CHAPTER - ONE

INTRODUCTION

1.1 Background of the Study

Banks are the monetary units of national economy. They work as facilitator for achieving sustained economic growth through providing effect monetary intermediation. They provide financial resources from surplus sector to deficit sector. A financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes trade of goods and services easy (Manandhar, 2011).

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

Banks help to the growth of agriculture, trade, commerce and industry of the national economy. They are inevitable for the resources mobilization and economic development of the country. Banking industries are regarded as one component of economy. They transfer the scattered funds collected from saving of the public into various productive sectors. Economic activities remain halt in absence of banking industries. It helps to enhance economic activities of the country by providing capital funds for the smooth operation of business activities (Manandhar, 2011).

People deposit their saving in trust of banks repay their deposits promptly when they demand for it. If one bank fails to repay the deposited amount to the public then the public do not believe the bank and it leads to insolvency of the banks. So as the regulator and supervisor NRB always dictate the activities of the banks in the country. It provides its directives from time to time in order to have fair competition between the banks and to safeguards the deposits of the public. As number of banks in the country increases NRB has to be more active towards its regulative and supervising role. For healthy competitions of the banks, NRB planned to merge two banks and they have to make their capital 8,000,000,000 (Agrawal, 2071BS).

Banking system is volatile and sensitive sector of national economy, which requires effective monitoring and efficient supervision. Smooth and effective regulation of banking activities is a must for sustainable economic growth of a country. The regulatory agency should always be watchful of banking activities carried out by governmental, non-governmental, and financial institution (Agrawal, 2071BS).

Banking concept existed from that period when the goldsmiths and the rich people used to issue the common people against the promise to safe keeping of their valuable items on the presentation of the receipts, the depositors would get back their gold and valuables offer paying a small ancient for safe-keeping and saving (Tiwari, 2001).

In the banking history of the world, Bank of Venice of Italy was the first bank of the world, which established at 1157 A.D. Then Bank of Barcelona in 1401 A.D., Bank of Genoa in 1407 A.D., Bank of Amsterdam in 1609 A.D. and Bank of England in 1694 A.D. were established. They are the base of banking development of the country.

The history of the banking development of Nepal is not very long. Nepal Bank Limited is the first commercial bank of Nepal, which was established in 1994 B.S. as a semi-government bank. The second commercial bank is Rastriya Banijya Bank Limited, which was established in 2022 B.S. as a fully government bank. In present situation, twenty-eight commercial banks are operating in Nepal (Shrestha, 2064).

After the development of privatization concept, various private banks started to establish in Nepal. Nepal allowed to entry of foreign banks on joint venture basis with a maximum 50% equity participation to operation in the country by getting approval of Nepal Rastra Bank. After 2040 the joint venture banks like Nabil bank, Standard chartered bank, Himalayan bank, Nepal SBI bank are established. Nepal SBI bank is established in 2050 BS as a joint venture of state bank of India (Manandhar, 2011).

Presenting there are 28 commercial banks in operation. Among them RBB is a fully government bank, NBL and ADBL are semi government banks. There are 6 joint venture banks namely Nabil bank, Himalayan bank, Standard chartered bank, Nepal SBI bank, Nepal Bangladesh bank and Everest bank. JVBs have an important role to enter the foreign capital, technology, experience, healthy competition, expertise and skills in Nepal. The main needs of Bank are to develop of industries and commerce of the country and other needs are to keep safe of valuable things, to transfer funds, to create employment opportunities, to development of saving habit, to develop agriculture, for foreign exchange and for the balanced economy.

Therefore, the bank is a very important factor for economic development of the country. Commercial banks collect deposits from the public and the largest portion of deposited money is utilize in disbursing loan and advances. Loans and advances constitute a major portion of the assets and deposits constitute a major portion of the liabilities of balance sheet of commercial banks. Similarly earning of the banks depends upon the spread that it enjoys between the interest it receives from the borrowers and that to be paid to the borrowers. An average, bank generates sixty to seventy percent of its revenue through its lending activities. The return that the bank enjoys of deposit mobilization through loan and advances is very attractive but they do not come free of cost and free of risk. There is risk inherent in lending portfolio. Banking sector is exposed to number of risk like, interest rate risk, liquidity risk, credit risk or default risk, borrowers risk, security risk, earning risk etc. Such risk are excessive had led many banks to go bankrupt in a number of countries. Performing loans have multiple benefits to the society while non-performing loan erodes even existing capital (Manandhar, 2011).

1.2 Brief Profile of the Selected Bank

1.2.1 Nepal Bank Limited (NBL)

Nepal Bank Limited, the first bank of Nepal was established in November 15,1937 A.D (Kartik,30 1994). It was formed under the principle of joint venture (joint venture between govt. and general public) NBL'S authorized capital was Rs.10 million and issued capital Rs. 2.5 million of which paid up capital was Rs.842 thousand with 10 shareholders .The bank has been providing banking through its branch offices in the different geographical locations of the country.NBL is the first financial institution of Nepal. The bank is operating through 134 branches all over the country with more 2356 staffs.

Shareholding Composition

S.N.	Ownership	Percentage(%)
1	Government of Nepal	62.21
2	General Public	37.79
	Total	100

(Source: NBL, websites)

1.2.2 Nepal SBI Bank Limited (NSBI)

Nepal SBI Bank Ltd. (NSBI) is a subsidiary of state bank of India (SBI) having 55 percent of ownership .The local partner viz. employee provided fund holds 15% equity and general public 30%. In terms of the Technical Services Agreement between SBI and the NSBI, the former provides management support to the bank through its expatriate officer and Dy. CEO, Chief financial officer, chief Risk officer and chief credit officer exercises overall control functions with the help of 3 Regional Offices and oversee the overall operations of the Bank.

NSBI was established in July 1993 and has emerged as one of the leading banks of Nepal, with 840 skilled and dedicated Nepalese employees working in 69 branches 7 extension counters, 3 Regional offices and corporate offices, with presence in 36 districts in Nepal, the Bank is providing value added services to its customers through its wide network of 107 ATMS, Internet banking, mobile wallet, SMS Banking, IRCTC Ticket Online Booking facility etc. NSBI is one of the fastest growing commercial Banks of Nepal with more than 6.22 lakh satisfied deposit customers and over 4.8 lakh ATM Debit cardholders. The Bank enjoys leading position in the country in terms of penetration of technology, products viz. Mobile Banking, Internet Banking and card services .The Bank is moving ahead in the Nepalese Banking Industry with significant growth in net profit with very nominal NPA As of 31st Ashad, 2074 the Bank has deposits of Rs.81.66 billion and advances (net)of Rs. 63.02 billion, besides investment portfolio of Rs.21.01 billion (Agrawal, 2071).

1.3 Statement of the Problems

There are twenty-eight commercial banks in Nepal in current situation. The number of established of new banks had been increased after 2040 B.S. Now, the private commercial banks are merging. They are trying to make their performance better. But most of the commercial banks have their branches are only in the urban areas. NBL is a semi government bank and NSBI is a joint venture bank. NBL has more branches than other private and joint venture commercial banks. But its presence is also in urban area generally. It could not able to cover the village area satisfactory. Most of the JVBs business is concentrated in urban area and their offices are almost confined inside of Kathmandu valley. When even they are in to outside the valley, then they move towards urban sectors of terai but not in rural sector. Therefore, the high mass of rural sector is not getting the advantages of such institutional development.

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

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

Research questions.

1. What is the position of financial performance (liquidity, profitability) of sample banks?
2. What is the relationship between Total Deposit and Total Investment of sample banks?
3. What is the relationship between Total Deposit and Loan & Advances of sample banks?

1.4 Objectives of the Study

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

1. To analyze the position of financial performance (liquidity, profitability) of sample banks.
2. To examine relationship between Total Deposit and Total Investment of sample banks.
3. To examine relationship between Total Deposit and Loan & Advances of sample banks.

1.5 Significance of the Study

The banking sector is one of the major sectors of the country. It helps to emerge new business in industries by providing different facilities to businessmen so that they can run their business smoothly. This study helps to analyze the financial performance of one semi government bank and one joint venture bank like NBL and NSBI. So, it is useful for:

1. This study is useful for management of selected banks to manage their financial performance (liquidity and profitability) efficiently.

2. It is useful for policy makers of selected banks to make best policies for banks to gain more and more profit.

3. It is useful for share holders, public and customers to know about position of financial performance (liquidity and profitability) of selected banks. This is how shareholders may invest in these banks efficiently.

4. This study is useful for those people who want to further research in this topic.

5. It is useful for other concerned parties related with selected banks to know about the banks performance better.

1.6 Limitations of the Study

1. The study covers only five fiscal years 2013/14 to 2017/18.

2. This study mainly conducted based on secondary data such as annual reports of two banks and other related journal, magazines, books etc.

3. This study conducted only to analyze the liquidity, profitability and assets management of two banks i.e. Nepal Bank Limited and Nepal SBI Bank Limited. It ignores market-based measure of financial performance.

1.7 Organization Structure of the Study

The study has been divided into five chapters as follows:

Chapter -1 Introduction

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

Chapter -2 Review of Literature

The second chapter reviews the existing literature on financial performance, reviews of earlier studies and research gap. It includes concept of banking, development of banking, concepts of commercial banks, functions of commercial banks, concept of JVBs, financial performance analysis of previous studies.

Chapter -3 Research Methodology

This chapter answers the questions of how research is conducted. It includes the research design, population and sample, time duration, source and technique of data collection and data analysis tools. It describes research methodology used in this study to satisfy the objectives of the study.

Chapter -4 Data Presentation and Analysis

This chapter deals with systematic analysis of data, various financial and relationship analysis have been used to interpret the data. It also includes the major findings of the study.

Chapter -5 Summary, Conclusion and Recommendation

This chapter summaries the main conclusion that flow from the study and offers necessary recommendations for future improvements of financial performance of NBL and NSBI Bank.

Finally the bibliography and appendices are presented at the end of chapter.

CHAPTER -TWO
REVIEW OF LITERATURE

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research. This review of literature had been classified into three subgroups as conceptual framework, reviews of journal and articles, review of related studies.

2.1 Conceptual Framework

2.1.1 Historical Background of Bank

History shows the requirements of economic development of any country heavily realize upon the banking system of the country (Scott, 1992). During its industrial development period, U.K used bank credit to fulfill its working capital need. In 19th century, during the industrialization process of France and Germany, banks played an important role in industrial finance and growth of the nation. In general meaning bank is an institution that deals with money. A bank performs several financial, monetary and economic activities which are vital for economy development of a country. It is a monetary institutional vehicle for domestic resource mobilization of the country that accepts deposits from various sources and invests such accumulated resources in the fields of agriculture, trade, commerce etc. Generally, the term "Bank" refers commercial banks. Commercial banks are the foundation of the national economy. They transfer monetary sources from savers to users. They involve in various functions like money creation, credit facilitating, foreign trade facilitating, safe keeping of valuable items of customer etc. Commercial banks have its own role and contribution in the economic development. It is a source of economic development and it maintains economic confidence of various segments and extends credits to the people. These activities of commercial banks are to eliminate poverty, reduce unemployment problem and increase economic growth. Modern Commercial banks can be identifying by different names, such as business banks, retails banks, clearing banks, joint venture banks and merchant banks etc. Regardless of different name given to banks, they all perform the same basic function i.e. they provide a link between lenders; those who have surplus money and do not wish to spend immediately and borrowers; those who do not have surplus money but wish to borrow for investment in productive purpose. Basically, by charging a rate of interest to borrowers slightly higher than they pay to lenders, the bank makes their profit. Commercial banks provide the following majors products and services such as; Acceptance of deposits, Granting of advances, Remittance collection and distribution, Cash management, Issuance of letters of credit and guarantee, Merchant banking Business, Credit cards, Technology based services internet banking services, Loan distribution, Automatic teller machines(ATM), Handling government business and Safe keeping services/ Lockers.

The first public bank "The Bank of Venice" was established in Italy in 1157 A.D. Different countries in the world fallowed the footsteps of this bank to incorporate banking institutions in their countries. The evolution of "The Bank of England" in the kingdom of England in 1694 A.D. brought remarkable changes in the process of establishing banking institution in the world. The establishment of this bank was a big milestone in the history of banking development. It is believed that the idea of commercial banks rapidly spread all over the world only after the inception of this bank.

In Nepal, development of banking is relatively recent. The history of banking system in Nepal in the form of money lending can trace back in the reigning period of Gunakamdev "The King of Kathmandu" (NBL, 2037). Tankadhari special class of people' was established to deal with the lending activities of money towards the end of fourteen century at the ruling period of King Jayasthiti Malla (NBL, 2011).During the prime Ministerial period of 'Rannodip Singh' one financial institution we established to give loan facilities to the government staff and loan facilities to the public in general in the term of 5% interest but Tejarath did not accept money from public (NBL, 2004).One the 30th Kartik, 1994 Nepal Bank limited was established for the first time to provide modern and organized banking facilities. Up to 2012 B.S only NBL provided services to the public as an organized bank. Later, NRB act 2012 was made to establish NRB as central bank to manage, control and develop monetary system in Nepal. NRB was formally established on 14th Baishakh, 2013 and its capital at the starting time was 1 Crore. Similarly, Rastriya Banijya Bank was setup in 2022 B.S to fulfill the growing needs of the country. The birth of this bank brought a new Landmark in the history of banking facility in Nepal. Like other developed countries Nepal also took the policy to open economy and liberal, to develop good competition in the banking field. Hence, the joint venture banking policy is taken. Today 28 Commercial banks are operating to provide modern banking services and facilities to boost the economic condition of country.

The financial sector reform was initiated in mid1980 under the liberal economic policy of Nepal Government. Under this policy the banking sectors to foreign investors were opened. In July 1985, commercial banks were allowed for the first time to accept current and fixed deposits on foreign currency (U.S Dollar and sterling Pound). On May 26, 1986, NRB deregulated the commercial banks to fix interest rate at any level above its minimum prescribed levels.

2.1.2 Concept of Commercial Banks

Commercial banks are the heart of the financial system. They hold deposits of many persons, government establishments and business units. They make funds available through their lending and investing activities to borrowers, individuals, business firms and government units and by doing so they assist both the flow of goods and services from producers to consumers. They dispense the large portion of medium through which monetary policy is affected. This shows the consequential role in the smooth functioning of the economy. Commercial banks play the most important role in the modern economic organization. Their businesses mainly consist of receiving deposits, giving loan sand financing the trade of a country. They provide short-term credit i.e., lending money for short period. According to the American Institute of Banking, “Commercial Banks is a corporation that accepts demand deposits subject to check and makes short-term loans to business enterprise regarding of the scope of its other services.”

In the Nepalese context, the Nepal Commercial Bank Act, 2031 B.S. (1974A.D.) defines, “A commercial bank is one which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions”. Similarly various writers on banking have defined the bank in different ways. Since a modern bank performs number of functions. So, it has become very difficult to give a precious definition of a commercial bank.

2.1.3 Functions of Commercial Banks

Banks can be defined according to the functions they perform. A bank is established with the prime objective of profit maximization. To achieve this, the bank carries out functional activities, “Principally, commercial banks accepts deposits, provide loan, primarily to business firms thereby facilitating the transferor funds in the economy”. Although, in the yester years banks were viewed as accept or of deposits then provider of loan, but modern commercial banks have to perform overall development of trade, commerce, industry, agriculture including supports for priority and deprived sectors. The growing bank needs and habits of people and competitive environment has made the banking sector challenging and their operation cannot be underemphasized in present context of market globalization. Hence, a bank is a commercial institution licensed as a taker of deposits, concerned mainly with the making and receiving payments on behalf of their customers, accepting deposits, creating money and making short-term loans to private individuals, companies and other organization.

Although profit maximization is a major objective of commercial bank, to achieve this objective commercial bank performs various functions under the mandatory rules and regulations and directives of NRB and the Commercial Bank Act 2031B.S. (1974 A.D.).

Accepting Deposits

Accepting a deposit is the most important function of commercial banks. Commercial banks collect money from those who want to deposit in different types of accounts such as: Fixed Deposit Account, Current Deposit Account and Saving Account.

Advancing of Loans

Commercial banks provide the loans required or credit to various sectors of economy such as industry, trade, agriculture, business-deprived sector etc. In this way bank creates credit facilities. It provides loans from various procedures indifferent form such as; Overdraft, Direct loan with collateral, Discounting of bills of exchange and Loans of money at call and short notice.

General Utility Functions

Commercial banks also perform general utility functions such as: Issuing of letter of credit to its customers, Issuing of bank drafts and travelers cheque etc., for transfer of funds from one place to another, Dealing in foreign exchange and financing foreign trade by accepting or collecting foreign bills of exchange, Underwriting loans to be raised by public bodies and corporations, Providing safety vaults of lockers for the safe custody of valuables and securities of the customers, Acting as a trustee and executing the will of the deceased and Remittance of money.

Agency Function

Apart from the above functions, commercial banks also perform agency functions for which they act as agent and claim commission on some facilities such as: Collection of customer’s money from other banks, Receipt and payment of dividend, interest, Security brokerage service and financial advisory service.

2.1.4 Joint Venture Bank in Nepal

Joint Venture banking Scenario of Nepalese financial sector is not so long. After the establishment of democratically elected government it introduced liberal and marketing oriented policy which facilitated the establishment of joint venture banks and pointed a new horizon to the financial sector of Nepal. A joint Venture is forming of two forces between two or more enterprises for the purpose of carrying out of specific operation (industrial or commercial investment, *production trade, Gupta, (1984: 15).*

Joint Venture banks are the commercial banks formed by joining a two or more enterprises, for the purpose of carrying out of specific operation such as investment in trade, business and industry as well as in the form of negotiation between various group industries or traders to achieve mutual exchange of goods and services. Nepalese JVBs should take initiation in search of new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but this seems no profitable place to invest. At the same time, the bank and financial institutions are offering very low deposit interest rate. In this situation Nepalese JVBs are required to explore new opportunities to make investment if they want to survive in the competitive market. Since commercial can inspire entrepreneurship, the banks should also consider national interest and government emphasis for the economic growth of the country by the development of industry trade and business and to fulfill the objective of profit making (Sangraula, 2016).

Nepal Arab bank limited (Nabil Bank Limited) is the first joint venture bank of Nepal. It was established in 1984 A.D. Joint venture which United Arab Emirates Bank, under company Act 1964. Than other two joint venture banks Nepal Indosuez Bank Limited (Nepal Investment Bank Limited) with Indosuez Bank of France and Nepal Grind lays Bank of London were established in 1986 A.D. Himalayan Bank Limited joint venture bank of Pakistan and Nepal SBI Bank Limited with state bank of India was established in 1993 A.D. Everest Bank limited joint venture with Punjab National Bank India (early it is joint venture ventured with United Bank of India Calcutta) and Nepal Bangladesh Bank Limited with IFIC Bank of Bangladesh are established in 1991 A.D. Bank of Kathmandu joint venture with SIAM Commercial Bank Public Co. Thailand was established in1995A.D. All these banks briefly follow the policies of Nepal Rastra Bank. But at Present there are only four joint venture bank in Nepal (Sangraula.2016).

2.1.5 Role of Joint Venture Banks

1. **Introducing Advanced Banking Techniques**

The joint venture banks in Nepal have been largely responsible for the introduction of new banking techniques. Expertise are forward cover for foreign exchange transactions by importers and exporters, merchant banking, international banking market for money and securities, arranging foreign currency loans (Tiwari, 2001).

2. **Bringing in Healthy Competition**

The joint venture banks have created a comparative environment in banking business in Nepal. Prior to the arrival of JVBs there was very little comparative zeal between NBL and RBB as they had almost set branch of customers working areas and services. This is a tangible benefit as customers either earn a higher rate of interest on their deposits or pay a lower interest rate on their loans as banks find innovative means of attracting customers. The increases in competition also forced the existing banks to improve their quality of services by simplifying procedures and training motivating their ocean staffs to respond to the new challengers. This comparative environment will benefit the common man business and the country as a whole (Tiwari, 2001).

3. Providing More Resources for Investment

The joint venture banks also could be helpful in challenging additional resources for investment for the development of the country. Although it is argued by many resources raised to locally in the prevailing market those resources would have been mobilized by any other domestic institution, it is assumed that the JVBS have mobilized net additional resources is they tap so far untapped in the local market (Tiwari, 2001).

4. Offering between Links with International Markets

As it has been already mentioned, the JVBS have usually beaten placed to raise resources in international markets. The multinational companies are unfamiliar with Nepalese rules, regulations and practices. Through there are many publications available for their references, these companies are unsure how the system actually separates. Having a foreign bank with which they possible already deal with aboard available to discuss these concerns help the multinational to build up confidence and bridge a vital credibility gap of separating in Nepal. It would be much easier for Nepalese business to procure international linkages through the joint venture banks. The first impact of the better linkage on the international trade section will gradually permeate throughout the economy bringing about positive results (Shrestha, 2010).

5. National Development

The existence of the joint venture commercial banks in Nepal has several positive contributions to make the country in general and to the banking sector in particular. These banks are already well established in financing garments, agriculture and housing needs all basic needs and playing a significant role to contribute in national economy from own sector.

A comparative banks system promotes the efficiency and therefore important for growth, but market power is necessary for stability in the banking system. Commercial banks hold the large share economic activities of a country. Performance evaluation is the important approach for enterprises to give incentives and restraint to their operators and it is an important channel for enterprise stakeholders to get the performance information. The performance evaluation of commercial banks is usually related to how well the bank can use it assets shareholders' equities and liabilities, revenues and finally the study was concluded (Shrestha, 2010).

2.1.6 Financial Performance Analysis

Financial analysis is concerned with analyzing the financial statement of an organization in difference aspect. The term indicates the real picture of an organization by interpreting financial ratio and analysis, which enables to evaluate and disclose the conditions of an organization. Every stakeholder such as shareholders, trade creditors, long term investors or debtors, customers, employees, tax authorities, managements etc. wants to know about the position or conditions of an organization before or after their involvement to the organization. Profit is one of the indicators of sound performance, which indicates the result of sound business management. "Profit earned by the firm is the main financial performance indicators of a business enterprise" (Ronald, 2000, 21-22). Business organization is mostly inspired to generate profit. Profit is the major indicators of a good-financial performance of the company. Financial performance is the heart of financial decision. It is the main indicator of success and failure of a firm. So, that the management should take appropriate action towards its weakness and maintain good performance in the strong areas. The main purpose of bank performance analysis is to evaluate its progress to meet the goals and objectives set forth by management and to compare the performance of the bank relative to that of similar other banks. Effective planning and control are central to enhancing enterprises value. Financial plans may take forms, but any good plan must be related to the firms' existing strength and weaknesses. The strengths must be understood if they are to be used to proper advantage and the weaknesses must be recognized if corrective action is to be taken. The financial manager can plan future financial requirements in accordance with the forecasting and budgeting procedures, but the plan must begin with the type of financial analysis.“Financial Analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data” (Pandey, *1999:96).*

“Financial Analysis is the process of Identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account”(Pandey; 2004:560). Analyzing the financial statement is a process of evaluating relationship between component parts of financial statement to obtain a better understanding of a firm's position and performance. Financial Statement Analysis allows managers, investors and creditors as well as potential investors and creditors to teach conclusion about the recent and current status of a corporation” The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning. Analyzing of what has happened should be of great value in improving the standards, techniques and procedures of financial control involved in carrying out finance function.

The four basic statements contained in the annual report are the balance sheet, the income statement the statement of the retained earnings and the statement of cash flows. Investors use the information contained in these statements to make expectations about the future levels of earnings and dividends and about the risks of these expected values. Financial analysis is that sort of calculation which is done with the help of annual report. And the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis."It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved, the related importance of the issue and on the nature and reliability of the information available” (Helfert; 1992:2).

“Financial Performance Analysis is used primarily to gain insight into operating and financial problems confronting the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statements into their components on the basis of purpose in the one hand and establish relationships between these components and between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization” (Hampton; 1998:99).

"Much can be learnt about business performance and financial position through appraisal of financial statements, the appraisal or analysis of financial statements spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness that would have otherwise been buried in a maze of details" (Jain; 1996:37).

2.2 Review of Journals/Articles

In this section we review the articles which were published in newspapers and journals. The articles were written by professionals and exports and it will help us to form opinion about the topic. Jha and Hui (2012) compared the financial performance of different structured banks in Nepal using camel framework. The study covers the years 2005-2010 to assess the financial performance of eighteen commercial banks in Nepal. The analysis was based mainly on the descriptive financial analysis to describe measure, compare and classify the financial situations. The authors then used multivariate regression model to test the significance of the variables used. They found that the return on assets of public sectors banks were higher than those of joint ventures and private banks. Moreover, the values determined for the financial ratios revealed that joint venture and private banks were also not so strong in Nepal to manage the possible large scale stock to their balance sheet.

Poudel, (2053 BS), in the article, “Present Condition of Financial Companies” has presented with compared to the commercial bank, the interest rate is relatively high that is provided and accepted by finance companies. The financial companies should not be confined only in the valley. They should extend their services to the rural sectors of hill and terai to reduce regional imbalance. The collection of deposit and loan investment done by the commercial banks also to sustain themselves in the environment of competitions, they should introduce novel technology and equipment’s to collect deposits and investments. They should learn from the draw banks, failure and success of commercial banks to effectively maintain as alternative status.

Poudel, (2057 BS), gives more emphasis of financial performance of financial companies in the article “An Overview Financial Companies of Nepal”. He had written that at the time 1996, the ratio of capital funds to deposits have been increasing over the time but two of this, it is substantially below than the authorized level of deposit mobilization, which is ten times of the capital base. Never the less, some of the finance companies have even mobilized the deposits by more than ten times of their capital base by violating the regulatory norms issued by NRB. The credit / deposit ratio has remained quite high leaving the room for doubt about the quality of loan especially in the absence of repayment schedule. The loan diversification has been improved however, during a short span of time. As such, the hire purchase housing and term loans are the major sectors, which all together received more than 95% of the total loan and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies, the average sources of funds for each company are natural to decline. Since the varying factor, it is too early to evaluate the performance of financial companies in Nepal but equally important factor is that the regulatory and supervisory authority should keep close eyes to monitor their activities.

Shrestha, (2064 BS), has suggested that the banks deal in highly risky transactions to maintain strong capital base. He concluded that the capital base should neither be too much leading to inefficient allocation of scarce resources nor so weak degree of risk associated with them are subject to changes country wish, bank wish and time period wise.

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

Ibrahim, (2015), had published an article on “Measuring the financial performance of Islamic Banks” measured the financial performance of two Islamic banks in United Arab Emirates for the period of 2003-2007. Different groups of financial ratios have been used to measure the performance and make comparison between these two banks. Although, the results showed that both banks did well, it appears that each bank has its focus on some area such as liquidity, profitability, capital structure and stability. The findings showed that both banks performed reasonably well during the period studied. While the bank of Sharjah benefitted by having an overall higher degree of liquidity, profitability, management capacity and capital structure, Dubai Islamic bank was better off in relation to share indicators performance and in terms of overall stability So, the concept of the financial performance of the banks based on the financial ratio is applied by different researchers.

2.3 Review of Previous Thesis

In addition to above studies, various studies and researches have been conducted on various aspects of banking regarding the financial performance of commercial banks of Nepal. Many of them are concentrated to Nepalese joint venture banks and only few are focused on public bank and joint venture bank for comparative studies. In this chapter, different previous studies have been reviewed so that the chances of duplication will be avoided from the present study and some newness can be created in this field of study.

Shrestha, (2017), in his entitled thesis *comparative study on financial performance Analysis of commercial banks (With Reference to Nepal Bank Limited and Nepal Investment Bank Limited)*

Objective of the study

The main objective is to compare the financial performance analysis of selected commercial banks.

Methodology
Data is collected from secondary sources. Two banks have been selected as a sample. To achieve the objectives of the study various financial and statistical tools like mean, standard deviation, correlation coefficient have been used.

Major Findings of the study are

- The liquidity position of NIBL found to be comparatively better than NBL. However NBL has maintained better cash and bank balance to total deposit and from profitability point of view NIBL found to be better than NBL.
- The mean loan and advances to total deposit ratio of NIBL is found to be at satisfactory level and maintain the good consistency in ratio. However

NBL has comparatively lower loan and advances to total deposits ratio.. NIBL is able to proper utilization of loan and advance with respects to fixed deposit. NBL is seemed to less effective in utilizing the loan and advances in compare to NIBL.

Sangraula, (2016), in his entitled thesis *A comparative study of an financial performance of Nabil bank limited and Nepal Investment bank limited.*

Objective of the study:
The main objective is to compare the financial performance of selected commercial banks.

Methodology
Data is collected from secondary sources. Two banks have been selected as a sample. To achieve the objectives of the study various financial and statistical tools like mean, standard deviation, correlation coefficient have been used.

Major findings of the study are:

- NABIL is successful in utilizing the current asset in profitable return but in other hand NIBL seems to have good liquidity position in favour of deposits. Although liquidity position of NABIL and NIBL are lower, they are still able to meet their current obligation.

- NIBL is earning high interest income by utilizing its deposits in income generating assets whereas NABIL is earning high income from other sources.

Adhikari, (2016), had conducted a study on *"Financial Performance of Commercial Banks and Returns to Investors (With Reference to BOK, EBL,SCBNL, NIBL and NABIL)"*

Objective of the study:
The main objective is to compare the financial performance of selected commercial banks and returns to investors.

Methodology

Data is collected from secondary sources. Two banks have been selected as a sample. To achieve the objectives of the study various financial and statistical tools like mean, standard deviation, correlation coefficient have been used.

Major findings of the study are:

- It is found that the commercial bank except SCBNL and NABIL are not maintaining constant DP Ratio and recommended to maintain a constant DP Ratio so as to have the confidence of general shareholders..
- 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.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

Bista, (2017), in his entitled *thesis A Study On financial Performance of Commercial Banks (with reference to Everest Bank Ltd. and Nepal Bank Ltd.)*

Objective of the study:

The main objective is to study and compare the financial performance of selected commercial banks.

Methodology

Data is collected from secondary sources. Two banks have been selected as a sample. To achieve the objectives of the study various financial and statistical tools like mean, standard deviation, correlation coefficient have been used.

Major findings of the study are:

- All the liquidity ratio; activity ratio, efficiency ratio and profitability ratio of sample bank are better in final year. The liquidity ratio of NBL is higher than EBL. It is concluded that NBL is better solvency position as compared with EBL.
- In this study the ratio of EBL is stronger than NBL. As EBL has efficiently utilized its assets through mobilizing its deposit.

2.4 Research Gap

Number of research have been carried out regarding financial performance of commercial banks like joint venture banks, private banks but there is not enough study by comparing a joint venture bank and a public bank. This research has done by comparing a public bank; Nepal Bank Limited and a joint venture bank; Nepal SBI Bank Limited. This research covered five years from 2013/14 to 2017/18). The fiscal years of previous thesis and this thesis are different. Commercial Bank invests its deposit in different profitable sector according to the directives and circulars of the Nepal Rastra Bank and guidelines and policy of their own bank. Financial analysis statement has to prepare according to the direction of NRB. Nepal Rastra Bank's policy and guidelines are changing according time to time. So, the up to dated study over the changes of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial data and analysis is done within the latest guidelines and curriculum of Nepal Rastra Bank.

So, this study has been fruitful to those interested person, investors, parties, scholars, professors, students, businessman and government for academically as well as policy perspective. It can be a foundation for the future researchers to know about the comparative financial performance analysis of commercial bank in Nepal. This study tries to fulfill the previous research gap on comparative financial performance analysis of these two banks using various ratios.

CHAPTER-THREE

RESEARCH METHODOLOGY

Generally, most of the past studies made on financial performance of commercial banks are based on different financial variables such like ROA and ROE. This is made for analysis liquidity position, profitability position and assets management of sample banks. Average of five years ratios from 2013/14 to 2017/18 is evaluated to assess the financial performance of these banks. So, in this study, different financial ratio analysis and relationship analysis has been used to find out the financial performance of NBL and NSBI. This chapter has been divided into following sub-topics:

3.1 Research Design

To achieve the objective of this study, descriptive research design has been used. Some statistical tools have been also applied to examine facts and descriptive techniques have been adopted to evaluate financial performance of the banks.

3.2 Population and Sample

There are altogether twenty-eight commercial banks in Nepal. In this study, the focus has been on the analytical and comparative study of financial performance of NBL and NSBI. So, the study is based on sample not on the population. Here all twenty-eight commercial banks are population and two banks NBL and NSBI are sample banks where convenience sampling has been used.

3.3 Sources and Type of Data

Data are collected from two sources. They are Primary sources and Secondary sources. This research is mainly based on secondary sources of data to fulfill the above mentioned objectives. The secondary data are collected mainly from some published or unpublished sources after high level of efforts, more time and convincing the concerned authorities. This study is also based on qualitative and quantitative data collection method. Therefore, the accuracy of result and concussions highly depends upon the reliability of this data. The required information has been collected from concerned commercial banks. The secondary data has been collected through;

- Reports of Ministry of Finance
- Thesis Supervisor and respected Professors
- Websites and Internets
- Financial Statements of Concerned Banks
- Research Reports and past thesis on T. U. Library
- Journals, Bulletins and Reports Published by NRB and others
- Monitory Policy, Directives and Policies of NRB
- Annual Report of Concerned Bank.

3.4 Methods of Analysis

To achieve the objectives of the study, various financial and statistical tools have been used in this study. The analysis of data has been done according to pattern of data available. With the available tools and resources, analytical statistical tools and financial tools have been used for financial analysis.

The various calculated results obtained through financial and statistical tools are tabulated under different headings. Then they are compared with each other to interpret the results.

3.4.1 Financial Analysis

There are various financial tools to measure the financial performance of an organization. As a financial analysis the following tools are used for the analysis:

Liquidity Analysis

It is the comparison between short-term obligation and the short-term resources available to meet these obligations. These ratios are calculated to find the ability of banks to meet their short-term obligation, which are likely to mature in the short period. The following ratios are developed and used for our purpose to find the liquidity positions of the two sample banks.

a) Current Ratio Analysis

It is calculated by dividing the current assets by current liabilities.

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

b) Cash and Bank Balance to Total Deposit Ratio Analysis

Cash and bank balances are the most liquid current assets. This ratio is computed by dividing cash and bank balances by total deposit.

$$\text{Cash and Bank balance to total deposit ratio} = \frac{Cash\ and\ bank\ balance}{Total\ deposit}$$

c) Balance with NRB to Total Deposit Ratio Analysis

All commercial banks have to deposit a balance of certain percentage of their total deposit amount with NRB. It is a legal provision for them. This ratio is calculated by dividing balance with NRB by total deposits.

$$\text{Balance with NRB to total deposit ratio} = \frac{Balance\ with\ NRB}{Total\ deposit}$$

d) Fixed Deposit to Total Deposit Ratio Analysis

Fixed deposit is long-term and high interest bearing deposit. It can be calculated by dividing fixed deposit by total deposit.

$$\text{Fixed deposit to total deposit ratio} = \frac{fixed\ Deposit}{Total\ Deposit}$$

Activity Analysis

Activity analysis is calculated to evaluate the efficiency of the firm in managing and utilizing its assets. Higher the ratio shows higher efficiency of the firm. The following ratios are calculated under this analysis:

a) Loan and Advance to Total Deposit Ratio Analysis

This ratio measures the bank's ability to utilize the depositors' fund to earn profit by providing loan. It is calculated by dividing loan and advance by total deposit.

$$\text{Loan and advance to total deposit ratio} = \frac{Loan\ and\ advance}{Total\ deposit}$$

b) Loan and Advance to Total Assets Ratio Analysis

Loan and advance to total assets ratio analysis how much the banks are successful in mobilizing their total assets on loan and advances for the profit generating purpose. It is calculated by dividing loan and advance by total assets.

$$\text{Loan and advance to total assets ratio} = \frac{Loan\ and\ advance}{Total\ assets}$$

c) Investment to Total Deposit Ratio Analysis

This ratio measures how much the banks are successful in mobilizing total deposits on investments like government treasury bills, development bonds, company shares etc. This ratio is calculated by dividing investment by total deposits.

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

Profitability Analysis

Profit is the difference between total revenues and total expenses over a period of time. Higher the profitability ratio shows better the financial performance of the bank and vice versa. Profitability can be calculated by following different ratios:

a) Net Profit to Total Assets Ratio Analysis

Net profit refers the profit after interest and taxes. It is also known as Return on total assets (ROA). Higher ROA indicates higher efficiency in utilization of total assets and vice-versa. ROA is calculated by dividing the amount of net profit by the total assets.

$$\text{Net profit to total assets} = \frac{Net\ profit}{Total\ Assets}$$

b) Net Profit to Total Deposit Ratio Analysis

Net profit to total deposit ratio evaluate whether management has been capable to mobilizes and utilize the deposit. Higher ratio indicates better utilization of deposit and vice-versa. The return on total deposits ratio can be computed by dividing net profit by total deposits.

$$\text{Net profit to total deposit ratio} = \frac{Net\ Profit}{Total\ Deposit}$$

c) Total Interest Expenses to Total Interest Income Ratio Analysis

This ratio shows the relationship between interests paid on different liabilities and interest income from different sources. It is calculated by dividing interest expenses by interest income.

Total interest expenses to total interest income ratio = $\frac{Interest\ expense}{Interest\ income}$

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

- **Mean ($\bar{X}$)**

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:

$$\text{Mean } (\bar{X}) = \frac{\Sigma X}{n}$$

Where,

$\bar{X}$= Arithmetic Mean return

Σx = Sum of given Observation

n = Total number of Observations

- **Standard Deviation (SD)**

Standard deviation is defined as the positive square root of the mean as square of the deviation takes from the arithmetic 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. It is calculate as:

$$\text{Standard Deviation (SD)} = \sqrt{\frac{\Sigma(X-\bar{X})^2}{n}}$$

- **Coefficient of Variation (CV)**

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:

$$\text{Coefficient of Variation (CV)} = \frac{SD}{\bar{x}}100$$

Among the statistical tools, only the arithmetic mean, standard deviation and co-efficient of variation have been used.

3.4.2. Relationship Analysis

Relationship analysis is one of the important methods to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, co-relation, various types of test etc. In this research study some statistical tools are used to analysis the relationship of data more accurately, which are given below.

Coefficient of Correlation (R)

Correlation is an analysis of the covariance between two or more variable and correlation analysis deals with the degree of relationship between variables. The correlation analysis refers the classes of the relationship between the variables. Two variables are said to be correlated if the change in the value of one variable (independent) affects the change in the other dependent variables (*Manandhar, 2011:380*).

Correlation analysis enables us in determining the degree and direction of relationship between two variables. However, it does not tell us anything about the cause and effect relationship. Correlation may be positive or negative and range from -1 to +1. Let's take an example that the correlation between interest rate and deposit is positive which indicates that when interest rate increases, deposit also increases in the same direction and vice versa (*Sharma and Chaudhary; 2069:405*).

For our study following reference is used:

- Correlation may be positive or negative and ranges from -1 to +1. When r = +1, there is perfect positive correlation; when r = -1, there is perfect negative correlation;
- When r = 0, there is no correlation and when r < 0.5 then, there is low degree of positive (or negative) correlation.
- When 'r' lies between 0.7 to 0.999 (or -0.7 to -0.999), there is high degree of positive (or negative) correlation.
- When 'r' lies between 0.5 to 0.699 (or -0.5 to -0.699), there is moderate degree of positive (or negative) correlation (*Sharma and Chaudhary; 2069:405*).

The simple correlation coefficient, r, is calculated by using following formula:

$$\text{Simple Correlation Coefficient (r)} = \frac{n\Sigma X_1 X_2 - (\Sigma X_1)(\Sigma X_2)}{\sqrt{n\Sigma X_1^{\,2} - (\Sigma X_1)^2}\sqrt{n\Sigma X_2^{\,2} - (\Sigma X_2)^2}}$$

Where,

n = Total number of observations.

X_1 and X_2 = two variables, correlation between them are calculated.

It lies between 0 and 1. The close it is to '1', the better the linear relationship between the variables. The closer it is to '0', the worse is the linear relationship. Simple correlation between deposit rate and deposit amount, lending rate and lending amount are examined in this study.

In this section of the study, Karl Pearson's coefficient of correlation has been used to find out the relationship between the following variables:

- Correlation between Total Deposit and Loans and Advances
- Correlation between Total Deposit and Total Investment

Coefficient of Determination (R^2)

The square of the simple correlation coefficient is called coefficient of determination and it is very useful in interpreting the value of simple correlation coefficient. The main significance of the coefficient of determination is to represent the portion of total variations due to independent variable.

It measures the percentage of total variation in dependent variable explained by independent variable.

Coefficient of Determination = $(R)^2$

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation and analysis of data. Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The analysis is completely based on secondary data, which are directly collected from the annual report of the concerned banks. For the purpose of data analysis, various financial and statistical tools have been used to achieve the objectives of the study. The data are presented in tables and figures as per requirement.

4.1 Financial Analysis

4.1.1 Liquidity Analysis

Liquidity is related to cash. A firm should ensure that it does not suffer lack of cash and also it does not have excess cash. If a bank has low cash or liquidity, it will not be able to pay cash to the customers. If there is high degree of cash, it is very difficult to make profit. So, both are harmful for the bank. Then the bank must manage liquidity.

To measure the liquidity position of the commercial bank, following ratio analysis have been observed.

4.1.1.1 Current Ratio Analysis

Current assets includes of cash balance, balance with NRB, Bank balance with other bank or financial institutions, money at call and short notice, loan and advance and bills purchase and other assets.

Current liabilities includes of deposit, bills payable, proposed dividend payable, income tax liabilities and other liabilities.

This ratio is calculated as:

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

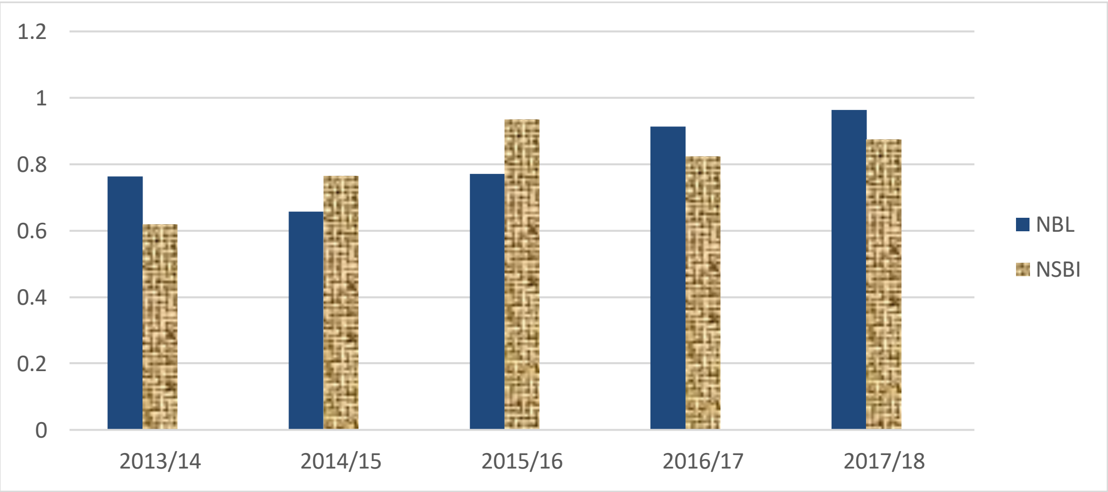
Table 4.1: Current Ratio Analysis

	NBL			NSBI		
Fiscal year	CA (Rs.)	CL(Rs.)	Ratio (times)	CA (Rs.)	CL(Rs.)	Ratio (times)
2013/14	50000120618	65428369876	0.7642	36640475394	59262490730	0.6183
2014/15	45695158333	69461680711	0.6578	41937554459	54842445429	0.7647
2015/16	60232172821	78076912249	0.7714	48414920577	51850021421	0.9337
2016/17	81764454333	89446026011	0.9141	57365353177	69718493389	0.8228
2017/18	90619135193	93986023514	0.9642	76254496413	87250529313	0.8740
Mean			0.8143			0.8027
S.D.			0.1109			0.1077
C.V.			13.62%			13.42%

(Source: Annual Reports of NBL and NSBI and Appendix-1 and 2)

The table 4.1 shows the current ratio analysis. In the above table it is found that, the ratio of NBL has ranged between 0.6578 and 0.9642 and the ratio of NSBI has ranged between 0.6183 and 0.9337. It can be seen that the NBL has the highest current ratio than that of NSBI during the period of study.

Figure 4.1: Current Ratio Analysis



The figure 4.1 shows that the current ratio analysis of both banks is in fluctuating trend. The average current ratio of NBL is higher than NSBI (i.e. 0.8143 > 0.8027). But, the liquidity position of both banks is almost same. CV of NBL indicates higher fluctuations as compared to that of NSBI. The coefficient of variation indicates extent of fluctuation of variables.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio Analysis

This ratio is employed to measure whether bank and cash balance is sufficient to cover its current deposits, saving deposit and call margin. It is calculated as:

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

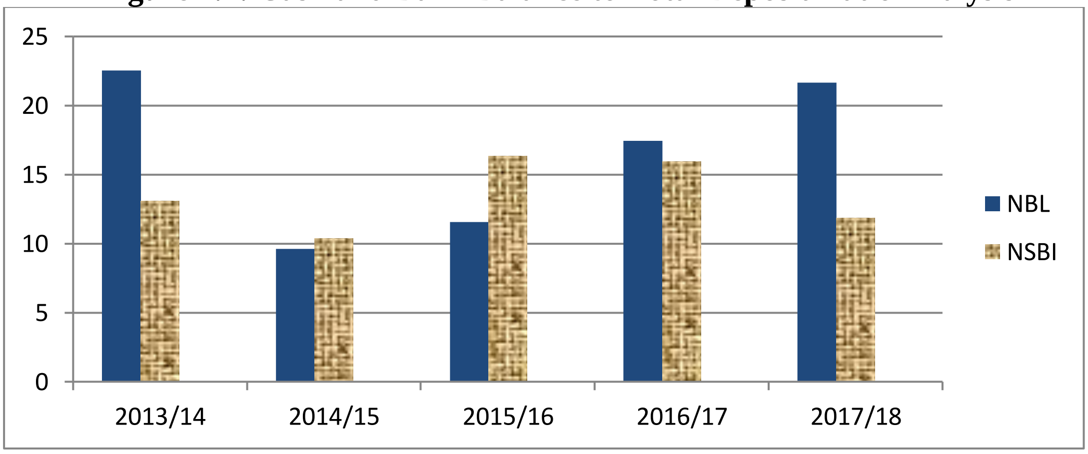
Table 4.2: Cash and Bank Balance to Total Deposit Ratio Analysis

	NBL			NSBI		
Fiscal year	Cash and Bank balance (Rs)	Total deposit (Rs)	Ratio (%)	Cash and Bank balance (Rs)	Total Deposit (Rs)	Ratio (%)
2013/14	14188421069	62984350047	22.53	7713403335	58920455656	13.09
2014/15	6659557502	69337609696	9.61	54492993606	54492993606	10.37
2015/16	9011306007	77998775919	11.55	9011306007	51628221954	16.33
2016/17	15614381848	89410018773	17.46	1038981849	65213519724	15.93
2017/18	17673247393	93944014252	21.64	9690780101	81664548665	11.87
Mean			16.56			13.52
S.D.			5.21			2.30
C.V.			31.46			17.01

(Source: Annual Reports of NBL and NSBI and Appendix-1 and 2)

The table 4.2 shows that the total cash and bank balance to total deposit ratio. The average of this ratio of NBL is 16.56 percent and the average of NSBI has 13.52 percent. Coefficient of variation of NSBI is 17.01% whereas NBL's coefficient of variation is 31.46%.

Figure 4.2: Cash and Bank Balance to Total Deposit Ratio Analysis



The above figure 4.2 shows that the NBL's total cash and bank balance to total deposit ratio is highly fluctuated. And the ratio of NSBI bank is also in fluctuating trend. If we measure the performance of these banks based on average, the performance of NSBI is weak than NBL. But, the NSBI is more consistent than the NBL due to its lower degree of coefficient of variation. The performance of NBL for liquidity is better than NSBI on the basis of this ratio.

4.1.1.3 Balance with NRB to Total Deposit Ratio Analysis

As Nepal Rastra Bank is a central bank of Nepal, all commercial banks have to deposit a balance of certain percentage of their total deposit amount with NRB. It is a legal provision for them. This ratio is calculated as:

$$\text{Balance with NRB to total deposit ratio} = \frac{\text{Balance with NRB}}{\text{Total Deposit}}$$

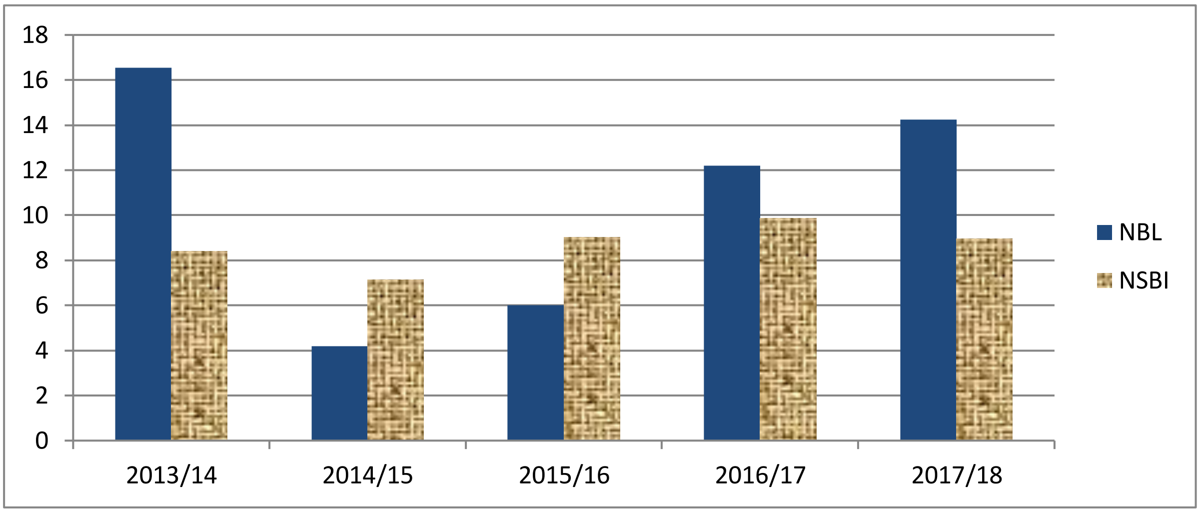
Table 4.3: Balance with NRB to Total Deposit Ratio Analysis

	NBL			NSBI		
Fiscal Year	Balance with NRB(Rs)	Total Deposit (Rs)	Ratio (%)	Balance with NRB (Rs)	Total Deposit (Rs)	Ratio (%)
2013/14	10411747656	62984350047	16.54	4957064493	58920455656	8.41
2014/15	2919002808	69337609696	4.20	3890989164	54492993606	7.14
2015/16	4692172069	77998775919	6.02	4662434374	51628221954	9.03
2016/17	10919796322	89410018773	12.21	6428009789	65213519724	9.86
2017/18	13388539846	93944014252	14.25	7313015502	81664548665	8.95
Mean			10.64			8.68
S.D.			5.91			4.22
C.V.			55.54			10.32

(Source: Annual Reports of NBL and NSBI and Appendix-1 and 2)

The table 4.3 shows that ratio of balance of NRB to total deposit. The average ratio of NBL is 10.64 percent and Nepal SBI is 8.68 percent. This indicates that NBL's liquidity position with regard to this ratio is more satisfactory than that of Nepal SBI bank. The range of this ratio of NBL is between 4.20 and 16.54 and the range of NSBI is between 7.14 and 9.86. The S.D. of NBL is higher than NSBI. On the basis of CV this ratio of NSBI is more consistent as it has lower CV than NBL.

Figure 4.3: Balance with NRB to Total Deposit Ratio Analysis



The figure 4.3 shows that this ratio of NBL is in decreasing trend at first but from year 2015/16 it is increasing. This indicates that NBL’s liquidity position with regard to this ratio is more satisfactory than that of Nepal SBI bank. But the same time a high liquidity also indicates the inability to the bank to put its funds in investment.

The S.D. of NBL is higher than NSBI. On the basis of CV this ratio of NSBI is more consistent as it has lower CV than NBL. These things show that the NBL's balance with NRB to total deposit ratio is more fluctuating than NSBI.

4.1.1.4 Fixed Deposit to Total Deposit Ratio Analysis

Fixed deposit is long term and high interest bearing deposit. But it provides opportunity to invest money without any doubt for a certain period of time. This ratio shows the proportion of fixed deposit to total deposit. It can be calculated as:

$$\text{Fixed deposit to total deposit ratio} = \frac{\text{Fixed Deposit}}{\text{Total Deposit}}$$

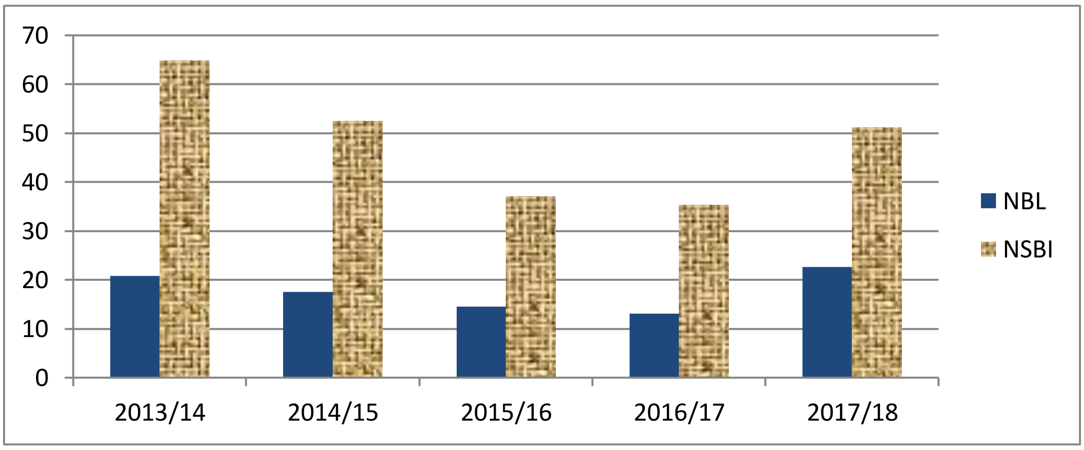
Table 4.4: Fixed Deposit to Total Deposit Ratio Analysis

	NBL			NSBI		
Fiscal Year	Fixed Deposit (Rs)	Total Deposit (Rs)	Ratio (%)	Fixed Deposit(Rs)	Total Deposit (Rs)	Ratio (%)
2013/14	12651262432	62984350047	20.08	38179006333	58920455656	64.79
2014/15	12122995495	69337609696	17.48	28569413388	54492993606	52.42
2015/16	11286210943	77998775919	14.47	19129778724	51628221954	37.05
2016/17	11731210126	89410018773	13.12	23019304089	65213519724	35.29
2017/18	21287078186	93944014252	22.65	41776666106	81664548665	51.15
Mean			17.56			48.14
S.D.			3.51			10.88
C.V.			19.98			22.60

(Source: Annual Reports of NBL and NSBI and Appendix-1 and 2)

The table 4.4 shows the sampled banks fixed Deposit to total deposit ratio. This ratio of NBL is ranged between 13.12% & 22.65% and the ratio of NSBI is ranged between 35.29% & 64.79%.NBL has coefficient of variation 19.98% whereas NSBI's coefficient of variation is 22.60 %.

Figure 4.4: Fixed Deposit to Total Deposit Ratio Analysis



The figure 4.4 shows that the sampled banks Fixed Deposit to Total Deposit ratio analysis. Here, the ratio of NBL and NSBI bank both bank ratio is decreasing trend in first four years and then it is in increasing trend. The average of fixed deposit to total deposit ratio of Nepal SBI bank is higher than NBL. So, the liquidity position of Nepal SBI bank is better than NBL. But Nepal SBI bank has high degree of fixed deposit, so it should pay high interest to the customers. It may be a cause of low profit.

4.1.2 Activity Analysis

Activity analysis is calculated to evaluate the efficiency of the firm in managing and utilizing its assets. Higher rate of return shows the high efficient and utilization management of the firm. To measure the activity position of NBL and NSBI, the following ratios have been calculated:

4.1.2.1 Loan and Advance to Total Deposit Ratio Analysis

This ratio measures the bank's ability to utilize the depositor's funds to earn profit by providing loan. A high ratio denotes efficiency to utilize depositor's fund. It is calculated as:

$$\text{Loan and advance to total deposit ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

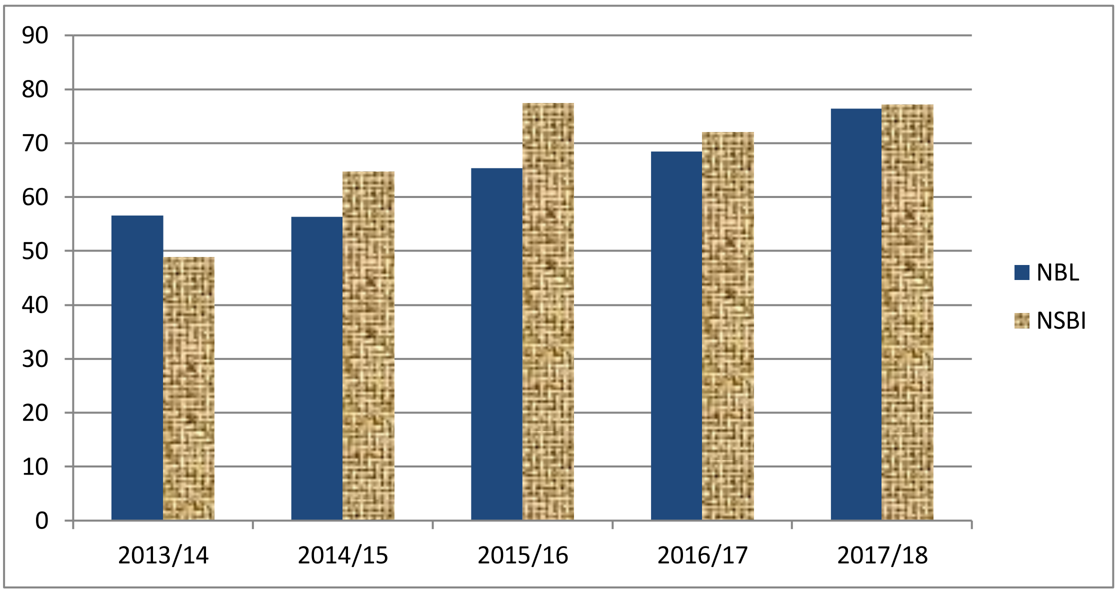
Table: 4.5: Loan and Advance to Total Deposits Ratio Analysis

	NBL			NSBI		
Fiscal Year	Loan and Advance (Rs)	Total Deposit (Rs)	Ratio (%)	Loan and Advance (Rs)	Total Deposit (Rs)	Ratio (%)
2013/14	35611699549	62984350047	56.54	28788146625	58920455656	48.85
2014/15	39035600831	69337609696	56.29	35279583339	54492993606	64.74
2015/16	50970857910	77998775919	65.34	39979173045	51628221954	77.43
2016/17	61250062485	89410018773	68.50	46975534686	65213519724	72.03
2017/18	71745887800	93944014252	76.37	63024815422	81664548665	77.17
Mean			64.61			68.04
S.D.			7.59			10.64
C.V.			11.74			15.63

(Source: Annual Reports of NBL and NSBI and Appendix-1 and 2)

The table 4.5 shows the ratio analysis between Loan and Advance to Total Deposit .The range of this ratio of NBL is between 56.29 and 76.37 and the range of NSBI is 48.85 and 77.43.The mean ratio for NBL is 64.61% and the average ratio of NSBI is 68.04% for the five fiscal years. The CV of NBL is 11.74% and the CV of NSBI is about 15.63%. The table shows that NSBI bank has higher loan and advance to total deposit ratio than NBL.

Figure 4.5: Loan and Advance to Total Deposits Ratio Analysis



The figure 4.5 shows that ratio analysis between Loan and Advance to Total Deposit. If we measure the performance of these banks based in the average, the performance of NSBI is better than NBL because the higher portion indicates the higher profit. On the basis of lower CV NBLs ratio is more consistent than that of NSBI. The figure shows that NSBI has higher loan and advance to total deposit ratio than NBL. Lower this ratio of NBL means the lower proportion of deposits invested in loan and advances. Loan and advances are interest-earning assets, so the management of Nepal Bank Limited is suggested to increase the investment on their assets out of total deposits.

4.1.2.2 Loan and Advance to Total Assets Ratio Analysis

Loan and advance to total assets ratio analyze how much the banks are successful in mobilizing their total assets on loan and advances for the profit generating purpose. It is calculated as:

$$\text{Loan and advance to total assets ratio} = \frac{\text{Loan and Advance}}{\text{Total Assets}}$$

Higher the ratio means higher efficiency in utilizing assets.

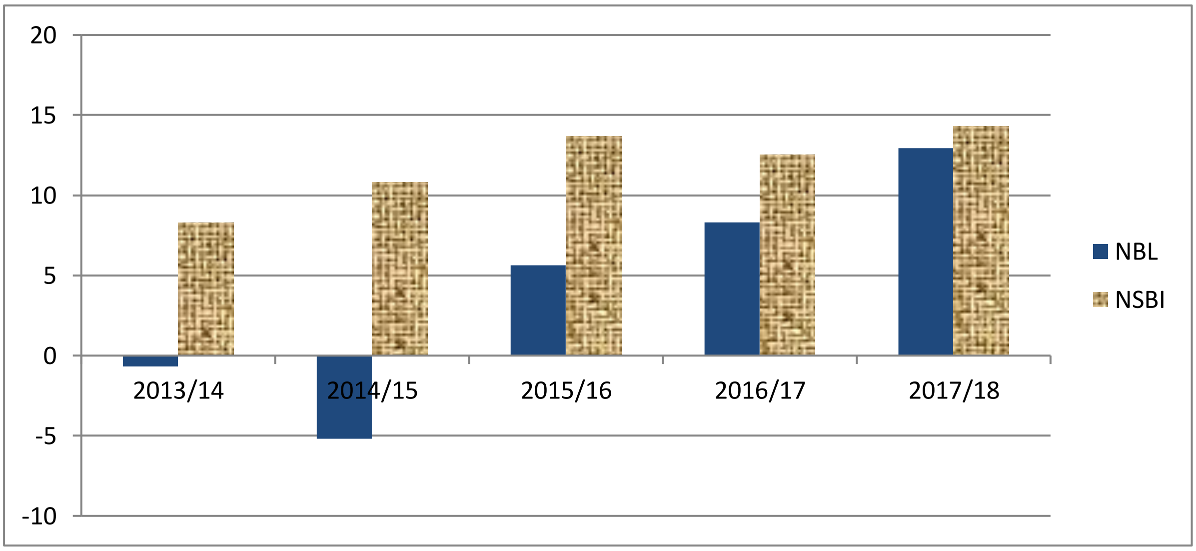
Table 4.6: Loan and Advance to Total Assets Ratio Analysis

	NBL			NSBI		
Fiscal Year	Loan and Advance (Rs)	Total Assets (Rs)	Ratio (%)	Loan and Advance(Rs)	Total Assets (Rs)	Ratio (%)
2013/14	35611699549	70776982567	50.31	28788146625	64796152822	44.42
2014/15	39035600831	77980528805	50.58	35279583339	61082972355	57.75
2015/16	50970857910	88211085964	57.78	39979173045	59277290453	67.44
2016/17	61250062485	103479534057	59.19	46975534686	78515345284	59.82
2017/18	71745887800	112057149438	64.02	63024815422	9982862791	63.15
Mean			56.37			58.51
S.D.			5.26			7.77
C.V.			9.33			13.27

(Source: Annual Reports of NBL and NSBI and Appendix-1 and 2)

The table 4.6 shows the ratio analysis between Loan and Advance to Total Assets. The range of this ratio of NBL is between 50.31 and 64.02 and the range of NSBI is between 44.42 and 67.44. The lower CV 9.33% of NBL shows that its loan and advance to total assets ratio is more consistent than that of NSBI which has CV about 13.27 %.

Figure 4.6: Loan and Advance to Total Assets Ratio Analysis



The figure 4.6 shows the ratio analysis between Loan and Advance to Total Assets. Here, NBL has lower average of loan and advance to total assets ratio than NSBI. The higher ratio of NSBI shows higher efficiency of this bank in utilizing its assets for profit generation purpose. The lower CV 9.33% of NBL shows that its loan and advance to total assets ratio is more consistent than that of NSBI which has CV about 13.27 %.

4.1.2.3 Investment to Total Deposit Ratio Analysis

This ratio measures how much the banks are successful in mobilizing total deposits on investments. Investment refers to government treasury bills, development bonds, company's shares and other investment. High ratio indicates high efficiency and low ratio indicates banks inability to utilize deposit. It is calculated by,

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

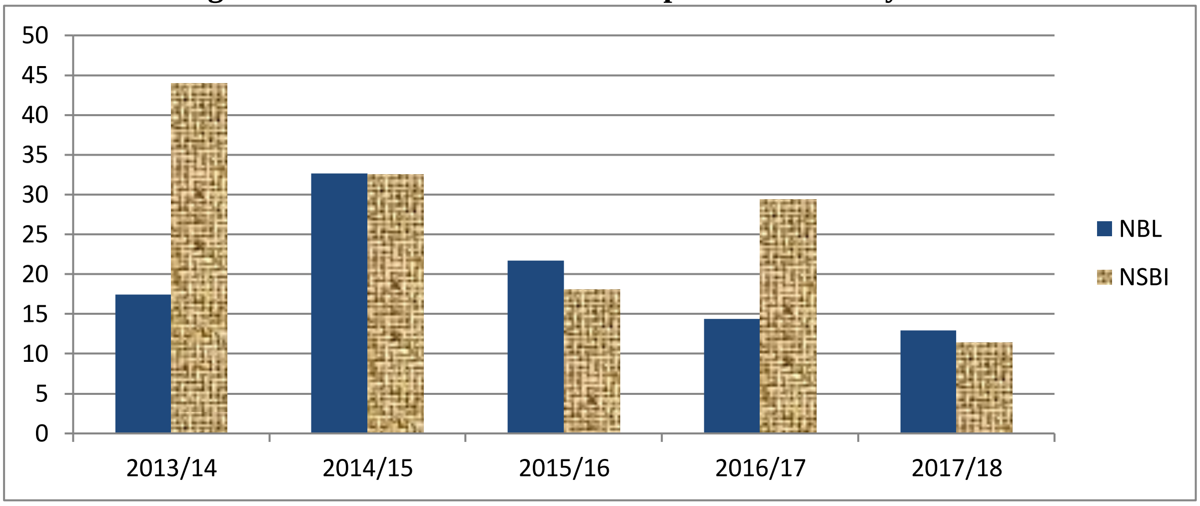
Table 4.7: Investment to Total Deposit Ratio Analysis

	NBL			**NSBI**		
Fiscal Year	Investment (Rs)	Total Deposit (Rs)	Ratio (%)	Investment (Rs)	Total Deposit (Rs)	Ratio (%)
2013/14	10979120246	62984350047	17.43	25906119814	58920455656	43.96
2014/15	22664105663	69337609696	32.68	17722395654	54492993606	32.52
2015/16	16902242686	77998775919	21.67	9319697947	51628221954	18.05
2016/17	12843441784	89410018773	14.36	19291309392	65213519724	29.58
2017/18	12181297077	93944014252	12.96	9319697947	81664548665	11.41
Mean			19.82			27.10
S.D.			6.56			11.38
C.V.			33.09			41.99

(Source: Annual Reports of NBL and NSBI and Appendix-1 and 2)

The table 4.7 presents the ratio analysis of Total Investment to Total Deposit. The range of this ratio of NBL is between 12.96 and 32.68 and the range of NSBI is between 11.41 and 43.96. On the basis of SD NSBIs investment is more risky than that of NBL. Lower CV of NBL about 33.09% shows that the ratio of NBL is more consistent than that of NSBI which has CV is about 41.99%.

Figure 4.7: Investments to Total Deposit Ratio Analysis



The figure 4.7 presents the Total Investment to Total Deposit ratio analysis. As a high mean ratio indicates high efficiency to utilize deposit on investment, NSBI has higher efficiency than NBL. Higher the mean ratio of NSBI than NBL indicates it has successfully invested in long term investment out of total deposit. Lower CV of NBL about 33.09% shows that the ratio of NBL is more consistent than that of NSBI which has CV is about 41.99%.

4.1.3 Profitability Analysis

Profit is the difference between revenue and expenses in a certain period. Profitability analysis measures the operating efficiency and performance of a firm. Under profitability analysis, mainly following ratios are calculated.

4.1.3.1 Return on Total Assets Ratio Analysis

This ratio measures earning power and overall operating efficiency of a firm. Higher the ratio indicates higher efficiency in utilization of total assets and lower the ratio means that the lower efficiency. Return on total assets ratio can be calculated as:

$$\text{Return on total assets ratio} = \frac{\text{Net Profit after Tax (NPAT)}}{\text{Total Assets}}$$

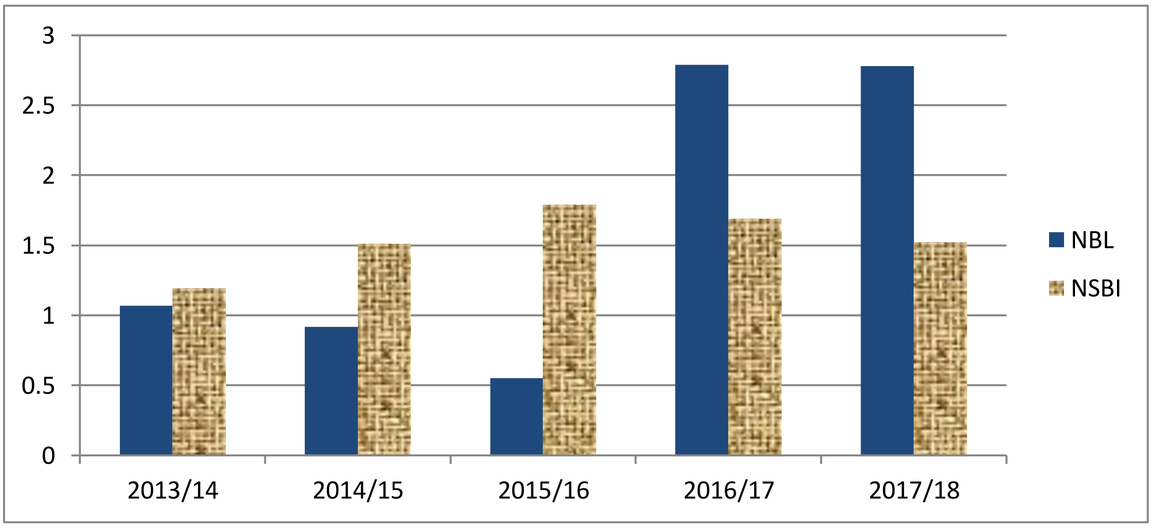
Table 4.8: Return on Total Assets Ratio Analysis

	NBL			NSBI		
Fiscal Year	NAPT (Rs)	Total Assets (Rs)	Ratio (%)	NPAT (Rs)	Total Assets(Rs)	Ratio (%)
2013/14	755180353	70776982567	1.07	771471129	64796152822	1.19
2014/15	716958108	77980528805	0.92	922984007	61082972355	1.51
2015/16	483848520	88211085964	0.55	1065436141	59277290453	1.79
2016/17	2882978165	103479534057	2.79	1331881801	78515345284	1.69
2017/18	3117893760	112057149438	2.78	1523237401	9982862791	1.52
Mean			1.62			1.54
S.D.			0.96			0.2043
C.V.			59.25			13.26

(Source: Annual Reports of NBL and NSBI and Appendix-3 and 4)

The table 4.8 presents the Return on Total Assets ratio analysis in five years for the sampled commercial Bank. The range of this ratio of NBL is between 0.55and 2.79and the range of NSBI is between 1.19 and 1.79. In comparison on the basis of average ratio, NBL has higher rate of return to total assets than NSBI. The low profit always creates risk for the profit earning organization. The lower CV about 13.26% of NSBI shows that it is more consistent than that of NBL which has CV is 59.25%.

Figure 4.8: Return on Total Assets Ratio Analysis



The figure 4.8 presents the ratio analysis of Return on Total Assets in five years for the sampled commercial Bank. The ratio of both banks is in fluctuating trend. In comparison on the basis of average ratio, NBL is successful in earning the net profit with efficient utilization of total assets with comparison to NSBI. The low profit always creates risk for the profit earning organization. The lower CV about 13.26% of NSBI shows that it is more consistent than that of NBL which has CV is 59.25%.

4.1.3.2 Return on Total Deposit Ratio Analysis

This ratio shows banks overall financial performance as well as its success in profit generation. It can be calculated as:

$$\text{Return on total deposit ratio} = \frac{\text{NPAT}}{\text{Total Deposit}}$$

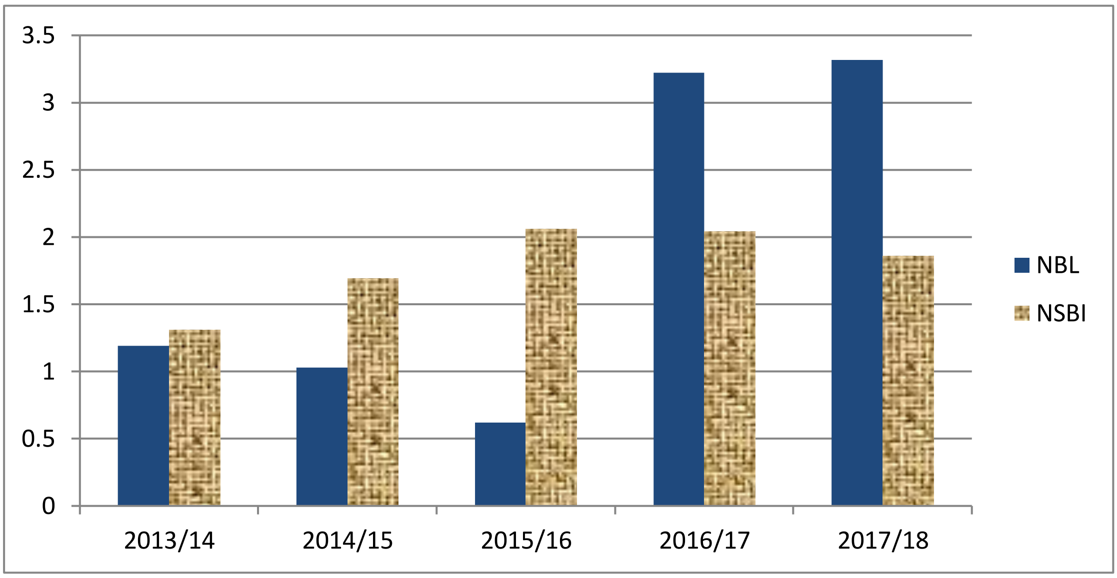
Table 4.9: Return on Total Deposit Ratio Analysis

	NBL			NSBI		
Fiscal Year	NPAT(Rs)	Total Deposit(Rs)	Ratio (%)	NPAT (Rs)	Total Deposit(Rs)	Ratio (%)
2013/14	755180353	62984350047	1.19	771471129	58920455656	1.31
2014/15	716958108	69337609696	1.03	922984007	54492993606	1.69
2015/16	483848520	77998775919	0.6203	1065436141	51628221954	2.06
2016/17	2882978165	89410018773	3.22	1331881801	65213519724	2.04
2017/18	3117893760	93944014252	3.318	1523237401	81664548665	1.86
Mean			1.87			1.79
S.D.			1.15			0.2759
C.V.			61.49			15.41

(Source: Annual Reports of NBL and NSBI and Appendix-3 and 4)

The table 4.9 presents the ratio analysis of return on total deposit. The range of this ratio of NBL is between 0.6203% and 3.318% and the range of this ratio of NSBI is between 1.31% and 2.06. On the basis of average ratio, the ratio of NBL shows higher position than NSBI. The lower CV of NSBI about 15.41% shows that it is more consistent than that of NBL which has CV is 61.49%.

Figure 4.9: Return on Total Deposit Ratio Analysis



The figure 4.9 presents that the ratio analysis of return on total deposit in five years for the sample commercial Bank. The ratio of both NBL and NSBI is in fluctuating trend. On the basis of average ratio, the ratio of NBL Bank shows higher position than NSBI. The above mean ratio indicates that NBL has better performance in utilizing deposit to earn a higher profit than NSBI. The lower CV of NSBI about 15.41% shows that it is more consistent than that of NBL which has CV is 61.49%.

4.1.3.3 Total Interest Expenses to Total Interest Income Ratio Analysis

This ratio shows the relationship between interest paid on different liabilities and interest income from different sources. Higher this ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income and vice versa.

Interest expenses include interest paid on deposit liabilities, loan and advances or borrowing amount and other deposit liabilities. Similarly, interest income includes the interest from loan and advance, cash credit and overdraft, government securities, interbank lending and other investments. The ratio can be calculated as:

$$\text{Total interest expenses to total interest income ratio} = \frac{\textit{Interest expense}}{\textit{Interest income}}$$

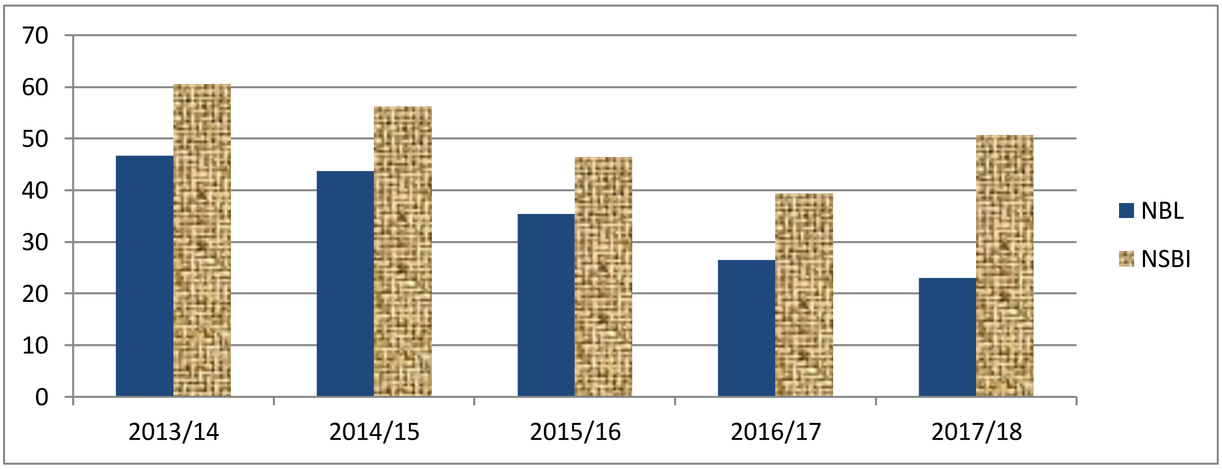
Table 4.10: Total Interest Expenses to Total Interest Income Ratio Analysis

	NBL			NSBI		
Fiscal Year	Total Interest Expenses(Rs)	Total Interest Income(Rs)	Ratio (%)	Total Interest Expenses(Rs)	Total Interest Income(Rs)	Ratio (%)
2013/14	2214164344	4739535754	46.72	2486978979	4110514126	60.50
2014/15	2187645803	5011227716	43.65	22316042303	3976647583	56.12
2015/16	18106645803	5121685058	35.35	1773842303	3821326338	46.41
2016/17	1658477928	6263549474	26.47	1565150928	3981262340	39.31
2017/18	1728360491	7526659399	22.96	2994483069	5911160526	50.65
Mean			35.03			50.60
S.D.			8.12			7.39
C.V.			23.18			14.60

(Source: Annual Reports of NBL and NSBI and Appendix-3 and 4)

The table 4.10 presents that the ratio analysis of total expenses to total interest income in five years for the sample commercial bank. The range of NBL is between 22.96 and 46.72 and the range of NSBI is between 39.31 and 60.50. On the basis of average ratio, NBL has lower expenses ratio than NSBI. CV about 23.18% of NBL shows higher fluctuations than that of NSBI, which has CV is14.60%

Figure 4.10: Total Interest Expenses to Total Interest Income Ratio Analysis



The figure 4.10 presents that the ratio of total expenses to total interest income in five years for the sample commercial bank. The ratio of NBL is in decreasing trend and the ratio of NSBI is in decreasing trend at first four years and then it is in increasing trend. NBL uses less interest bearing liabilities. NBL collects more saving deposit than fixed deposit, so it should not pay high interest rate on it. But both banks are reducing these expenses. CV about 23.18% of NBL shows higher fluctuations than that of NSBI, which has CV is14.60%

4.2 Relationship Analysis

Relationship analysis is one of the important methods to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, co-relation, various types of test etc. Following convenient statistical tools are used in this thesis study.

4.2.1 Total Deposits to Loan & Advances Relationship Analysis

Deposit have play very important role in performance of a commercial banks and similarly loan & advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. The main objectives of computing 'R' between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not. The following table shows the coefficient of correlation between total deposits and loan & advances (R), coefficient of determination (R^2), P.E.(R) and 6 P. E.(R) of NBL and NSBI during the study period.

Table: 4.11 Total Deposits to Loan & Advances Relationship Analysis

Name of Banks	Evaluation Criterions			
	R	R^2	P.E.(R)	6 P.E.(R)
NBL	0.9882	0.9765	0.03	0.18
NSBI	0.8629	0.7476	0.034	0.204

The above table 4.11 shows that coefficient of correlation between total deposits and loan & advance of NBL is 0.9882 which indicates the high degree positive relationship between these two variables. It refers that deposit and loan & advances of NBL move together positively very closely i.e. when deposit increased by 98.82% loan and advances also increased by 98.82% and vice versa. Moreover, the coefficient of determination of NBL is 0.9765. It means 97.65 % of variation in loan & advances has been explained by deposit. Similarly, the correlation coefficient is significant because the correlation coefficient is greater than the relative value of 6

P.E. (R) i.e. 0.9882 > 0.18. In other words, there is significant relationship between deposits and loan & advances.

Likewise, the correlation coefficient between deposit and loan & advances of NSBI is 0.8629 which indicates that there is high degree of positive correlation between these two variables. It refers that when deposit is increased by 86.29% loan and advances also increased by 86.29% and vice versa. Similarly, value of coefficient of determination is calculated as 0.7476. It refers that 74.76 % variation in loan & advances is affected by total deposit. Similarly, the correlation coefficient is significant because the correlation coefficient is greater than the relative value of 6P.E. (R) i.e. 0.8629 > 0.204. In other words, there is significant relationship between deposits and loan & advances.

4.2.2 Total Deposits to Total Investment Relationship Analysis

The coefficient of correlation between total deposit and investment measures the degree of relationship between these two variables. The following table shows the coefficient of correlation between total deposits and total investments (R), coefficient of determination (R^2), P.E.(R) and 6 P.E.(R) of NBL and NSBI during the study period.

Table: 4.12: Total Deposits to Total Investment Relationship Analysis

Name of Banks	Evaluation Criterions			
	R	R^2	P.E.(R)	6 P.E.(R)
NBL	(0.3048)	0.0929	0.1224	0.7344
NSBI	0.4515	0.2038	0.1074	0.6444

The above table 4.12 shows that coefficient of correlation between total deposits and total investment of NBL is (0.3048) which indicates the lower negative relationship between these two variables. It refers that if deposit increased by 30.48% total investment decreased by 30.48% and vice versa. Moreover, the coefficient of determination of NBL is 0.0929. It means 9.29 % of variation in total investment has been affected by deposit. Similarly, the correlation coefficient is insignificant because the correlation coefficient is lower than the relative value of 6 P.E (R) i.e. (0.3048) < 0.7344. In other words, there is not significant relationship between deposits and total investment.

Likewise, the correlation coefficient between total deposit and total investment of NSBI is 0.4515 which indicates that there is lower positive correlation between these two variables. It indicates that if deposit increased by 45.15% total investment is also increased by 45.15% and vice versa. Similarly, value of coefficient of determination is calculated as 0.2038. It refers that 20.38% variation in total investment is affected by total deposit. Similarly, the correlation coefficient is not significant because the correlation coefficient is lower than the relative value of 6P.E.(R) i.e.0.4515 < 0.6444. In other words, there is not significant relationship between deposits and total investment.

4.3 Major Findings

- The average proportion of current ratio, cash and bank balance to total deposit ratio, balance with NRB to total deposit ratio of NBL are higher than NSBI. Liquidity is the thing that in most needed to meet the unexpected with drawn of deposit by the depositors but excess liquidity will also be burden for the bank because interest has to pay it. Based on current ratio, cash and bank balance to total deposit ratio and balance with NRB to total deposit ratio the liquidity position of NBL is better than Nepal SBI Bank.
- Fixed deposit to total deposit ratio of NSBI is higher than NBL. This means NSBI has high interest expenses on deposit. As per these ratios, Nepal SBI bank has higher liquidity position than that of NBL. Both banks should keep their liquidity better for their success.
- The average proportion of loan and advance to total deposit and loan and advance to total assets of Nepal SBI Bank is greater than NBL. It shows that Nepal SBI Bank has relatively been able to mobilize its deposits more efficiently than NBL.
- Investment to total deposit ratio of NBL is greater than NSBI. It shows that NBL has higher investment in treasury bills and other. However, the investment on government treasury bills and other may provide low gain than the investment on loan and advance. As a result, by the activity ratio Nepal SBI bank has better performance than NBL which might be the consequence of better lending policy of NSBI.

- Profitability ratios indicate the degree of success in achieving desired profit level. Return on total assets and return on total deposit ratios of NBL bank are higher than NSBI. It shows that NBL is more success to generate more profit than that of NSBI. But its interest expenses ratio of NSBI more than NBL. To minimize this ratio will be better for NSBI. According to this study, both banks have been able to earn profits.
- Both NBL and NSBI have high degree positive correlation between total deposit and loan & advances i.e. 0.9882 and 0.8629 respectively. The relationship is also significant in the case of both banks. This indicates that NBL and NSBI are successful to mobilize their deposit in loan and advances. This can be regarded as good indication in financial performance for the banks.
- NBL has negative relationship between total deposit and total investment i.e. (0.3048) and NSBI has lower positive relationship i.e. 0.4515. The relationship is not significant in the case of both banks. This indicates that both NBL and NSBI do not have good investment policy and are not able to mobilize their deposit in proper way.

CHAPTER-FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the last part of this study which is the most important chapter for the research because this chapter extracts of all the previously discussed chapters. This chapter mainly consists of three parts: summary, conclusion and recommendation. In summary portion revision of all four chapters are summarized. Then conclusion is drawn following analysis part and comparing the theoretical aspect and analysis. Conclusion part answers whether practically relates to theory or not. Based on conclusion necessary suggestions are presented in recommendation part i.e. various measures are recommended and suggested to concerned organization for the improvement of the current condition of organizational structure of commercial bank.

5.1 Summary

For economic development of a country, development of commerce and industry is necessary. Commercial banks collect scattered saving from people and mobilize such collected resources as loan and advances to those people or organization that need it. It helps to build industrial development and creates employment opportunities and investment opportunities. At present, twenty eight commercial banks are operating in Nepalese banking industry. They are providing modern banking facilities.

This comparative study has evaluated the financial performance of two commercial banks, Nepal Bank Limited and Nepal SBI Bank Limited. Nepal Bank is a public bank and Nepal SBI Bank is a joint venture bank. This study has done by taking five years data from 2013/14 to 2017/18 and it is mainly based on secondary data. Three types of ratios liquidity ratio, profitability ratio and activity ratio have been calculated. There are three objectives of the study. Those are to analyze profitability position, liquidity position and correlation of sample banks.

In this study, the average proportion of current ratio, cash and bank balance to total deposit ratio, balance with NRB to total deposit ratio are higher than NSBI. Liquidity is the thing that in most needed to meet the unexpected with drawn of deposit by the depositors but excess liquidity will also be burden for the bank because interest has to pay it. On the basis of current ratio, cash and bank balance to total deposit ratio and balance with NRB to total deposit ratio the liquidity position of NBL is better than NSBI. Fixed deposit to total deposit ratio of NSBI is higher than NBL. This means NSBI has high interest expenses on deposit. But higher the fixed deposits denote high liquidity. As per these ratios Nepal SBI bank has higher liquidity position. Both banks have higher current liabilities than current assets. So their current ratio is below 1:1. But banks should maintain their liquidity and profitability both. Higher liquidity may cause of low profit and to invest in profitable sector may cause of low liquidity. So, both banks should keep their current liquidity.

The average proportion of loan and advance to total deposit and loan and advance to total assets of NSBI is greater than NBL. It shows that NSBI has relatively been able to mobilize its deposits more efficiently than NBL. Investment on loan and advance provides good interest to bank. It is one of the causes of increase profit.

Investment to total deposit ratio of NSBI is greater than NBL. It shows that NSBI has higher investment in treasury bills and other. As a result, by the activity ratio Nepal SBI bank has better performance than NBL which might be the consequence of better lending policy of NSBI.

Profitability ratios indicate the degree of success in achieving desired profit level. Return on total assets and return on total deposit ratios of NBL bank are higher than NSBI. It shows that NBL is more success to generate more profit than that of NSBI. But NSBI's interest expenses ratio is more than NBL. According to this study, both banks have been able to earn profits. .

Besides this, in credit sector, it is found that the correlation between total deposit and the loans granted to different sector such as productive sector loan, service industry loan and constructive loan, there is positive relation. It indicates that the relationship between the two is significant.

5.2 Conclusion

This study is a comparison of financial performance of a public bank and a joint venture bank. It is completely based on secondary data. Based on the results from the data analysis and findings of the research, it is 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 terms of current ratio shows that the average ratio of NSBI is lower than NBL. It shows that the liquidity position of NBL in terms of current ratio is better than NSBI. The liquidity position in terms of cash and bank balance to total deposit ratio of NBL is also greater than NSBI (i.e. 16.56% > 13.52% on an average). So, it is concluded that NBL has sufficient cash and bank balance to deposit than that of NSBI.

Balance with NRB to total deposit ratio of NBL is higher than NSBI (10.64% > 8.68%). Fixed deposit to total deposit ratio of NSBI is higher than NBL (i.e. 48.14% > 17.56%). It shows that NSBI has better liquidity position than that of NBL on the basis of this ratio. This shows that NSBI collects deposit by paying high interest in fixed deposit. But the higher ratio of fixed deposit to total deposit ratio indicates the strong liquidity position. So, in an average, both banks have their liquidity position is good.

The activity ratio is used to examine the efficiency with which firm manages and utilizes its assets. The activity ratio of NSBI in terms of loan and advance to total deposit ratio is higher than that of NBL (68.04% > 64.61%). From the analysis, it is concluded that NSBI has been successfully utilized its deposit in term of loan and advances for profit generating purpose in compared to NBL.

Loan and advance to total assets ratio of NSBI is higher than NBL (i.e. 58.51% > 56.37%) and investment to total deposit ratio of NSBI is also higher than NBL (i.e. 27.10% > 19.82%). It means NSBI invests in loan and advance and investment. Investment in loan and advance provide more profit than the investment of financial assets. So, in terms of this ratio, NSBI has its better performance.

Profitability ratio is a measurement of efficiency. It provides the degree of success in achieving desired profit. Profitability in terms of Return on total assets ratio, Return on total deposit ratio average ratio of NBL is greater than that of NSBI. Thus, it can be concluded that NBL is getting good return from its investment. Interest expense to interest income ratio of NSBI is higher than NBL. It shows that NSBI pays more interest. It may provide less profit.

Deposit is the main tools for developing performance of the banks and investment and loan and advance are keys to mobilize the deposits. Both sample banks have a positive relation between the deposit and loan and advance. It indicates that the relationship between the two is significant. It can be concluded that NBL has negative relationship between deposit and total investment and NSBI have lower positive relationship between deposit and total investment. The relationship is not significant in the case of both banks. This indicates that both NBL and NSBI do not have good investment policy and are not able to mobilize their deposit in proper way.

5.3 Recommendation

Based on the conclusion, the followings are the Recommendations of the research.

- The liquidity position in terms of current ratio of both banks is normal in the banking industry. The average ratio of NBL is slightly higher than NSBI. So, both the banks should maintain the present current ratio.
- The turnover of the commercial banks is the main factor of income generating activity. From the analysis of turnover of these two banks, NSBI has better turnover than NBL in terms of loan and advance to total assets, loan and advance to total deposit and investment to total deposit. So, NSBI has better utilization of resources in income generating activities than NBL. Lower the loan and advance to total deposit ratio of NBL means the lower proportion of deposits invested in loan and advances. Loan and advances are interest-earning assets, so the management of NBL is suggested to increase the investment on their assets out of total deposits.
- Profitability ratio shows that the both banks are gaining profit. But to maintain the profit, they are suggested to utilize the resources more efficiently for profit generating sector. If assets remain idle banks should bear high cost and cause low profit margin. NBL is a semi-government bank. Its branches are higher than NSBI bank. But it could not cover all the people of villages. It should

provide some more responsibilities for society by expanding its operation in rural areas. Similarly, NSBI bank also should provide banking facilities for villagers. They can provide branchless banking service in village easily. Banks have to give response to poor groups. They should provide low interest loan for them. These things are helpful for maximizing their profit.

- From the point of view of total interest expenses to total interest income, NSBI has more interest expenses than NBL. NSBI should reduce interest expenses by collecting deposit in saving account rather than fixed deposit. The analysis shows that NBL has invested more amounts in government securities rather than loan and advances. It may not provide high interest rate. So, NBL is recommended to invest in loan and advances.
- For the national development banks should contribute from their side. Banks are not interested in agricultural sector. They are investing only in land and building business. They should lend in other sectors which are important in national development. By expanding their investment area, banks can maximize their profit and goodwill both.
- This research covers only five fiscal years from year 2013/14 to 2017/18. The finding of this study may not provide actual financial performance of Nepalese commercial banks. So the further studies can be done by taking more than five fiscal years which may provide more reliable data.
- This study has been done by taking two sample banks. For the further studies, more than two sample banks can be used. It will provide better position and performance of commercial banks.
- For the better mobilization of deposit and credit, both the banks must take the help of advertisement. It means special publicity campaign should be lunched to provide exposure of its service, which will help to boost up the banking habits and confidence among the people upon the bank through media house.

Appendix -1

Balance Sheet of Nepal Bank Ltd. for study period of (2013/14-2017/18)

Capital and liabilities	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
share capital	3716443200	6465001800	6465001800	6465001800	8042662200
Reserve and surplus	(392542770)	(3117914128)	(2634065608)	(248912557)	3409091583
Debenture and bonds	-	-	-	-	-
loan (Borrowing) to be paid	2342738892			-	12495000
Deposits	62984350047	69337609696	77998775919	89410018773	93944014252
Bills payable	101280937	124071015	78136330	36007238	29514262
Proposed Dividend	-	-	-	-	-
Income tax liabilities	-	-	-	-	-
other liabilities	55557593261	5171760422	6303237523	7319593689	6619372141
Total	**70776982567**	**77980528805**	**88211085964**	**103479534057**	**112057149438**
Assets					
Cash balance	2378430277	2636727585	3312652012	3469542019	3394691664
Balance with NRB	10411747656	2919002808	4692172069	10919796322	13388539846
Balance with Bank and financial Institutions	1398243136	1103827109	1006481926	1225043507	890015883
Money at call	200000000	-	250008904	4900000000	1200000000
Investment	10979120246	22664105663	16902242686	12843441784	121812997077
Loan and advance and bills purchased	35611699549	39035600831	50970857910	61250072485	71745887800
Fixed assets	366906497	389504480	417822124	437137948	475070086
Non banking assets	-	-	-	-	-
Other assets	9430835206	9231760329	10658848333	8434499992	8781647082
Total	**70776982567**	**77980528805**	**88211085964**	**103479534057**	**112057149438**

(Source : Annual Report of NBL)

Appendix -2

Balance sheet of Nepal SBI Ltd. for the study period of (2013/14-2017/18)

Capital and liabilities	2013/14	2014/15	2015/16	2016/17	2017/18
share capital	2650205804	3049083104	3883735565	4973079112	8000000000
Reserve and surplus	1148751613	1486715566	1762178956	1947383339	23979554975
Debenture and bonds	800000000	1000000000	1000000000	1000000000	1000000000
loan (Borrowing) to be paid	-	-	-	4184700000	5309655155
Deposits	58920455656	54499936065	51628221954	65213519724	81664543665
Bills payable	165354686	156366610	178342832	262939794	219745914
Proposed Dividend	176680388	186142754	43456635	57333871	56584579
Income tax liabilities	-	-	-	-	-
other liabilities	934704675	711670715	781354511	876389444	1180138624
Total	**64796152822**	**61082972355**	**59277290453**	**78515345284**	**99828627912**
Assets					
Cash balance	1239453119	1527028783	1753912290	1799377270	1984553390
Balance with NRB	4957064493	3890989164	4662434374	6428009789	7313015502
Balance with Bank and financial Institutions	1516885723	1239953173	2019400868	2162431432	3932112099
Money at call	138925434	-	-	-	-
Investment	25906119814	17722395654	9319697947	19291309392	21043220481
Loan and advance and bills purchased	28788146625	35279583339	39979173045	46975534686	63024815422
Fixed assets	661589203	607446572	63001272	629965203	750825774
Non banking assets	-	-	-	-	-
Other assets	1587968411	818575670	912659657	1228717512	1780085244
Total	**64796152822**	**61082972355**	**59277290453**	**78515345284**	**99828627912**

(Source : Annual Report of NSBI)

Note: In the above balance sheet (Appendix -1 and Appendix -2) it is consider that cash balance, balance with NRB, balance with bank and financial institutions, money at call and loan and advance & bills purchased are current assets. And loan (borrowing) to be paid, deposits, bills payable and proposed dividend are current liabilities.

Appendix:3

Profit and loss account of NBL for study period of (2013/14-2017/18)

Fiscal years	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Interest income	4739535754	5011227716	5121685058	6263549474	7526659399
Interest expenses	2214164344	2187645803	1810664726	1658477928	1728360491
Net Interest income	**2525371410**	**2823581913**	**3311020338**	**4605071546**	**5798298908**
Commission and Discount	263013893	238341219	267149640	283142607	377100047
other operating income	259640607	252248661	287632973	406517070	389194609
Exchange fluctuation income	58164933	72332779	-	34592450	121512186
Total operating Income	**3106192843**	**3356504572**	**3865802951**	**5329323673**	**6696105748**
staff expenses	1937105427	2496478399	2416745342	2224553422	2366705043
Other operating Expenses	497158405	613922901	593347630	648553179	659978596
Exchange fluctuation loss	-	-	14989488	-	-
Operating profit before provision for possible losses	**671929011**	**246103272**	**840720521**	**2456217072**	**3669422109**
Provision for possible losses	567759943	252051446	454061081	509002216	706926613
Operating profit	**104169068**	**(5948674)**	**386659440**	**1947214856**	**2962495496**
Non -operating Income (loss)	86345306	665483333	613044304	1739562604	1413547421
Loan loss from provision written back	402525225	359716399	307885992	711203277	282689292
Profit/loss from regular operations	**593039599**	**1019251058**	**1307589736**	**4397980737**	**4658732209**
Profit/loss from extra-ordinary activities	37699643	56963420	61905022	112498869	136298934
Net profit after considering all activities	**930739242**	**1076214478**	**1369494758**	**4510479606**	**4795031143**
Provision for staff bonus	-	-	73189838	369760042	351008018
Income tax provision					
a. Current year	169164791	340557605	313769813	1275184939	1336212238
b. Up to previous year	26837436	8123756	480965558	-	-
c. Current year deferred tax Income/Expenses	(20443338)	10575009	17721029	(17443540)	(10082873)
Net Profit /(loss)	**755180353**	**716958108**	**483848520**	**2882978165**	**3117893760**

(Source : Annual Report of NBL)

Appendix: 4

Profit and loss account of NSBI bank for study period of (2013/14 to 2017/18)

Particular	2013/14	2014/15	2015/16	2016/17	2017/18
Interest income	4110514126	3976647583	3821326338	3981262340	5911160526
Interest expenses	2486978979	2231604253	1773842303	1565150928	2994483069
Net Interest income	**1623535147**	**1745043330**	**2047484035**	**2416111412**	**2916677457**
Commission and Discount	313696555	320425412	340354037	465797307	487594890
other operating income	157755864	217267151	307691033	318084154	447888967
Exchange fluctuation income	101915128	107806967	119469424	136369939	220922445
Total operating Income	**2196902514**	**2390542860**	**2814998529**	**3336362812**	**4073083759**
staff expenses	416560412	443077803	552231467	548987096	790472873
Other operating Expenses	477246891	506028826	515793283	616795027	754723217
Exchange fluctuation loss	-	-	-	-	-
Operating profit before provision for possible losses	**1303095211**	**1441436231**	**1746973780**	**2170580689**	**2527887669**
Provision for possible losses	128040596	82966699	116640954	111345644	187905345
Operating profit	**1175054615**	**1358469532**	**1630332826**	**2059235045**	**2339982324**
Non -operating Income (loss)	(287286)	8728276	10708703	9964964	5623007
Loan loss from provision written back	43861090	71810082	52123586	42721183	28034555
Profit/loss from regular operations	**1218628419**	**1439007890**	**1693165115**	**2111921192**	**2373639886**
Profit/loss from extra-ordinary activities	2326357	4131237	20039981	-	19000000
Net profit after considering all activities	**1220954776**	**1443139127**	**1713205096**	**2111921192**	**2392639886**
Provision for staff bonus	110995889	131194466	155745918	191992836	217512717
Income tax provision	338487758	388960654	492023037	588046555	651889768
a. Current year	363530553	406083233	503887138	579357379	686716416
b. Up to previous year	565456	-	22992061	13741360	270000
c. Current year deferred tax Income/ Expenses	(25608251)	(17122579)	(34856162)	(5052184)	(35096648)
Net Profit /(loss)	**771471129**	**922984007**	**1065436141**	**1331881801**	**1523237401**

(Source : Annual Report of NSBI)

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