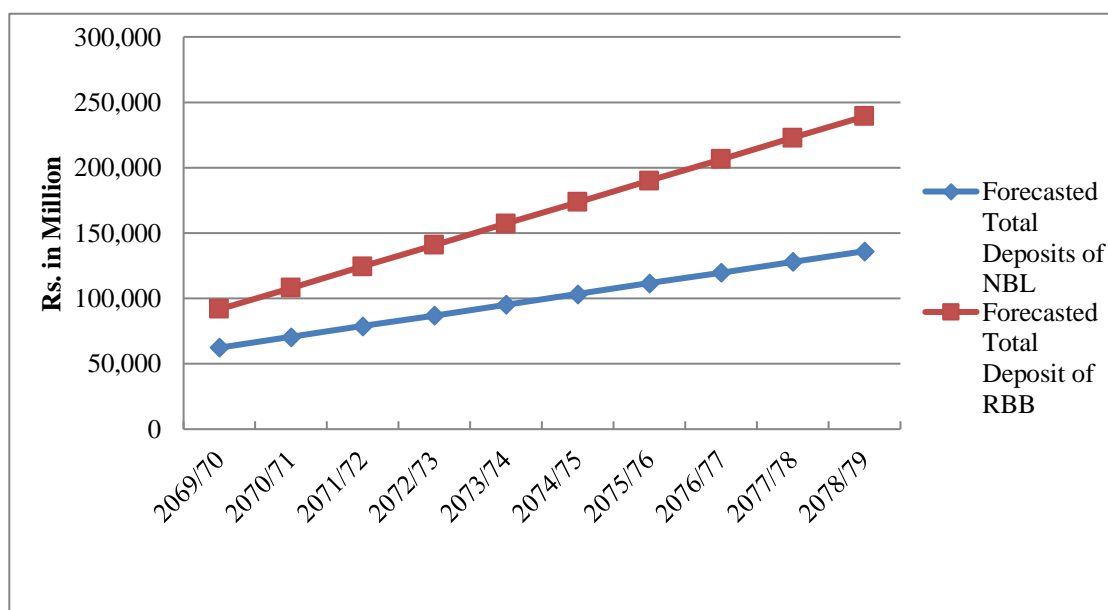
**Table 4.17**  
**Trend of total Deposit**

(Rs. In million)

Fiscal year	Forecasted total deposits of NBL ( $Y=a+bx$ )	Forecasted total deposits of RBBL ( $Y=a+bx$ )
2069/70	62,337	91,693
2070/71	70,536	108,084
2071/72	78,735	124,475
2072/73	86,934	140,866
2073/74	95,133	157,257
2074/75	103,332	173,648
2075/76	111,531	190,039
2076/77	119,730	206,430
2077/78	127,929	222,821
2078/79	136,128	239,212
<b>Average (a)</b>	<b>99,233</b>	<b>165,453</b>
<b>Range (b)</b>	<b>8,199</b>	<b>16,391</b>

(Source: Appendix-VI)

**Figure 4.14**  
**Trend of Total Deposits**





The table 4.17 and figure 4.14 shows that the deposits of NBL and RBBL. The trend of total deposits of both banks is in increasing trend. The average total deposits maintained by the bank, NBL and RBBL are Rs.99,233 million and Rs.165,453 million respectively. Both banks has positive rate of Rs.8,199 million and Rs.16,391 million which denotes that with every unit change in the year, the value of total deposit will increase by additional Rs.8,199 million and Rs.16,391 million.

#### 4.2.2.2 Trend Analysis of Net profit

Profit attracts to invest more in the industry and encourages entrepreneur to introduce new technology. It also shows the competence of management to operate in the given business environment and health of the company. Profit is the important part in banking sector hence its trend for next five years will be forecasted for future analysis. Here, the trend value of Net profit of NBL and RBBL has been calculated for further five year. The Table 4.18 shows the actual and trend values of NBL and RBBL.

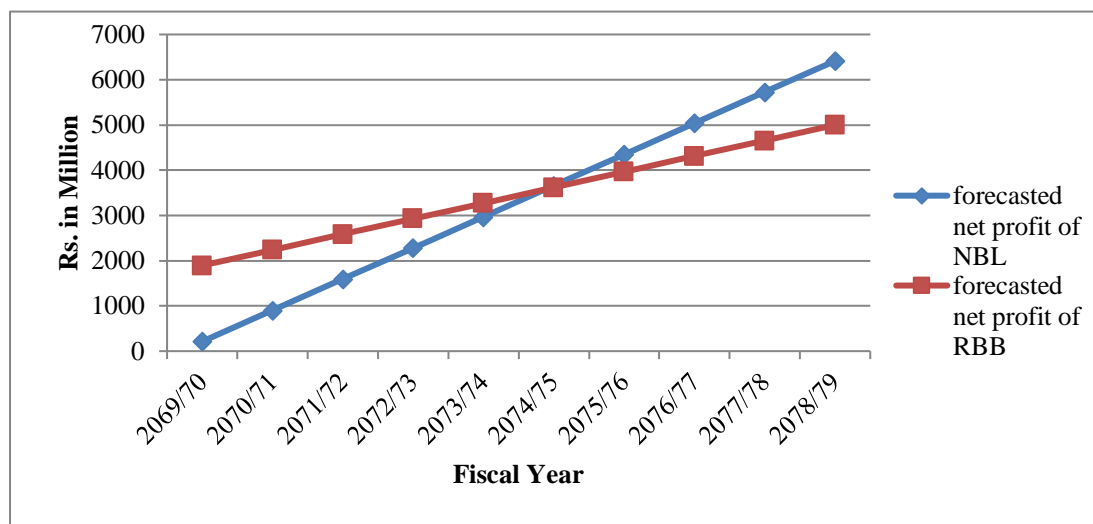
**Table 4.18**  
**Trend Analysis of Net profit**

(Rs. In million)

<b>Fiscal year</b>	<b>Forecasted Net Profit of NBL (Y=a+bx)</b>	<b>Forecasted Net Profit of RBBL (Y=a+bx)</b>
2069/70	214	1,894
2070/71	903	2,239
2071/72	1,592	2,584
2072/73	2,281	2,929
2073/74	2,970	3,274
2074/75	3,659	3,619
2075/76	4,348	3,964
2076/77	5,037	4,309
2077/78	5,726	4,654
2078/79	6,415	4,999
<b>Average (a)</b>	<b>3315</b>	<b>3447</b>
<b>Range (b)</b>	<b>689</b>	<b>345</b>

(Source: Appendix-VII)

**Figure 4.15**  
**Trend of Net Profit**



The table 4.18 and figure 4.15 deal with the trend of net profit maintained by the sample banks for the next five years. The average net profit maintained by the banks; NBL and RBB are Rs.3,315 million and Rs.3,447 million respectively, with other things remaining unchanged. However, the slope of the equation that usually shows the rate of change in the value reveals two same directions in increasing trend of both banks. Both banks i.e. NBL and RBB has a positive rate of Rs.689 million and Rs.345 million which denotes that with every unit change in the year, the value of total loan will increased by additional Rs.689 million and Rs.345 million respectively.

### 4.3 Major Findings of the Study

Having completed the basic analysis required for this study, the final and the most important task of the researcher is to enlist the findings. This will give meaning to the desired result. The main findings of the study derived from the analysis of financial data of NBL and RBB are given below:

The liquidity position of NBL and RBB reveals that:

1. The current ratio of NBL is 1.35 times, which is greater than NBL i.e. 1.04 times. It can be concluded that the both banks are not meeting the standard

ratio i.e. 2:1, although its current ratio can be considered good, as its current assets exceed current liabilities but ratio of RBBL has not been satisfactory.

2. The average cash and bank balance to current assets ratio of NBL & RBBL are 15.23% and 17.02% respectively. It is found that RBBL is holding more cash and bank balance to current assets than NBL. Which imply the better liquidity position of RBBL.
3. The cash and bank balance to total deposit ratio of NBL is 16 % which is lower than RBBL i.e. 17.76%. It indicates that RBBL is strong liquidity position but very high ratio is not favorable the bank because doesn't produce appropriate profit to bear the high interest. The analysis specifies that the both banks are volatile to maintain cash reserve ratio as per NRB directives.

The asset management ratio of NBL and RBBL reveals that:

1. The both bank's loan and advances to total deposit ratio are in increasing trend. The mean ratio of RBBL is the lowest with 56.79% than NBL with the mean ratio of 64.61%. It can conclude that NBL is the most successful to mobilize its total deposit as loan and advances and acquiring high profit through it is less consistent than RBBL..
2. Total loan to total assets ratio of NBL is 56.28 % which is the highest than RBBL i.e. 50.26 %. It can be concluded that NBL is better mobilizing of fund as loans & advances & it seems successful in generating higher ratio than RBBL.
3. The average Investment to Total Deposit Ratio of RBBL is higher than that NBL i.e. 29.16 > 19.82%. The C.V. of NBL is higher than that of RBBL which is 35.77% > 8.57%. It shows that greater fluctuation in ratios of NBL than RBBL. It is employed that RBBL is utilizing its deposits more on investment. It has better position in utilizing its proportion of deposits.

The profitability ratios of NBL and RBBL reveal that:

1. The mean ratio for return on assets is 1.62% and 1.83% of NBL and RBBL respectively. It indicates that, RBBL could manage their overall operations due to higher ratio than NBL. By measuring coefficient of variation, RBBL is more uniformity since it has lesser CV i.e. 41.53% than NBL with CV of 59.26%.
2. The average of return on equity ratio is -51.5% and 60.65% for NBL and RBBL respectively. This indicates that the return on equity for NBL is not good i.e. not effectiveness of management in earning profit. Likewise, Coefficient of variation indicates the fluctuating trend or measuring the uniformity of the banks which is 301.79% and 48.95% for NBL and RBBL respectively. That's why RBBL is more uniformity because its CV is lesser than the NBL.
3. The total interest expenses to total interest income ratio of RBBL is 31.30% which is lower than NBL of 35.03%. It indicates that the RBBL has lower ratio shows favorable profitability situation of the bank. By measuring coefficient of variation, RBBL is more uniformity than NBL since RBBL has lesser CV of 23.77% than that of NBL 26.46%.
4. The mean net profit to loan and advance of NBL and RBBL are 2.79% and 3.62% respectively. It indicates that the RBB has high volume of interest income is an indicator of good performance of lending activities than NBL.

The Lending Efficiency ratios of NBL and RBBL reveal that:

1. Average loan loss provision to total loan ratio of RBBL is the highest than NBL (i.e. 5.54 > 4.80). RBBL has huge amount to be made for provision for loan losses. Therefore, RBBL has not been able to earn a profit from the point of view of average. But both banks can be manages loan properly because they are in decreasing trend in recent year.
2. The mean non-performing assets to total loan of NBL and RBBL are 4.36% and 5.30% respectively. NBL has the lowest non-performing assets to total loan and advances thus, NBL performing good or maintaining their non-

performing assets perfectly than RBBL. But RBBL's ratio has also decreasing trend.

3. The highest non-performing assets to total assets ratio of NBL is 2.40% and RBBL is 2.63% which shows that RBBL's credit management is not good position than NBL. RBBL more extend to decrease the ratio.

#### Statistical Analysis:

1. The correlation between total deposit and investment of RBBL is higher, whereas NBL has negative correlation between these two variables. The negative correlation of NBL indicates that when the total deposit increases the investment decreases and vice-versa. NBL and RBBL have no significant relationship between two variables.
2. The coefficient of determination  $r^2$  of total loan and net profit of NBL and RBBL are 0.7632 and 0.1871 respectively, which indicates that 76.32% and 18.71% of loan and advance is explained by net profit. Correlation coefficient between loan & advances and net profit of NBL and RBBL are insignificant. It means null hypothesis ( $H_0$ ) is accepted of both banks.
3. The correlation coefficient between total deposit and loan and advances of NBL is higher than that of RBBL. It expresses the portion of loan and advances of NBL is more related to its deposit than that of RBBL. NBL has high degree of positive correlation whereas RBBL has also high degree of positive correlation but less than NBL. Both banks have significant relationship between deposit and loan and advances.
4. The trend of total deposits of both banks is in increasing trend. Both banks has positive rate of Rs.8,199 million and Rs.16,391 million which denotes that with every unit change in the year, the value of total deposit will increase by additional Rs.8,199 million and Rs.16,391 million.
5. The trend of average net profit maintained by the banks; NBL and RBBL are Rs.3,315 million and Rs.3,447 million respectively, with other things remaining unchanged. Both banks i.e. NBL and RBBL has a positive rate of Rs.689 million and Rs.345 million which denotes that with every unit change in the year, the value of total loan will increased by additional Rs.689 million and Rs.345 million respectively.

## **CHAPTER - V**

### **SUMMARY CONCLUSION & RECOMMENDATIONS**

This is the final chapter of the study. This chapter briefly explains the summary of the study i.e. financial performance of RBBL and NBL; tries to fetch out conclusion and attempts to offer recommendations for strengthen the financial position of the sample banks.

#### **5.1 Summary**

The main function of bank is to collect the scattered money from general public in form of deposit and to distribute it as a loan to gain profit. The prosperity of banking system depends on the two major functions i.e. deposit collection and lending. Liquidity in banking system is rising up to due to easily available of deposit in market. However, the lending function of banking system is comparatively low as banks are facing two major challenges during this study. Firstly the capital base of bank are low, they are not capable in investing big project like hydropower. Secondly due to low infrastructure development of country banks have to increase its lending in non-productive sector like land & building, share, vehicle, etc.

The source of finance is the most essential element for the establishment and operation of any profit and non-profit institutions. Profit oriented institutions usually obtain these resources through capital ownership, public capital by issuing shares and financial institutions such as banks in the form of loan, overdrafts and other related services. Banks are the major financial institutions in financing the individuals and others. Bank involves in process of collecting scattered money and to help its mobilization in different sectors according to the needs of customers. Bank helps to develop saving habit of people, which in turns to make other people to invest for their business. Banking loan helps to invest in industrial sector, commercial sector, production sector, trade & commerce. Bank also helps to develop international business by initiating as a mediator on export and import. This way banks help to strengthen the national.

In the last two decades, the financial scenario of Nepal was dramatically changed. The vast development of industrial sector or due to the presence of different kind of risk in the economy brings so many banking institutions from private as well as public sector in Nepal. The present study is a conclusion oriented study of financial analysis of RastriyaBanijya Bank Ltd. and Nepal Bank Ltd. the study had been undertaken to examine and evaluate the financial performance of RBBL and NBL. The researcher had used the financial tools to make his study more effective and informative. This study has covered five years data from 2069/70 to 2073/74 of sample banks. In this section, the researcher has tried to summarize the financial analysis of both banks.

The banks have been able to maintain its position in the country as revenue of the leading commercial banks in the country. Moreover, competition in the financial sector is getting tougher day by day. However, in line with the current market trend, the bank is making all possible efforts to consolidate its business portfolio and cut down the cost in all operating areas to the extent possible, to maintain the profitability. The principle activities of the bank in the past years continued to be consumer and corporate banking, trade and finance, credit card services and foreign exchange counters. The bank has successfully installed Automated Teller Machines (ATM). The number of different cards issued by the bank and the bank now has the critical mass in its account base.

Financial analysis is the key tools for financial decision and starting for making plan before using sophisticated forecasting and budgeting. The study has used different financial ratios namely liquidity ratio, assets management ratio, profitability ratio and lending efficiency ratio and statistical tools namely correlation of coefficient, determination, hypothesis t-test, trend analysis for the study of the sample banks.

While going through the study the financial performance of both banks were good. All the liquidity ratios, assets management ratios, profitability ratios and lending efficiency ratios of the sample banks are better. The liquidity position of in term of current ratio show that the both banks are below the standard i.e. 2:1. where as NBL ratios higher than RBBL. The assets management ratio of NBL is greater than RBBL during the study period. This implies that NBL is better utilizing the assets,

mobilizing deposits through lending functions than RBBL. Profitability ratio of RBBL is greater than NBL which indicates the efficiency of RBBL is better than NBL regarding operational and earning performance. Similarly, lending efficiency ratios of RBBL is higher than NBL. The loan loss provision, non-performing loan of NBL is comparatively low than RBBL which reflects low risk related to deposit. RBBL has huge amount to be made for loan losses provision.

The coefficient of correlation between total deposit to loan & advances shows the high degree of positive relations. RBBL and NBL have strong synchronization between deposit to loan & advance and loan & advance to net profit since the relationship between them was statistically significant but according to coefficient of correlation between total deposits to investment, there is negative relation of NBL whereas RBBL have positive relation. Moreover, on the basis of trend analysis the total deposit and net profit will increase in both banks. The trend line of net profit and total deposits will be increasing trend in future. Comparatively from the study, we can conclude that the RBBL and NBL banks are more performing their business with the fast success in Nepal.

## **5.2 Conclusion**

On the basis of entire research study some conclusions have been deduced. This study particularly deals about the comparative analysis of financial performance of RastriyaBanijya Bank Ltd. and Nepal Bank Ltd. certain conclusion has been derived after the financial performance of the sample banks.

From the study RBBL and NBL have sound financial performance in recent years. the view point liquidity ratio measure the ability of a firm to meet its short-term obligations and select the short-term financial solvency of a firm. The liquidity ratio of NBL is higher than RBBL. it is concluded that NBL is better solvency position as compared with RBBL. By measuring coefficient of variation, RBBL has lower CV than NBL which conclude RBBL has uniformity in maintaining liquidity position.

The activity ratio of RBBL is higher than NBL which concludes the efficient utilizations of assets by RBBL. RBBL has been mobilizing its deposit through loan



and advances and acquiring high profit. Profitability ratio is one of the main indicators to analyzing the financial performance of a firm. In this study the ratio of RBBL is stronger than NBL. As RBBL has efficiently utilized its assets through mobilizing its deposit, they acquire the higher profit than NBL. The trend analysis is also forecast the higher profit of both bank in future.

RBBL and NBL have strong synchronization between total deposit and investment and loan & advance and net profit since the relationship between them was statistically significant. The trend analysis forecast the increasing rate of total deposits and net profit of both banks in future. Both banks will struggle for better financial performance in future. However, a good financial performance of both banks can be expected in future as they were able to maintain continuous profit in past years.

### **5.3 Recommendations**

Based on the major findings and conclusion of the study on financial performance of sample banks some suggestions are made. The following points are highlighted to put forward for further improvement of commercial banks.

1. The liquidity position in terms of current ratio of both banks is below than normal standard i.e. 2:1. The average ratio of NBL is higher than RBBL. But, both banks should increase their current assets.
2. Lending loan & advance to various lenders in major function of commercial banks and it is one of the most important sources of profit. In comparison to RBBL, NBL has low lending as loan & advance. It is recommended NBL to increase lending proportion for propose of increasing profit.
3. Trend analysis shows the loan & advance amount of RBBL and NBL will increase in future. Thus, both banks should train its employee to make them efficient and professional in credit appraisal, monitoring and proper risk management.
4. Non-performing loan (NPL) erodes the performance of commercial bank. It reduces profitability due to increase in loan loss provision and reduce fund

of bank in investment as loan and advances. NPL of both bank are in increasing trend, it is recommended to make necessary effort to reduce NPL.

5. Deposit collection from the customers is the main source of inflow of funds of RBBL and NBL but this is the cost bearing source of the banks. In coming days RBBL & NBL need to increase cost free resources too and reducing the burden of the bank.
6. The operating income and expenses of both banks are in increasing trend. It is recommended to reduce the operating expenses and to explore the other source of income to increase operating income.
7. Investment in short-term marketable securities is one of the sources of income and utilization of available fund for short-term. So it is recommended securities which yield more return than maintaining cash and bank balance.

**APPENDIX – I**  
**CALCULATION OF MEAN, S.D. AND C.V. OF NBL**

i)

Fiscal year	CR		C&BB to CA		C&BB to Deposits	
	x	(x- $\bar{x}$ ) <sup>2</sup>	x	(x- $\bar{x}$ ) <sup>2</sup>	x	(x- $\bar{x}$ ) <sup>2</sup>
2069/70	1.27	0.0064	20.15	24.2064	22.53	42.6409
2070/71	1.41	0.0036	8.79	41.4736	9.61	40.8321
2071/72	1.39	0.0016	11.20	16.2409	11.55	19.8025
2072/73	1.35	0.0000	18.22	8.9401	17.46	2.1316
2073 /7 4	1.35	0.0000	17.78	6.5025	18.81	7.8961
<b>Total</b>	<b>6.77</b>	<b>0.0116</b>	<b>76.78</b>	<b>97.3635</b>	<b>79.96</b>	<b>113.3032</b>
<b>Mean</b>	<b>1.35</b>		<b>15.23</b>		<b>16</b>	
<b>S. D.</b>	<b>0.048</b>		<b>4.41</b>		<b>4.76</b>	
<b>CV</b>	<b>3.55%</b>		<b>28.96%</b>		<b>29.75%</b>	

$$\bar{X} = \frac{\sum x}{n}, \text{ S.D.} = \sqrt{\frac{\sum(x-\bar{x})^2}{n}} \text{ and } \text{CV} = \frac{\text{SD}}{\bar{X}} \times 100$$

ii)

Fiscal year	Loan & advance to Total Deposits		Loan & Advance to Total Assets		Investment to Total Deposits	
	x	(x- $\bar{x}$ ) <sup>2</sup>	x	(x- $\bar{x}$ ) <sup>2</sup>	x	(x- $\bar{x}$ ) <sup>2</sup>
2069/70	56.54	65.1249	50.32	35.5216	17.43	5.7121
2070/71	56.30	69.0561	50.06	38.6884	32.69	165.6369
2071/72	65.35	0.5476	57.78	2.25	21.67	3.4225
2072/73	68.50	15.1300	59.19	8.4681	14.36	29.8116
2073 /7 4	76.37	138.2976	64.03	60.0625	12.97	46.9225
<b>Total</b>	<b>323.06</b>	<b>288.1583</b>	<b>281.38</b>	<b>144.9906</b>	<b>99.12</b>	<b>251.5056</b>
<b>Mean</b>	<b>64.61</b>		<b>56.28</b>		<b>19.82</b>	
<b>S. D.</b>	<b>7.59</b>		<b>5.38</b>		<b>7.09</b>	
<b>CV</b>	<b>11.75%</b>		<b>9.56%</b>		<b>35.77%</b>	

iii)

Fiscal year	ROA		ROE		Interest Expenses to Interest Income		Net Profit to Loan & Advance	
	x	$(x - \bar{x})^2$	x	$(x - \bar{x})^2$	x	$(x - \bar{x})^2$	x	$(x - \bar{x})^2$
2069/70	1.07	0.3025	-361.72	96236.4484	46.71	136.4224	2.12	0.4489
2070/71	0.92	0.4900	21.42	5317.3264	43.66	74.4769	1.84	0.9025
2071/72	0.55	1.1449	12.63	4112.6569	35.36	0.1089	0.95	3.3856
2072/73	2.79	1.37	42.94	8918.9136	26.47	73.2736	4.71	3.6864
2073 /7 4	2.78	2.78	27.23	6198.4129	22.96	145.6849	4.35	2.4336
<b>Total</b>	<b>8.11</b>	<b>4.6519</b>	<b>-257.5</b>	<b>120783.7582</b>	<b>175.16</b>	<b>429.9667</b>	<b>13.97</b>	<b>10.857</b>
<b>Mean</b>	<b>1.62</b>		<b>-51.5</b>		<b>35.03</b>		<b>2.79</b>	
<b>S. D.</b>	<b>0.96</b>		<b>155.42</b>		<b>9.27</b>		<b>1.47</b>	
<b>CV</b>	<b>59.26%</b>		<b>301.79%</b>		<b>26.46%</b>		<b>52.69%</b>	

iv)

Fiscal year	LLP to Loan & Advances		NPL to L & A		NPA to Total Assets	
	x	$(x - \bar{x})^2$	x	$(x - \bar{x})^2$	x	$(x - \bar{x})^2$
2069/70	6.29	2.2201	5.57	1.4641	2.80	0.16
2070/71	5.59	0.6241	5.40	1.0816	2.70	0.09
2071/72	4.74	0.0036	4.17	0.0361	2.41	0.0001
2072/73	3.71	1.1881	3.23	1.2769	1.91	0.2401
2073 /7 4	3.66	1.2996	3.44	0.8464	2.20	0.04
<b>Total</b>	<b>23.99</b>	<b>5.3355</b>	<b>21.81</b>	<b>4.7051</b>	<b>12.02</b>	<b>0.5302</b>
<b>Mean</b>	<b>4.80</b>		<b>4.36</b>		<b>2.4</b>	
<b>S. D.</b>	<b>1.03</b>		<b>0.97</b>		<b>0.33</b>	
<b>CV</b>	<b>21.46%</b>		<b>22.25%</b>		<b>13.75%</b>	

## APPENDIX- II

## CALCULATION OF MEAN, S.D. AND C.V. OF RBB

i)

Fiscal year	CR		C&BB to CA		C& BB to Deposits	
	x	(x- $\bar{x}$ ) <sup>2</sup>	x	(x- $\bar{x}$ ) <sup>2</sup>	x	(x- $\bar{x}$ ) <sup>2</sup>
2069/70	1.05	0.0002	15.44	2.4964	16.53	1.5129
2070/71	1.05	0.0002	20.44	11.6964	22.75	24.9001
2071/72	1.01	0.0007	19.02	4.00	18.07	0.0961
2072/73	1.03	0.0001	17.47	0.2025	18.09	0.1089
2073 /7 4	1.04	0.00	12.72	18.49	13.36	19.36
<b>Total</b>	<b>5.18</b>	<b>0.0012</b>	<b>85.09</b>	<b>36.8853</b>	<b>88.80</b>	<b>45.9780</b>
<b>Mean</b>	<b>1.04</b>		<b>17.02</b>		<b>17.76</b>	
<b>S. D.</b>	<b>0.015</b>		<b>2.72</b>		<b>3.03</b>	
<b>CV</b>	<b>1.44%</b>		<b>15.98%</b>		<b>17.06%</b>	

$$\bar{X} = \frac{\sum x}{n}, \text{ S.D.} = \sqrt{\frac{\sum (x - \bar{x})^2}{n}} \text{ and } \text{CV} = \frac{\text{SD}}{\bar{X}} \times 100$$

ii)

Fiscal year	Loan & Advance to Total Deposits		Loan & Advance to Total Assets		Investment to Total Deposits	
	x	(x- $\bar{x}$ ) <sup>2</sup>	x	(x- $\bar{x}$ ) <sup>2</sup>	x	(x- $\bar{x}$ ) <sup>2</sup>
2069/70	50.06	45.2929	44.91	28.6225	32.57	11.6281
2070/71	53.41	11.4244	46.75	12.3201	29.91	0.5625
2071/72	58.02	1.5129	51.65	1.9321	28.42	0.5476
2072/73	55.93	0.7396	49.14	1.2544	29.94	0.6084
2073 /7 4	66.52	94.6729	58.87	74.1321	24.92	17.9776
<b>Total</b>	<b>283.94</b>	<b>153.6427</b>	<b>251.32</b>	<b>118.2612</b>	<b>145.8</b>	<b>31.3142</b>
<b>Mean</b>	<b>56.79</b>		<b>50.26</b>		<b>29.16</b>	
<b>S. D.</b>	<b>5.54</b>		<b>4.86</b>		<b>2.5</b>	
<b>CV</b>	<b>9.76%</b>		<b>9.67%</b>		<b>8.57%</b>	

iii)

Fiscal year	ROA		ROE		Interest Expenses to Interest Income		Net Profit to Loan&Advance	
	x	$(x-\bar{x})^2$	x	$(x-\bar{x})^2$	x	$(x-\bar{x})^2$	x	$(x-\bar{x})^2$
2069/70	1.29	0.2916	102.91	1785.9076	42.82	132.7104	2.87	0.5625
2070/71	1.50	0.1089	76.96	266.0161	36.43	26.3169	3.21	0.1681
2071/72	3.33	2.25	69.55	79.21	29.52	3.1684	6.44	7.9524
2072/73	1.41	0.1764	27.36	1108.2241	25.23	36.8449	2.88	0.5476
2073 /74	1.60	0.0529	26.48	1167.5889	22.50	77.44	2.72	0.81
<b>Total</b>	<b>9.13</b>	<b>2.8798</b>	<b>303.26</b>	<b>4406.9467</b>	<b>156.5</b>	<b>276.4806</b>	<b>18.12</b>	<b>10.0406</b>
<b>Mean</b>	<b>1.83</b>		<b>60.65</b>		<b>31.3</b>		<b>3.62</b>	
<b>S. D.</b>	<b>0.76</b>		<b>29.69</b>		<b>7.44</b>		<b>1.42</b>	
<b>CV</b>	<b>41.53%</b>		<b>48.95%</b>		<b>23.77%</b>		<b>39.23%</b>	

iv)

Fiscal year	LLP to Loan & Advances		NPL to L&A		NPA to Total Assets	
	x	$(x-\bar{x})^2$	x	$(x-\bar{x})^2$	x	$(x-\bar{x})^2$
2069/70	7.56	4.0804	5.72	0.1764	2.57	0.0036
2070/71	6.22	0.4624	6.78	2.1904	3.17	0.2916
2071/72	5.21	0.1089	5.63	0.1089	2.91	0.0784
2072/73	4.51	1.0609	4.45	0.7225	2.18	0.2025
2073 /7 4	4.18	1.8496	3.93	1.8769	2.31	0.1024
<b>Total</b>	<b>27.68</b>	<b>7.5622</b>	<b>26.51</b>	<b>5.0751</b>	<b>13.14</b>	<b>0.6785</b>
<b>Mean</b>	<b>5.54</b>		<b>5.30</b>		<b>2.63</b>	
<b>S. D.</b>	<b>1.23</b>		<b>1.01</b>		<b>0.37</b>	
<b>CV</b>	<b>22.20%</b>		<b>19.06%</b>		<b>14.07%</b>	

**APPENDIX-III**

**CORRELATION BETWEEN TOTAL DEPOSIT AND TOTAL INVESTMENT  
OF NBL AND RBB**

**i)NBL**

(Rs. In million)

Fiscal Year	Total Deposits (X)	Total Investment (Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2069/70	62,984	10,979	691501336	3,966,984,256	120,538,441
2070/71	69,338	22,664	1571476432	4,807,758,244	513,656,896
2071/72	77,999	16,902	1318339098	6,083,844,001	285,677,604
2072/73	89,410	12,843	1148292630	7,994,148,100	164,942,649
2073/74	93,944	12,181	1144331864	8,825,475,136	148,376,761
Total	ΣX=393675	ΣY=75569	ΣXY= 5,873,941,360	Σ X <sup>2</sup> = 31,678,209,737	ΣY <sup>2</sup> = 1,233,192,351

Calculation of coefficient of correlation (r)

We have,

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}} = \frac{-379919275}{396032 \times 21337} = -0.0450$$

Coefficient of Determination (r<sup>2</sup>) = (-0.0450)<sup>2</sup> = 0.0020

**For T – test**

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n} - 2$$

$$= 0.0020 \times 1.73$$

$$= 0.0035$$

**ii)RBB**

(Rs. In million)

Fiscal Year	Total Deposits (X)	Total Investment (Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2069/70	91,094	29,672	2702941168	8298116836	880427584
2070/71	107,270	32,089	3442187030	11506852900	1029703921
2071/72	124,222	35,310	4386278820	15431105284	1246796100
2072/73	146,208	43,769	6399377952	21376779264	1915725361
2073/74	153,581	38,276	5878466356	23587123561	1465052176
Total	$\sum X=622,375$	$\sum Y=179,116$	$\sum XY=22809251326$	$\sum X^2=80199977845$	$\sum Y^2=6537705142$

Calculation of coefficient of correlation (r)

We have,

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}} = \frac{2568936100}{116830 \times 24617} = 0.8932$$

Coefficient of Determination( $r^2$ )= $(0.8932)^2=0.7978$ **For T – test**

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n} - 2$$

$$= 1.32 \times 1.73$$

$$= 2.28$$



**APPENDIX-IV**  
**CORRELATION BETWEEN LOAN & ADVANCES AND NET PROFIT OF**  
**NBL AND RBB**

**i) NBL**

(Rs. In million)

Fiscal Year	Loan & Advance(X)	Net Profit (Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2069/70	35612	756	26922672	1268214544	571536
2070/71	39035	717	27988095	1523731225	514089
2071/72	50971	484	24669964	2598042841	234256
2072/73	61250	2883	176583750	3751562500	8311689
2073/74	71746	3118	223704028	5147488516	9721924
Total	∑X=258614	∑Y=7958	∑XY=479868509	∑X <sup>2</sup> =14289039626	∑Y <sup>2</sup> =19353494

Calculation of coefficient of correlation (r)

We have,

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}} = \frac{341292333}{67557 \times 5783} = 0.8736$$

Coefficient of Determination (r<sup>2</sup>)=(0.8736)<sup>2</sup>=0.7632

**For T – test**

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

$$= 1.18 \times 1.73$$

$$= 2.04$$

**ii) RBB**

(Rs. In million)

Fiscal Year	Loan & Advance(X)	Net Profit (Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2069/70	45599	1310	59734690	2079268801	1716100
2070/71	57293	1837	105247241	3282487849	3374569
2071/72	72079	4643	334662797	5195382241	21557449
2072/73	81778	2355	192587190	6687641284	5546025
2073/74	102161	2776	283598936	10436869921	7706176
Total	∑X=358910	∑Y=12921	∑XY= 975830854	∑X <sup>2</sup> = 27681650096	∑Y <sup>2</sup> = 39900319

Calculation of coefficient of correlation (r)

We have,

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}} = \frac{241678160}{97938 \times 5705} = 0.4325$$

Coefficient of Determination (r<sup>2</sup>)=(0.4325)<sup>2</sup>=0.1871**For T – test**

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

$$= 0.19 \times 1.73$$

$$= 0.33$$

**APPENDIX - V**

**Correlation between Total Deposit and Loan and Advances of NBL AND RBB**

**i) NBL**

(Rs. In million)

Fiscal Year	Total Deposits (X)	Loan & Advance(Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2069/70	62984	35612	2242986208	3966984256	1268214544
2070/71	69338	39035	2706608830	4807758244	1523731225
2071/72	77999	50971	3975687029	6083844001	2598042841
2072/73	89410	61250	5476362500	7994148100	3751562500
2073/74	93944	71746	6740106224	8825475136	5147488516
Total	ΣX=393675	ΣY=258614	ΣXY= 21141750791	ΣX <sup>2</sup> = 31678209737	ΣY <sup>2</sup> = 14289039626

Calculation of coefficient of correlation (r)

We have,

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}} = \frac{3898887500}{58404 \times 67557} = 0.9882$$

Coefficient of Determination (r<sup>2</sup>)=(0.9882)<sup>2</sup>=0.9765

**For T – test**

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n} - 2$$

$$= 4.53 \times 1.73$$

$$= 7.84$$

**ii) RBB**

(Rs. In million)

Fiscal Year	Total Deposits (X)	Loan & Advance (Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2069/70	91094	45599	4153795306	8298116836	2079268801
2070/71	107270	57293	6145820110	11506852900	3282487849
2071/72	124222	72079	8953797538	15431105284	5195382241
2072/73	146208	81778	11956597824	21376779264	6687641284
2073/74	153581	102161	15689988541	23587123561	10436869921
Total	$\sum X=622375$	$\sum Y=358910$	$\sum XY=46899999319$	$\sum X^2=80199977845$	$\sum Y^2=27681650096$

Calculation of coefficient of correlation (r)

We have,

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}} = \frac{11123385345}{116830 \times 97938} = 0.9721$$

Coefficient of Determination ( $r^2$ ) =  $(0.9721)^2 = 0.9450$ **For T – test**

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

$$= 2.89 \times 1.73$$

$$= 5.00$$

**APPENDIX - VI**  
**LEAST SQUARE OF LINEAR TREND OF TOTAL DEPOSITS**

(Rs. In million)

Fiscal Year	NBL				RBB			
	Total deposit(Y)	X=t-2071/7	X <sup>2</sup>	XY	Total deposit(Y)	X=t-2071/7	X <sup>2</sup>	XY
2069/70	62984	-2	4	-125968	91094	-2	4	-182188
2070/71	69338	-1	1	-69338	107270	-1	1	-107270
2071/72	77999	0	0	0	124222	0	0	0
2072/73	89410	1	1	89410	146208	1	1	146208
2073/74	93944	2	4	187888	153581	2	4	307162
Total	∑Y=393675	∑X=0	∑x <sup>2</sup> =10	∑XY=81992	∑Y=622375	∑X=0	∑x <sup>2</sup> =10	∑XY=163912

For NBL:  $a = \frac{\sum Y}{n} = \frac{393675}{5} = \text{Rs. } 78,735$  &  $b = \frac{\sum XY}{\sum X^2} = \frac{81992}{10} = \text{Rs. } 8,199$

For RBB:  $a = \frac{\sum Y}{n} = \frac{622375}{5} = \text{Rs. } 124,475$  &  $b = \frac{\sum XY}{\sum X^2} = \frac{163912}{10} = \text{Rs. } 16,391$

Substituting these values in the following formula;

$$y = a + bx$$

Fiscal Year	NBL	RBB
2069/70	$78735+8199 \times -2=62337$	$124475+16391 \times -2=91693$
2070/71	$78735+8199 \times -1=70536$	$124475+16391 \times -1=108084$
2071/72	$78735+8199 \times 0=78735$	$124475+16391 \times 0=124475$
2072/73	$78735+8199 \times 1=86934$	$124475+16391 \times 1=140866$
2073/74	$78735+8199 \times 2=95133$	$124475+16391 \times 2=157257$
2074/75	$78735+8199 \times 3=103332$	$124475+16391 \times 3=173648$
2075/76	$78735+8199 \times 4=111531$	$124475+16391 \times 4=190039$
2076/77	$78735+8199 \times 5=119730$	$124475+16391 \times 5=206430$
2077/78	$78735+8199 \times 6=127929$	$124475+16391 \times 6=222821$
2078/79	$78735+8199 \times 7=136128$	$124475+16391 \times 7=239212$

**APPENDIX - VII**  
**LEAST SQUARE OF LINEAR TREND OF NET PROFIT**

(Rs. In million)

Fiscal Year	NBL				RBB			
	Net Profit(Y)	X=t-2071/72	X <sup>2</sup>	XY	Net Profit(Y)	X=t-2071/72	X <sup>2</sup>	XY
2069/70	756	-2	4	-1512	1310	-2	4	-2620
2070/71	717	-1	1	-717	1837	-1	1	-1837
2071/72	484	0	0	0	4643	0	0	0
2072/73	2883	1	1	2883	2355	1	1	2355
2073/74	3118	2	4	6236	2776	2	4	5552
Total	$\Sigma Y = 7958$	$\Sigma X = 0$	$\Sigma X^2 = 10$	$\Sigma XY = 6890$	$\Sigma Y = 12921$	$\Sigma X = 0$	$\Sigma X^2 = 10$	$\Sigma XY = 3450$

For NBL:  $a = \frac{\Sigma Y}{n} = \frac{7958}{5} = \text{Rs. } 1,592$  &  $b = \frac{\Sigma XY}{\Sigma X^2} = \frac{6890}{10} = \text{Rs. } 689$

For RBB:  $a = \frac{\Sigma Y}{n} = \frac{12921}{5} = \text{Rs. } 2,584$  &  $b = \frac{\Sigma XY}{\Sigma X^2} = \frac{3450}{10} = \text{Rs. } 345$

Substituting these values in the following formula;

$$y = a + bx$$

Fiscal Year	NBL	RBB
2069/70	$1592 + 689 \times -2 = 214$	$2584 + 345 \times -2 = 1894$
2070/71	$1592 + 689 \times -1 = 903$	$2584 + 345 \times -1 = 2239$
2071/72	$1592 + 689 \times 0 = 1592$	$2584 + 345 \times 0 = 2584$
2072/73	$1592 + 689 \times 1 = 2281$	$2584 + 345 \times 1 = 2929$
2073/74	$1592 + 689 \times 2 = 2970$	$2584 + 345 \times 2 = 3274$
2074/75	$1592 + 689 \times 3 = 3659$	$2584 + 345 \times 3 = 3619$
2075/76	$1592 + 689 \times 4 = 4348$	$2584 + 345 \times 4 = 3964$
2076/77	$1592 + 689 \times 5 = 5037$	$2584 + 345 \times 5 = 4309$
2077/78	$1592 + 689 \times 6 = 5726$	$2584 + 345 \times 6 = 4654$
2078/79	$1592 + 689 \times 7 = 6415$	$2584 + 345 \times 7 = 4999$

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