COMPARATIVE ANALYSIS OF FINANCIAL PERFORMANCE OF NEPAL BANK LIMITED AND NABIL BANK LIMITED

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RECOMMENDATION

This is to certify that the Thesis

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

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VIVA-VOCE SHEET

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And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the

Degree of Master's in Business Studies (MBS)

Viva-Voce Committee

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DECLARATION

I hereby declare that the work reported in this thesis entitled **"COMPARATIVE ANALYSIS OF FINANCIAL PERFORMANCE OF NEPAL BANK LIMITED AND NABIL BANK LIMITED"** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of **Professor Dr. Kamal Das Manandhar** and **Dhruba Subedi** of Shanker Dev Campus.

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CHAPTER - I

INTRODUCTION

1.1 General Background

Though Nepal is least developed and landlocked country, the economic liberalization has opened the door of market economy. This has encouraged the growth of public limited enterprises such as joint venture banks, manufacturing companies, other financial institutions as well as service based companies like hotels airlines etc with attraction of capital from the financial market. Financial market is an important tool to allocate the monetary resources from surplus unit to deficit unit. In fact, the prosperity of a nation and their people depends much on the manner how financial market plays a role to transfer of funds by integrating the various sectors of the economy. Financial market has recorded a positive trend in the raising funds from both primary and secondary market. Likewise financial system plays an important role in allocating resources among productive sectors and helps to increase income and employment in an economy.

Originally finance was studied as a part of economics. It was separated from economics in early 1900s. During those days, finance was concerned only with raising funds to finance the new firms and large corporations by issuing various types of securities. During great depression of 1930s the finance was developed as subject matter, which handles financial crisis, corporate liquidity and regulation of security markets. Due to increasing acceptance of present value concept since 1950s contents of financial management began to have change of emphasis from procurements of funds to managerial decision making, such as investment and financing decision. Today financial management also deals with the impact of external factors on managerial decision like technology, inflation, interest rate fluctuation, exchange rate etc.

The banking system was existed since ancient time but the form was unorganized. The modern banking system has been developed by crossing different stages of evolution like merchants, money lenders and goldsmiths. For the first time 'Bank of Venice' Italy is regarded as a modern bank, established in 1157. Chronologically 'Bank of Barcelona' in

1401 and ‘Bank of Amsterdam’ in 1609 were established. Establishment of ‘Bank of England’ in 1694 brought a remarkable change in the process of establishing banking institution in the world. The establishment of this bank became a milestone in the history of banking development. It is believed that the idea of commercial banks rapidly spread all over the world after the inception of this bank. Subsequently, Bank of Hindustan (1770), Bank of France (1800), and Bank of Japan (1882) established.

Likewise the world history, in Nepal the banking system has been developed by crossing different stages since ancient time. An ancient and unorganized banking system was known as Tankadhari & Tejrath Adda. Both of them used to exchange of money and provide loan to the government employees. The organized and modern banking system was originated after establishment of Nepal Bank Limited in 1994 B.S. as a semi-government bank. As a central bank Nepal Rastra Bank was established in 2013 B.S. under Nepal Rastra Bank Act 2012. In 2022 the fully government owned bank Rastriya Banijya Bank was established under Rastriya Banijya Bank Act 2021. After the acceptance of economic liberalization policy, the government allowed the permission to operate the commercial banks as a joint venture with foreign commercial banks. As a result the first joint venture bank, Nepal Arab Bank Limited was established and later it is termed as Nabil Bank Limited and till date there are 26 commercial banks. The licensed commercial banks are presented below:

List of Licensed Commercial Banks

S.N.	Name of Commercial Banks	Operation Date	Head Office
1	Nepal Bank Limited	1937/11/15	Kathmandu
2	Rastriya Banijya Bank Limited	1966/01/23	Kathmandu
3	Agriculture Development Bank Limited	1968/01/02	Kathmandu
4	Nabil Bank Limited	1984/07/16	Kathmandu
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Limited	1987/01/30	Kathmandu
7	Himalayan Bank Limited	1993/01/18	Kathmandu
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu
10	Everest Bank Limited	1994/10/18	Kathmandu
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanager
13	Lumbini Bank Limited	1998/07/17	Narayangadh
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biratnager
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara
16	Kumari Bank Limited	2001/04/03	Kathmandu
17	Laxmi Bank Limited	2002/04/03	Birgunj
18	Siddhartha Bank Limited	2002/12/24	Kathmandu
19	Global Bank Limited	2007/01/02	Birgunj
20	Citizens Bank International Limited	2007/6/21	Kathmandu
21	Prime Bank Limited	2007/9/24	Kathmandu
22	Sunrise Bank Limited	2007/10/12	Kathmandu
23	Bank of Asia Nepal Limited	2007/10/12	Kathmandu
24	Development and Credit Bank Limited	2008	Kathmandu
25	NMB Bank Limited	2008	Kathmandu
26	Kist Bank Limited	2008	Kathmandu

Source: www.nrb.org.np

Commercial banks are one of the major financial intermediaries whose primary function is the transfer of monetary resources from the savers to the users. Commercial banks mission, goals, objectives and policies are similar to those of the other financial institutions so that commercial bank is business firm. Commercial bank performs various functions, main functions are:

1. Accepting Deposits

It accepts deposits made by individual and institutional costumers under following accounts and may also pay interest on the deposits besides providing security under existing regulation:

- Current Accounts
- Saving Accounts
- Fixed Deposit Accounts

2. Providing Loan

It provides loan to the individual and institutional customers for the development of industry, trade and commerce, service and agriculture.

3. Agency Service

- Under this fall these functions:
- Foreign exchange
- Provide service as an agent on behalf of its client.
- Issuing L/C
- Circulating notes, bank drafts, travelers' cheque etc.
- Purchase and sale of different types of securities and remittance of fund
- Underwriting of securities
- Collection and payment of cheques, bills, promissory notes, coupons, dividends and other instruments.
- Acting as executors
- Discounting of bills
- Providing safeguard to valuable of clients by keeping in safe custody etc.

Commercial banks have to very selective and careful in providing loan, so that loan will be minimized and the loan loss provision will automatically become less for the commercial banks. Among the number of commercial banks developed in the country, local commercial banks have to face much more loan loss to extent KPMG report provided bank crops and the failures of local commercial banks due to huge outstanding credit. But joint venture commercial banks mixed results show become the first generation joint venture banks have little loan losses as it can with Nepal Standard Charter, Nabil Bank and so on. Then these are followed by second generation bank like Himalayan Bank, Nepal Investment Bank, Everest Bank etc. that have problems of financial losses requiring loan loss provision to be maintained. But the third generation banks like Nepal Industrial and Commercial Bank, Nepal Credit and Commerce Bank, Nepal SBI Bank etc that are suffering from huge credit losses (Shrestha, 2004: 267).

Public limited companies have to provide adequate disclosure of financial information to public in helping them to analyze the performance and position of the company in a right way. Financial performance analysis is the way to study the financial statements. Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of the balance sheet & the income statements. Thus the financial analysis is concerned with arranging, classifying and grouping of financial data in a purposeful manner where by a user can easily understand about the survival, stability, profitability and growth prospect of the company.

1.2 Profiles of the Organizations

Nepal Bank Limited (NBL)

Nepal Bank Limited is the first bank of Nepal inaugurated by King Tribhuwan on 30th Kartik 1994 (15 November 1937 A.D). This marked the beginning of an era of formal banking in Nepal. In accordance with the government's policy of providing at least one banking facility for 30,000 people, NBL follows an active policy of opening up branches and sub-branches throughout the country. NBL's authorized capital was Rs. 10 million and issued capital was Rs. 2.5 million of which paid up capital was Rs. 842 thousand with 10 shareholders. Although the bank had 211 branches, the total branches numbered around 99, as many as of them had been closed due to the Maoist insurgency. Now the general public has majority ownership of 49.94% on NBL.

Ownership Pattern of NBL

General Public of Nepal	49.94%
Government of Nepal	40.49%
‘A’ class financial institutions	4.92%
NRB licensed financial institutions	3.42%
Other institutions	0.52%
Other	0.71%
Total	**100%**

As the first bank of the nation, Nepal Bank Limited has been playing a significant role in the development of Nepalese economy. It has developed a sound infrastructure in the economy of Nepal. Nepal Bank Limited is highly successful in creating banking habits among the people and to create magnetization in the monmonetized area of the country. The contribution of Nepal Bank Limited to sustain and improve the economic aspect of nation cannot be underrated. Since the establishment, it has been helping communities and government in many ways Because of it being the first bank; it discharged the functions of central bank too for stability in the economy until the establishment of the Nepal Rasta Bank. The contributions made by the bank at that time in creating banking habits among the people, widening magnetized area and helping business communities and government have helped the bank to be glorious pioneer in its field.

Nepal Bank Limited, established in 1937 A.D. with a single banking office with a view to providing banking facilities and to help in economic welfare of the general public is now offering its services to the people with 98 branches all over the country. Besides the main functions of deposit collection and mobilization, Nepal Bank Limited has served nations economic in many ways by investing on the shares of government and non-government organizations like, Rastriya Beema Sanstha, Nepal Oil Corporation, Nepal Industrial Development Corporation, Nepal Standard Chartered Bank, Economic Service Centre, Nepal Housing Development and Finance Company, all of five Rural development Banks, Citizen Investment Trust, Nepal Insurance Company, Agricultural Project Service

Centre, Credit Security Corporation etc. What is more, it has been investing well among on other government on other side. Nepal Bank Limited has been serving its customers by means of services like money transfer, collection, purchase and remittance of bills, cheque and note, opening of Letter of Credit etc. Without these services, commerce of today cannot even dream of surviving. Secondly, it has been serving tourism industry by purchasing and issuing traveler's cheque receiving and sending remittance. The underdeveloped countries like Nepal are always facing the acute problem of resource gap. In such a situation, the mobilization of domestic resources is very important which signifies the collection of small saving of people and then tapping those savings into the needy sectors of the economic for the development purpose. The main objective of domestic resources mobilization is to finance development expenditure. Nepal Bank Limited has contributed largely for mobilizing domestic resources. It has been collecting small savings from the people and utilizing them in the needy sectors of the country's economy. The extension of branch offices throughout the country has contributed favorably to banks recourses mobilization capacity. Hence, it can be concluded that being the oldest bank. Nepal bank Limited has played a vital role and contributed immensely not only for the development of banking sector but also for the aggregate and balanced economic growth and development of the nation.

Capital Structure of Nepal Bank Limited Balance Sheet
As at July 15, 2008 (Asadh 31, 2065)

S.N	Capital and Liabilities	Schedule	Current Year Rs.	Previous Year Rs.
1.	Share Capital	1	380,382,600	380,382,600
2.	Reserve and Fund	2	(6,388,684,333)	(6,627,898,343)
3.	Debenture and Bonds	3	-	-
4.	Borrowings	4	1,820,088,867	1,604,868,196
5.	Deposits	5	41,829,391,063	39,014,204,359
6.	Bills Payable	6	52352562	60,726,059
7.	Proposed and Dividend Payable		2,067,637	2,083,097
8.	Income Tax Liabilities		-	-
9.	Other Liabilities	7	4357855914	4,824,427,537
Total Liabilities			**42,053,444,310**	**39,258,793,505**

S.N	Assets	Schedule	Current Year Rs.	Previous Year Rs.
1.	Cash Balance	8	1,181,792,413	1,086,066,645
2.	Balance with NRB	9	4,430,641,018	5,224,859,643
3.	Balance with Bank/Financial Institutions	10	1,004,559,156	806,366,796
4.	Money at Call and Short Notice	11		200,000,000
5.	Investment	12	16,570,755,516	16,072,179,882
6.	Loan Advances and Bills Purchase	13	13,251,962,768	11,058,477,657
7.	Fixed Assets	14	207,527,502	205,768,262
8.	Non-Banking Assets	15	-	-
9.	Other Assets	16	5,406,205,937	4,605,074,620
Total Assets			**42,053,444,310**	**39,258,793,505**

NBL provides the services of commercial bank including accepting deposits, providing loan and advances, ATM/Debit card service, SMS Banking, ABB system, E-Banking etc. It has also launched the NRN Banking to presents various services to NRN from Kathmandu Banking Office.

Nabil Bank Limited (NABIL)

Nabil Bank Limited is the first foreign joint venture bank of Nepal started its operation in July 1984. Nabil was incorporated with the objectives of extending international standard modern banking services to various sectors of the society. Nabil has the 32 branches throughout the country to provide its banking facility. This bank was renamed as Nabil Bank Limited from 1st January 2002. First Dubai Bank Limited was partner of 50%

equity capital. Later Dubai Bank Limited takeout its hand and transferred its equity to National Bank Limited of Bangladesh.

Ownership Pattern of NABIL

⟩	National Bank Limited Bangladesh	50%
⟩	Nepalese Public Shareholders	30%
⟩	NIDC	10%
⟩	Rastriya Beema Sansthan	9.66%
⟩	Nepal Stock Exchange	0.34%
	Total	**100%**

Capital Structure of Nabil Bank Limited Balance Sheet
As at July 15, 2008 (Asadh 31, 2065)

S.N	Capital and Liabilities	Schedule	Current Year Rs.	Previous Year Rs.
1.	Share Capital	1	689,216,000	491,654,400
2.	Reserve and Fund	2	1,747,982,989	1,565,395,315
3.	Debenture and Bonds	3	240,000,000	-
4.	Borrowings	4	1,360,000,000	882,572,500
5.	Deposits	5	31,915,047,467	23,342,285,327
6.	Bills Payable	6	238,421,890	83,514,820
7.	Proposed and Dividend Payable		437,373,004	509,417,925
8.	Income Tax Liabilities		38,776,869	-
9.	Other Liabilities	7	465,940,930	378,552,721
Total Liabilities			**37,132,759,149**	**27,253,393,008**

S.N	Assets	Schedule	Current Year Rs.	Previous Year Rs.
1.	Cash Balance	8	511,426,584	270,406,987
2.	Balance with NRB	9	182,947,0769	1,113,415,436
3.	Balance with Bank / Financial Institutions	10	330,243,702	16,003,428
4.	Money at Call and Short Notice	11	1,952,360,700	563,532,632
5.	Investment	12	9,939,771,428	8,945,310,567
6.	Loan Advances and Bills Purchase	13	21,365,053,318	15,545,778,730
7.	Fixed Assets	14	598,038,998	286,895,224
8.	Non-Banking Assets	15	-	-
9.	Other Assets	16	606,393,650	512,050,004
Total Assets			**37,132,759,149**	**27,253,393,008**

Nabil bank has provided many facilities to its customer like accepting deposits, advancing loans, remittance facilities, debit/credit card, ATM services, e-banking, bill discounting, providing bank guarantee and more.

1.3 Statement of the Problems

There are various commercial banks operating their activities in the different parts of the country. Banks are not considered merely as a dealer of money but also the leaders in development. They are not only the storehouse of the country's wealth but also the reservoirs necessary for economic development. After adaptation of liberal and market oriented economic policy, the establishments of private joint venture banks have continued. Consequently tough competition has been aroused. The financial sector may not be enough from them enough to meet the growing the resources need to the economy as expected before. Why the financial institution of Nepal is performing well and effectiveness of these institutions should be analyzed. This study will seek the reasonable reason on the following concentration areas of Nepal Bank Limited and Nabil Bank Limited.

- Identifying the liquidity, profitability, assets management and capital structure ratio and marked position of commercial banks.
- Identifying the relationship between total deposit and loan & advances of commercial banks.
- Identifying the relationship between deposit and investment of the commercial banks.
- Identifying, how efficiently do the banks use their capital.
- Identifying which bank performing better and efficiently.

1.4 Objectives of the Study

This study is being conducted to analyze the financial statements of Nepal Bank Limited and Nabil Bank Limited comparatively. The sample banks are one is government bank and another is private bank. The main objectives of the study are pointed below:

- To represent the financial condition of government owned commercial bank and private sector commercial bank.

- To distinguish the effectiveness of government owned bank and private sector bank.
- To ascertain the strengths and weaknesses of both banks.
- To suggest the necessary reforms for the effective and efficient performance.
- To evaluate the relevant financial position and investment position of sample banks.
- To provide suggestion and recommendation for the banks on the basis of findings.

1.5 Significance of the Study

Analysis of financial statements of any company is very important to disclosure its condition. On the basis of financial analysis we can say that the concerned company is strong or not. The financial statements published by the banks, give the meaningful picture to the general public regarding the financial position of the banks. Thus the analysis of these statements is necessary in order to give the full and clear-cut position and performance of the banks. This study compares the financial performance of NBL and NABIL which compare the position of selected bank under the study, which encourage improving the different position and performance of those banks. From the analysis of those statements, researcher finds different strengths and weaknesses of the sample banks which are recommended to the banks for their future improvements. Banking institutions definitely contribute and play an important role for resource mobilization and economic developments

This study has multidimensional significance in particular area of concerned banks which have been undertaken that justified for finding out important point and facts to researcher, shareholders, brokers, traders, financial institution and public knowledge.

This study certainly input the policymaker of concerned selected banks for making plans and policies of the effective banking system.

1.6 Limitation of the Study

The study will have some limitations; basically the study is done for the partial fulfillment of Master of Business Studies. Time constraints, financial problem and lack of research experience will be primary limitations and other limitations are as follows:

- The study concerns only with two commercial banks namely Nepal Bank Limited and Nabil Bank Limited. Hence the result of the study will not be applicable for other banks.
- The study is mostly based on secondary data provided by the banks. Hence secondary data themselves are limiting factors or research based on secondary data is not far from limitation due to inherent character of these data.
- The study concerns on financial position of the banks for said period and has been analyzed with the help of various financial, accounting and mathematical tools.
- The technique financial performance analysis oneself is limiting factor in term of qualitative factors. It doesn't consider the qualitative factors of banks beyond of quantitative factors.
- Time and financial constraints are also major limitations of the study. This study is prepared on the basis of five year data from Fiscal Year 2003/04 to Fiscal Year 2007/08, so it reveals the position of these periods only. The report has to be submitted within the certain time period so this hinders the study to cover a large area.

1.7 Organization of the Study

The study has been organized into five chapters, each devoted to the some aspect of the study on "Financial Performance Analysis of Nepal Bank Ltd and Nabil Ban k Limited". The whole study will be in following format

Chapter One : Introduction

Chapter Two : Review of Literature

Chapter Three : Research Methodology

Chapter Four : Data Presentation and Analysis

Chapter Five : Summary, Conclusion and Recommendations

Chapter one deals with the subject matter of the study which consists of background of the study, objective o the study, significance of the study, limitation of the study and organization of the study.

The second chapter deals with the review of the literature, which include conceptual settings and review and previous studies. This chapter involves about the study topic such as books, articles, journals, research works, thesis etc which are helpful to this study.

The third chapter deals with the research methodology. It contains the research design, period covered, population and sample, sources and types of data, data procession procedure and tools for analysis.

The fourth chapter deals with data presentation, analysis on the basis of financial statement, annual report and web-sites of company concerned and presents the major findings of the analysis.

The fifth chapter presents the summary, conclusion followed by recommendations for the future package of the plan of action.

CHAPTER - II

REVIEW OF LITERATURE

The concern of the study primarily is to focus on financial performance of sample bank. The purpose of reviewing the literature is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas for developing a research design, thus the foundation to the present study. In other word, there has to be continuity in research. Review of literature is an essential part of all studies. "A literature review is a process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest. The purpose is to develop some expertise in one's area, to see what new contributions can be made and receive some idea for developing a research design". (Wolf and Pant, 2005:39).

There are many studies related to the financial performance of commercial banking and trading companies.

This chapter basically divided into two sections, first is conceptual review and second is related about the books and article and the previous thesis related to the subject matter.

2.1 Conceptual Review

Financial performance analysis is the tool to evaluate the position of concerned company and this analysis is done along with financial statements disclosure by the company. Financial performance analysis as a part of the financial management is the main indicator of the success or failure of the firm. There are different persons/institutions that affect of are affected by the decision of the firm. Financial condition of the firm should be sound from the point of the view of stakeholders. The nature of analysis will differ depending on the interest of different group. For example trade creditors are interested in long term solvency and survival. So, financial analysis is undertaken by outsiders, creditors, investors and also by the firm itself. Thus, the various parties according to particular interest of the analyst undertake the type of financial analysis.

Financial statements are written reports of financial affairs of a company. Financial position of the company is determined by presenting the picture of its assets, liabilities and shareholders' equity and the end of the period. Formally, financial statements analysis is defined as the process of analyzing and interpreting the financial figures contained in the statements by developing some relationship among the figures in such a manner that meaningful information can be obtained about the liquidity, efficiency, profitability and leverage position of the company.

The focus of the financial analysis is a key figures contained in the financial statements and the significant (Khan & Jain, 1992:79).

Financial analysis is concerned with identifying the financial strengths and weaknesses of the firm properly establishing relationship between the items of the balance sheet and profit and loss account (Pandey, 1991:109).

Financial Analysis may be of two types viz, vertical analysis and horizontal analysis. When financial analysis statement like balance sheet and profit and loss account of a certain period only are analyzed, the analysis is called vertical analysis. In horizontal analysis a series of statements relating to no of years/periods are reviewed and analyzed. This study is based on horizontal analysis.

For the financial analysis three steps are used

- Selection of information relevant to the decision under consideration from the total information.
- Arrangement of selected information in way highlighted significant relationship
- Interpretation and drawings of references and conclusions.

In short, financial analysis is the process of selection, relation and evaluation.

Ratio Analysis as a tool of Financial Statements Analysis

Financial statement analysis can be performed by employing a numbers of methods or techniques, like trend analysis, cash flow analysis, comparative financial statements and ratio analysis. Among these techniques ratio analysis is the most suitable and used technique.

In simple word, a ratio is a quotient of two numerical variables, which shows the relationship between the two figures. Ratio analysis is the process of determining and interpreting numerical relationship between figures of financial statements. Since an absolute accounting figure often does not provides much meaning by itself, it has to be analyzed the relation to other figures so that significant information about the company's financial performance can be derived. The relationship of one term to another expressed in simple mathematical form is known as ratio.

Ratio analysis involved the Methods of calculating and interpreting financial ratio to assess the firm's performance and status (Gitman & Lawrence 1998:87).

Statements for Ratio Analysis

As stated above ratio analysis is a popular technique of financial statement analysis, which is the process of determining and presenting the quantitative relationship between two accounting figures to assess the strength and weaknesses of a company. To examine the relationship the variables are traced out from the different statements like balance sheet, income statement etc. 'Nepal Accounting Standard, July 2002', emphasizes the preparation of financial statements by the company and offers the framework for the preparation and presentation of these statements.

(a) Income Statement

Income Statement/trading and profit and loss account is to show the results of its business operations in terms of net profits earned of net loss suffered during the period of reporting. Trading account is a nominal account which mainly shows the direct expenses incurred for a certain financial year relating to the sale of goods and the results of its trading, operations for the period. It shows the cost of production, trading expenses, sales revenue and opening and closing stocks of outputs. Profit and loss account is prepared after the trading account which shows gross profit or loss. Since the profit and loss account is a nominal account, it is debited by all the expenses and credited by incomes. The difference between total incomes and gains, and total expenses and credited by incomes is either net profit or net loss. In brief income statement of any company shows its revenue exceeding to its overall direct and indirect costs.

(b) Statement of Retained Earning

Statement of retained earning of profit and loss appropriation account shows the change in the profit position of the company during the reporting period. It is prepared after the preparation of profit and loss account. It shows the distribution of available profit in the way of dividend and creation of reserves. This statement helps to find out the amount of reserve, funds for future contingencies and developments.

(c) Balance Sheet

A balance sheet is a statement of the financial position of a company prepared on a particular date. According the R. Stead, 'Balance sheet is a screen picture of the financial position of a going business at a certain moment.' Balance sheet reflects the position of the company entirely in terms of assets and liabilities, solvency capacity, purchase consideration, owner's equity, borrower's capital and many more.

Classification of Ratios

Accounting ratios can be classified from different points of view. Ratios may be used to evaluate the company's liquidity, efficiency, leverage and profitability.

(a) Liquidity Ratio

Liquidity represents one's ability to pay its current obligations or short-term debts within a period less than a year. Liquidity ratios, therefore, measures a company's liquidity position. The rations are important from the viewpoint of its creditors as well as management. The liquidity position of the company can be measured mainly by using two liquidity ratios such as follows:

Current Ratio

Current ratio is also known as short-term solvency ratio or working capital ratio. This ratio is used to assess the short-term financial position of the business. In other words, it is an indicator of the firm's ability to meet its short-term obligations.

Quick Ratio

Quick ratio is another measure of a company's liquidity. It is also known as liquid ratio. However, although it is used to test the short-term solvency position of the firm, it is a more stringent measure of liquidity that the current ratio. Liquid assets are cash and other assets which are either equivalent to cash or convertible into cash within a very short period of time. Thus, liquid assets are also called monetary current assets.

(b) Leverage Ratio

Leverage ratios are called long term solvency ratios or capital structure ratios. The term solvency implies the ability of a company to meet the payments associated with its long term debts. Thus, Solvency ratios measure the company's ability to meet its long-term obligations. The major types of leverage ratios are:

Debt-equity Ratio

Debt equity ratio is calculated to ascertain the soundness of the company's long-term financial position. It indicated the extent to which it depends upon borrowed funds for its existence. It portrays the proportion of its total funds acquired by way of external financing.

Debt to Total Capital Ratio

This ratio shows the relationship between long-term debt and total capital employed by the company. Total capital includes long-term liabilities plus shareholder's equity. Total capital is also regarded as permanent capital of capital employed of long term fund.

(c) Turnover Ratio

Turnover ratios are also known as activity of efficiency rations. The total funds raised by the company are invested in acquiring various assets for its operations. The assets are acquired to generate the sales revenue and the position of the profit depends upon the value of sales. These ratios establish the relationship of sales with various assets. The major types of this ratio are:

- Inventory turnover ratio
- Debtors turnover ratio
- Average collection period
- Total assets turnover ratio
- Fixed assets turnover ratio
- Capital employed turnover ratio

(d) Profitability Ratio

The main objective of a company is to earn profit. Profit s both a means and an end to the company. Therefore, profitability shows the overall efficiency of the company. Profitability ratios are the measure of its overall efficiency. Generally, profitability ratios can be calculated in term of the company's sales, investment and earning and dividends. Main types of profitability ratios:

Profitability in Relation to Sales

- Gross Profit Margin
- Net Profit Margin

Profitability in Relation to Investment

- Return on Assets
- Return on shareholders equity
- Return on equity shareholders fund
- Return on capital employed and dividend

Profitability in Terms of Earning and Dividend

- Earning per share
- Dividend per share

2.2 Review of Article

Shrestha, (1997), in his article, *"Nepalma Banijya Bankharuko Bhumika:Ek Paridristi"* pointed out some important activities seen in the banking scope that reserve reviews:

- Possibility of capital flight: The unstable political situations caused the possibility of capital flight soaring high. Joint venture banks can become the main source of capital flight. It should be seriously considered and analyzed and corrective actions to be taken.
- Minimum deposit amount: Commercial banks and financial institution have increased the minimum deposit amount. This policy harasses depositors. Therefore this policy deserves review.
- Debt recovery and its effectiveness: Debt recovery has become a problem to the bank. Therefore, effective evaluation of collateral and monitoring of loan sue should be done effectively.

Dhungana (2005), on the topic *"Non-Performing Loan and Commercial Banks"* said that the banking sector is severely affected by non-performing loan. It is estimated that non-performing loan of Nepalese banking system is around 16%. Due to the non-performing loan two old commercial banks Rastriya Banijya Bank and Nepal Bank Limited are in the worst position today. Joint venture banks are also facing non-performing loan problem. It has a serious implication to performance of the country. Hopefully, the Debt Recovery Act 2058 will tackle this problem.

A useful contribution made by **Poudel (2004)** in his article called financial statement analysis published in Nepal Rastra Bank Samachar in reviewed. According to Poudel Balance sheet, profit and loss a/c and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss a/c. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account from a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans & advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statement of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of banks' financial statement has been expressly laid down in the concerned act. Commercial banking act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public. According to Poudel, the principle objectives of analyzing financial statements are to identify:

- Financial adaptability (Liquidity)
- financial performance (Profitability) and
- Financial position of Bank (solvency)

Most of the users of the financial statements are interested in assessing the bank's overall performance i.e. profitability which is affected by the following factors.

- The structure of Balance Sheet and profit and loss accountant.
- Operating efficiency and internal management system.
- Managerial decisions taken by top management regarding interest rate. exchange rate, lending policies etc.
- Environmental changes (technology, government, competition, economy).

According to Poudel, the other factors, to be considered in analyzing the financial statements of bank is to assess the capital adequacy ration liquidity position. In the line of the norms set by bank for international settlement, capital adequacy of a bank is assessed on the basis of risk weighted assets. It indicates a bank's financial strength and solvency. Presently the capital fund of a bank should not be less than 8% (at least 4% should be in the form of tier-1 capital or core capital) of its risk weighted assets as capital fund. Banks facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base. Liquidity is measured by the speed with which banks assets can be converted in to cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of bank.

Article written by **Kafle (1993)** "*Capital Market in Nepal*" in the newsletter of the Nepal Chartered Accountant has been reviewed. According to that, Nepalese capital market got a proper structure only in the year 1993. In this year securities board was established as regulator and stock trading commenced through the member brokers adopting upon outcry auction system. Stock exchange in its usual role was their expected to develop as a powerful mechanism to mobilize savings for long term investments.

A book about capital market by **Mahat (1981)** entitled "*Capital Markets Financial Flows and Industrial Finance in Nepal*" was written in the early period of the development of capital market and before the establishment of stock exchange. So Dr. Mahat made the first priority to establish stock exchange for the development of stock market. He has also written that Nepalese stock market is still in infancy stage and some drawbacks to the development of stock markets are strong historical and social reasons as well as mass poverty and illiteracy in Nepalese society. He further pointed out that some conscious and educated people of urban areas are also not investing in the industrial sector instead they are investing on the real estate especially in building construction. Although the book was written in the early stage of the development of stock market, the limitations of Nepalese society regarding the investment in stock market is still reality of Nepalese capital market.

Another study conducted by **Shrestha (1990)** in his article "*Commercial Banks Comparative Performance Evaluation*" clarify that joint venture banks in Nepal are new and comparatively more efficient in operation and having superior performance amongst local banks. Due to theirs new and qualify technology, modern banking and skill, joint venture banks are performing better comparison to local banks. Their better performance is also due to the burden of local banks, which are facing the burden of government's branching policy in rural areas and financing public enterprises and priority sector. Local banks are efficient and expertise in rural sector. However, having number of deficiencies, they have to face growing constrains of socio-economic political.

Shrestha R.L. (2046) in his article *"Capital Adequacy of Bank, the Nepalese Context"* has suggested the banks that deal in highly risky transactions to maintain strong capital base. He concluded that the capital base should neither be too much leading to efficient allocation of scarce resources nor so week to expose to extreme risk. The study accepts that the operations of banks and the degree of risk associated with them are subject to changes country wish, bank wish and time period wise (NBR samachar, 34th anniversary 2046).

2.3 Review of Relevant Studies

There are many articles can be seen in manuals, paper, journal etc regarding the performance of commercial bank. Prior to this study, reversal views and opinions have been expressed by different persons regarding related to this study which have probably, been useful the interest groups of commercial banks.

Regarding the performance of commercial/joint venture banks, the different analysts have presented their conclusions. Their findings are presented below

Shrestha, (2052) on the topic *"Lending Operation of Commercial Banks of Nepal and Its Impact on GDP"* sets hypothesis that there is positive impact of lending of commercial banks to GDP. In her study, she assumes the GDP as dependent variable while different lending sectors like agriculture, industry, commerce and utility sectors are considered independent. Except service sector study all other sectors depict positive impact on GDP by lending of commercial banks.

Thapa, (1994) on the topic *"Financial System of Nepal"* says:

- Commercial banks including foreign banks are doing pretty well in mobilizing deposits.
- They are increasing their loan and advances. However, the banks will seem to lack adequate funds to grant loan especially newly emerging industries.

- Joint venture banks have been functioning weill and making huge profits year after years and distributing large amount in the form of bonus and dividends to its employees and shareholders respectively.
- The main reasons behind success is concentration of these bank to modern off-balance sheet operations like foreign exchange (FOREX) dealing along with traditional operations and efficient personnel management.

Chopara, (2046) on the topic *"Role of Foreign Banks in Nepal"* illustrates the joint venture Banks are already playing vital role in economic development of the country. He views that he is confident it would increase with time.

Shrestha, (2047) on the topic *"Commercial Bank Comparative Performance Evaluation"* says "Joint venture banks are, new, operationally more efficient, having superior performance while comparing with local banks. Better performance of joint venture banks is due to their sophisticated technology, moderns banking methods and skills. They are better policy insular areas and financing enterprises. Local banks are efficient and expertise in rural sector, but having number of deficiencies, banks have to face growing constraints of social economic at political system one hand spectrum and that of issues and challenges of joint venture banks commanding significant banking business on the other spectrum."

On the topic *"Financial Management Theory and Practice"* illustrated his main findings as follows:

- Commercial Banks have sufficient liquidity position to meet the claims of depositors except the depositors of fixed accounts.
- Regarding capital structure, the bank is explicitly dependent more on borrowed capital.
- The rate of return on ownership capital is favorable.

Thakur, (2052) on the topic *"Performance of Nepalese Commercial Banks"* concluded over his findings that the joint venture banks are successful in consolidating their position over the years in addition to penetrating the market.

2.4 Review of Thesis Work

Prior to this study some thesis-researcher have already conducted studies about many aspect of commercial banks. Relating on financial performance analysis I have searched some previous thesis, their objectives and conclusions on their studies are presented below:

Joshi (2003) *"Financial Analysis of Nepal Investment Bank Limited"* conducted this thesis with objectives to (i) examine liquidity ratio, profitability ratio and ownership ratio (ii) analysis the bankruptcy score of the bank for the study period. Related with those objective, the conclusions derived from the studies are (i) liquidity position of NIBL is in normal standard, means bank is able to provide all kinds of payments within time, (ii) the cash and bank balance to current assets ratio of NIBL is 10.17% is an average during the study of six year period, which is moderate (iii) bank has high debt equity ration, means the creditors have invested more in the bank than the owners (iv) shareholders equity to total assets ratio indicated the proportion of the assets which is financed for ownership capital of the firm (v) interest earning to total assets ratio is reflects the proportion of interest earned by the bank from the total income is inadequate (vi) correlation between net profit and sales is not more than 0.5 and also not more than 6 times the P.E., it is considered as insignificant.

Bista (2003) *"A Comparative Financial Analysis of Joint Venture Banks"* with reference to Nepal Arab Bank Limited, Himalayan Bank Limited and Nepal Bangladesh Bank Limited, outlined the objectives to (i) study financial position of three banks (ii) evaluate the assets management, capital structure, liquidity position of three banks (iii) evaluate the trend of total deposit, loan and investment pattern. He presented the findings along with his research are, the volume of operation in terms of amount Nabil stands the first position. HBL was success fully increased the operation in very short span of time while

NBBL is unable. To take quick steps in this regard for the analysis period liquidity position is not strong as per study. Net worth to total assets ratio of Nabil is strong while HBL is weak.

Luitel (2007) *"Comparative Analysis of Financial Performance of Joint Venture Banks"* with reference to Standard Chartered Bank Nepal Limited, Nabil Bank Limited and Himalayan Bank Limited, portrayed the objectives to (i) emphasis about the growth, objectives and role of commercial joint venture banks, (ii) infort about the major regulation such as NRB Directives, government policies and govern these banks, (iii) evaluate whether the selected joint venture banks are efficient to face challenges. Along with those objectives he presented the conclusions that (i) HBL is the highest deposit holding bank. Total deposit of HBL exceeded the deposit amount of other two banks. (ii) HBL ahs been seen to adopt the aggressive lending policy during the period of analysis. (iii) Loans and advances of HBL has always been grater as compared to SCBNL and Nabil during this whole period under analysis. (iv) EPS, DPS and Book Value Per Share (BVPS) of SCBNL is found better as compared to Nabil and HBL. (v) Loan loss provision of SCBNL has always been least among selected JVs.

Swar (2008) *"Financial Performance Analysis of Nepal Bank Limited"* presents with main objective to analyze the financial position of the Nepal Bank Limited for two different periods F/Y 2051/052 B.S. to 2056/057 B.S. and F/Y 2057/058 B.S. to 2061 / 062 B.S. According to his study NBL has not maintained a balanced ratio among its deposit liabilities. During the both period there is negative operating profit. Due to the bank's failure in collecting earned interest and matured loan, it has suffered continuous loss. The net worth of the bank for the second period is negative due to the heavy loss during the years. Long term debts, total debts and total deposit ratios have gradually decreased. It indicates that bank has not followed any policy regarding these items. The financial position of the NBL is worse during the second period due to its failure to utilize its recourses efficiently and due to its inefficiency in risk management. The overall financial position of the bank is unsatisfactory during the both periods. It is worse during the second period. The recommendation has been made on the basis of study are:

- While making any type of investment, especially advancing the loan, loan proposal should be seriously studied and the most important factor is, securities against which loan is going to be provided should be valued fairly and properly.
- The inspection and supervision aspects of the bank should be effective and functional.
- The loan and advances department, and the loan recovery department should also be target oriented, i.e. after advancing loan, there should be regular supervision and follow up for the proper utilization of loan.
- Since NBL has large network, there may be irregularities from the staff. So, there should be effective provision of punishment and reward as per the performance.
- The bank's management should be totally out of political pressure.

Chand (2009) *"Comparative Study of Financial Performance of Joints Venture Banks in Nepal'* submitted this study with the objectives to disclosure the financial performance of joint venture banks taking NBBL and EBL as sample. According to his report the findings are:

- Cash and bank balance to deposit ratio of NBBL is not competent in payment of deposit.
- EBL is investing more deposit than NBBL
- EPS of EBL is growing whether EPS of NBBL is decreasing.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

'Research Methodology' is composed of two words: 'Research' and 'Methodology'. Research is a systematic and organized effort to investigate a specific problem that needs a solution. Research methodology refers to the various segmental steps to be adopted by a researcher in studying a problem with certain objectives in view.

This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Thus the entire process by which we attempt to solve problems is called research.

It is significance to have appropriate choice of research methodology that helps to make this research study meaningful and more scientific. Therefore, appropriated methodology has been followed to meet the purpose objectives of the study. So, the methodology has been followed to meet the purpose objectives of the study. So, the methodologies of this research include the research design, the population and sample, nature and resource of data, data collection procedure and presentation of data and method of analysis.

3.2 Research Design

Research design is a plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. The study is based on historical data, which covers the five years period. It deals with analysis of financial performance, basic concern of two banks of Nepal (Nepal Bank Limited and Nabil Bank Limited).

Basically, the research design has two purposes. The first one is to answer the research question or test the research hypotheses and other is to control variance (Wolf and Pant, 2000:50). So, research design is the plan structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance (Karlinger 1986:275). We can't imagine our research without research design. This chapter is composed of four sections:

- Population and Sample
- Period Covered
- Nature and sources of Data
- Method of analysis and interpretation

3.3 Population and Sample

Sampling is a vital part of any research. A sample is defines as a collecti0n of items of elements from a population or universe. Hence, a sample is a only a portion or subset of the universe of population. Population refers to the entire group of people, events or things of interest that the researcher wishes to investigate. (Wolf and Pant 2005:187)

This thesis entitled "Comparative Analysis of Financial Performance of Nepal Bank Limited and Nabil Bank Limited". Therefore, all the commercial banks operating in Nepal have been considered as a population. The size of population is 26 commercial banks till date. Two banks, Nepal Bank Limited and Nabil Bank Limited have been considered as a sample.

Name of Sample Banks

- Nepal Bank Limited
- Nabil Bank Ltd

3.4 Period Covered

For this study, only five years data from fiscal year 2003/04 to 2007/08 of Nepal Bank Limited and Nabil Bank Limited have been collected. The period of five years range is not sufficient for analysis but researcher unable to obtain more than five years data.

3.5 Nature and Sources of Data

It is universal that any research study must required some kind of data either primary or secondary or both. This study is related to financial performance analysis, so the main source of data is secondary source and the main source for that data is NBL and NABIL. The other sources are concerned banks annual, financial and reform progress report, unpublished thesis, research study, several books and banking journals, articles, magazines and newspapers in different libraries and also fro data given by Nepal Rastra Bank. Internet is also an important source of information related to the study.

3.6 Presentation of Data and Method of Analysis

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic (Cottleetal.1998:29). This is an important part in research work. Therefore, collected data from secondary source and very negligible in primary source were presented in appropriate and suitable various form like tables, diagrams and figures. In most of the analysis, five years recent data were presented from 2003/04 to 2007/08.

The analysis has been done according to the pattern and usefulness of the data. Wide varieties of methodologies have been applied according to the reliability and containing in the financial statements and progress report have been grouped and rearranged so as to make easy and effective comparison. To meet the ultimate purpose of the study, the analysis is divided into five different headings and has been used financial as well as statistical tools.

3.6.1 Financial Tools

To evaluate the performance of any organization financial tools are very useful to determine the strengths and weakness of the financial sector as well as it is historical performance and current financial condition of NBL and Nabil. Ratio is the important analytical tool is very useful to summarize the large quantities of the data and to make quantitative judgment about banks progress and evaluation. The financial tools employed in this study basically represent ratio analysis.

Ratio Analysis

A ratio is a mathematical relationship between two related items expressed in quantitative form. It may be expressed in proportion, in rate or times, or in percentage. Hence, an analysis of financial statement with the help of ratios may be termed as ratio analysis. It implies the process of computing determining and presenting the relationship of items or group of items of financial statement (i.e. income statement and balance sheet). The ratio analysis also involves the comparison of these ratios and use of them for future projection. Various types of ratios used for the analysis and the models used for calculating them are briefly mentioned below:

Liquidity Ratios

Liquidity refers to the ability of the bank to pay the short term liabilities and drawings demanded by the depositors in the time. The lace of proper liquidity management would lose the confidence of the investors. Excess liquidity implies the efficiency in utilizing the collected fund, which ultimately reduces the profitability of the bank. One of the first concern of most financial analyst is liquidity; will the bank be able to meet its short term maturing obligations.

A firm should ensure that it doesn't suffer from lack of liquidity, and also that it doesn't have excess liquidity. The firm's funds will be able unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance high liquidity and lack of liquidity. (Pandey, I.M. 2000:114). Thus, it indicates the bank's ability to pay its current liabilities i.e. day to day financial obligations. Following ratios have been calculated with respect to liquidity ratio.

(a) Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

(b) Cash and Bank Balance to Current Assets Ratio = $\frac{\text{Total of Cash and Bank Balance}}{\text{Total Current Assets}}$

(c) Cash and Bank Balance to Total Deposit Ratio = $\frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$

(d) Investment on Government Securities to Current Assets Ratio =

$$\frac{\text{Investment on Government Securities}}{\text{Total Current Assets}}$$

(e) Loans and Advances to Current Assets = $\frac{\text{Loans and Advances}}{\text{Total Current Assets}}$

Assets Management Ratio

The efficiency of a firm depends largely on the efficiency with which its assets are managed and utilized. Turnover ratio also known as activity ratio and also as efficiency ratio, are concerned with measuring the efficiency of assets and resources management. It measures how the bank is utilizing its collected resources. They indicate the speed with which assets are being conversed or turnover. Grater rate of turnover signifies efficient utilization and management of assets and therefore, proper balance on sales and its assets is very to any firm. To examine the investment and deposit pattern of the firm following ratio can be calculated:

(a) Loans and Advances to Total Deposit Ratio = $\frac{\text{Total Loans and Advances}}{\text{Total Deposit}}$

(b) Investment to Total Deposit Ratio = $\frac{\text{Total Investment}}{\text{Total Deposit}}$

(c) Loan and Advances to Total Working Fund Ratio = $\frac{\text{Loan and Advances}}{\text{Total Working Fund}}$

(d) Non Performing Loan Ratio = $\frac{\text{Non Performing Loan}}{\text{Total Loan}}$

(e) Loan Loss Provision Ratio = $\frac{\text{Loan Loss Provision}}{\text{Total Loan}}$

Capital Structure or Leverage Ratios

Capital Structure refers to the composition of debt and equity in the capital structure. Debt and equity are long term obligations of the bank and other liabilities that appear in the liabilities of the balance sheet are termed as short term obligation. Capital structure or leverage ratio can examine the long-term solvency of a firm. Leverage ratios are financial ratios which throw light on the long-term solvency of a firm as reflected in its ability to assure long-term creditors with regard to periodic payment of interest during the period of the loan and repayment of principal on maturity or in pre-determined installments at due dates. These ratios have been calculated as

(a) Total Debt to Total Equity Ratio = $\frac{\text{Total Debt}}{\text{Total Equity}}$

(b) Debt to Total Capital Ratio = $\frac{\text{Total Debt}}{\text{Total Capital}}$

Profitability Ratios

The management of the firm is naturally eager to measure the operating efficiency of the firm. Similarly, the owners invest their fund in the expectation of reasonable return. The operating efficiency of a firm and its ability to ensure adequate return to its shareholders depends ultimately on the profit earned by it. The crucial importance of profits for a firm cannot be under stressed. Hence, profitability ratios indicate profit earning capacity of a firm. For measuring profitability of a bank, following ratios of this type may be calculated and analyzed.

(a) Return on Total Deposit Ratio = $\frac{\text{Net Profit}}{\text{Total Deposit}}$

(b) Return on Total Assets = $\frac{\text{Net Profit}}{\text{Total Assets}}$

(f) Net Profit to Working Fund Ratio = $\frac{\text{Net Profit}}{\text{Total Working Fund}}$

(g) Return on Equity = $\frac{\text{Net Profit}}{\text{Total Equity}}$

Market Value Ratios

These are other types of profitability ratios under which following ratios may be calculated:

(a) Earning per Share Ratio = $\frac{\text{Earning Per Share}}{\text{No of Share}}$

Dividend per Share Ratio = $\frac{\text{Dividend Per Share}}{\text{No of Share}}$

(b) Price Earning Ratio = $\frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$

3.6.2 Statistical Tools

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as standard deviation, Karl Pearson's coefficient of correlation, trend analysis adopted which are as follows:

Coefficient of Correlation (r)

Correlation analysis contributes to the understanding of economic behavior, aids in locating the critically important variables on which others depend, may reveal to the economist the connections by which disturbances spread and suggest to him the paths through which stabilizing forces may become effective. The coefficient of correlation measures the direction of relationship between the two sets of figures. It is the square root of the coefficient of determination. Two variables are said to be correlated if the change in one variable results in a corresponding change in the other variable. There is positive and negative correlation. If the values of the two variables deviate in the same direction i.e. the increase in the values of one variable results, on an average, in a corresponding increase in the value of the other value or if a decrease in the values of one variable results, on an average, in a corresponding decrease in the values of the other variable, correlation is said to be positive or direct. On the other hand correlation is said to be negative or inverse if the variables deviate in the opposite direction i.e. if the increase (decrease) in the values of one variable results, on the average, in a corresponding decrease (increase) in the values of the other variable. In this study coefficient of correlation is calculated between a MVPS and BVPS, ROE and HPR. The degree of association between the two variables, say x and y and is defined by correlation coefficient (r).

$$r = \frac{N\sum XY - \sum x \times \sum y}{\sqrt{N\sum X^2 - (\sum x)^2}\ \sqrt{N\sum y^2 - (\sum y)^2}}$$

Where,

N = the no. of observation

X= Dependent Variable

Y= Independent Variable

The value of 'r' lies between -1 to +1 and if r=1, there is perfect positive relationship. If r=-1, there is perfect negative relationship. If r=0, there is no correlation at all.

Coefficient of Determination (r^2)

The coefficient of determination is the measure of the degree of linear association or correlation between two variables, one of which happens to be independent and the other dependent variable. It measures the percentage of total variation in dependent variable explained by independent variables. The coefficient of determination can have a value ranging from 0 to 1.

$$r^2 = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

Probable Error (P.E.)

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error it is possible to determine the reliability of the values of the coefficient in so far it depends on the condition of random sampling. The probable error of the coefficient of correlation is obtained as follows.

$$P.E. = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

Where,

r^2 = Coefficient of Determination

N = the no. of observation

If the value of r is less than probable error there is no evidence of correlation i.e. value of r is not at all significant.

If the value of r is more than six times the probable error coefficient of correlation is practically certain i.e. the value of r is significant.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

After the introduction of financial performance, here is given the major and utmost important findings. This is analytical chapter, where the researcher has analyzed and evaluated those major financial items, which mainly effect the financial management and fund mobilization.

4.1 Liquidity Ratios

Liquidity ratios measure the ability of the bank to pay the short term liabilities and drawings demanded by the depositors in the time. Under this ratios we calculates following ratios

4.1.1 Current Ratio

Current ratio is also known as short-term solvency ratio or working capital ratio. This ratio is used to access the short-term financial position of the business. In other words, it is an indicator of the firm's ability to meet its short-term obligations. This is a broad measurement tool to analyze liquidity position of a financial institution. It indicates bank's ability to discharge current obligation. The ratio is obtained by dividing current assets by current liabilities.

Table 4.1

Current Ratio

Fiscal Year	NBL	NABIL
2003/04	0.7409	1.1592
2004/05	0.7747	1.0812
2005/06	0.5754	1.0678
2006/07	0.8468	1.0659
2007/08	0.8338	1.0570
Mean	**0.7543**	**1.0900**

Source: Annex-1

Table 4.1 exhibits that NBL has current assets are less than their current liabilities but NABIL has maintained current assets more than their current liabilities over the study period. It shows that NBL is not efficient to meet their short-term liabilities. NBL has a fluctuating trend with highest current ratio of 0.8468 in FY 2006/07 and lowest ratio of 0.5754 in FY 2005/06. But NABIL is capable enough to pay their current obligations with decreasing trend of ratio. NABIL has the highest ratio in F/Y 2003/04 i.e., 1.1592 and the lowest in F/Y 2007/08 i.e., 1.0570. The averages mean ratio of NABIL is higher than NBL; i.e. 1.09 >0.7543. This shows that NABIL bank's liquidity position is better than that of NBL. Though as per the conventional rule, current ratio should be 2:1 but for banks any current ratio above 1 also considered healthy and sound.

4.1.2 Cash and Bank Balance to Current Assets Ratio

This ratio examines the bank's liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the bank to make the quick payment to its customer's deposits. A high ratio indicates the sound ability to meet their daily cash requirement of their customers deposit and vice-versa. In this ratio both higher and lower ratio are not desirable because if a bank maintains higher ratio of cash, it has to pay interest on deposit and some earnings may be lost and if a bank maintains lower ratio of cash, it may fail to make the payment for presented cheques by its customers. So, sufficient and appropriate cash reserves should be maintained properly. This ratio is calculated by dividing cash and bank balance to current assets:

Table 4.2

Cash & Bank Balance to Current Assets Ratio

Fiscal Year	NBL	NABIL
2003/04	22.12	5.77
2004/05	21.15	3.43
2005/06	29.84	2.94
2006/07	20.66	5.29
2007/08	18.16	7.43
Mean	**22.39**	**4.97**

Source: Annex-2

The cash and bank balance to current assets ratio shown by above table 4.2 represents the liquidity capacity of NBL is much strong than NABIL. Mean ratio of NBL is 22.39% whereas Nabil is only 4.97%. Highest and lowest ratio of NBL is 29.84% and 18.16% in FY 2005/06 and 2007/08 respectively. Similarly highest and lowest ratio of NABIL is 7.43% and 2.94% in FY 2007/08 and 2005/06 respectively. The calculation shows that NBL is strongly able to meet the depositors demand in time. It shows NABIL ratios are less consistent than that of NBL. The above table shows significant difference between the CBs with regards to meeting customer's daily cash requirement. Both are not fared well in meeting their depositor's daily cash requirement.

4.1.3 Cash and Bank Balance to Total Deposit Ratio

This ratio measures the availability of a bank's highly liquid of immediate funds to meet its unanticipated demand on all types of deposits. Cash and Bank balance consist of cash on hand, foreign currency in hand, balance with NRB, balance with domestic and, balance with other financial institutions, balance held abroad. This ratio is calculated by dividing cash and bank balance by total deposit. As higher ratio indicates the higher ability to meet their deposits and vice versa. Moreover, too high ratio is unfit as capital will be tied up and opportunity cost will hither. The following table shows the cash and Bank balance to total deposit ratio of two banks during the study period.

Table 4.3

Cash and Bank Balance to Total Deposit Ratio

Fiscal Year	NBL	NABIL
2003/04	16.40	6.78
2004/05	17.14	3.83
2005/06	18.04	3.26
2006/07	18.24	6.00
2007/08	15.82	8.37
Mean	**17.13**	**5.67**

Source: Annex-3

Table 4.3 shows that the cash and bank balance to total deposit of NBL and NABIL. Above calculations shows that NBL is in highly liquid position than NABIL in each year.

In the study period both banks are in fluctuating trend. NBL has a highest ratio of 18.24% in F/Y 2006/07 and a lowest ratio of 15.82% in F/Y 2007/2008. Similarly, NABIL has a high of 8.37% in F/Y 2007/2008 and a low of 3.26% in F/Y 2005/2006. Mean ratio of NBL seems higher than that of NABIL i.e. 17.13%>5.67%. It indicates the liquidity position of the NBL seems very strong than NABIL. The above analysis helps to conclude that, the cash and bank balance position of NBL is better against the readiness to serve its customers deposits than the NABIL. It implies the better liquidity position of NBL. In contranst, a high ratio of non earning cash and bank balance may unfit which indicates the banks inability to invest its funds in.

4.1.4 Investment of Government Securities to Current Assets Ratio

This ratio examines that portion of commercial banks current assets, which invested on different government securities. More or less, each commercial bank is interested to invest their collected fund on different types of securities issued by government in different times to utilize their excess funds and for other purpose. Though government securities are not as liquid as cash balance of a commercial bank, which can be easily sold in the market or they can be converted into cash in other ways. This ratio shows that out of total current assets, how much percentage of it has been occupied by the investment on government securities. It is calculated by dividing investment on government securities by total current assets.

Table 4.4

Investment on Government Securities to Current Assets Ratio

Fiscal Year	NBL	NABIL
2003/04	39.98	21.82
2004/05	38.72	14.85
2005/06	47.26	10.72
2006/07	38.40	18.18
2007/08	35.45	12.93
Mean	**39.96**	**15.70**

Source: Annex-4

Table 4.4 shows the investment on government securities out of current assets. Investment trend on government securities of NBL seems far higher than NABIL.

From the above five year Figure, it is evident that the average mean ratio of NBL is higher than that of NABIL i.e. 39.96%>15.70%. This shows that a greater portion of current assets of NBL comprises of government securities. NBL has highest ratio of 47.26% in FY 2005/06 and NABIL has highest ratio of 21.82% in FY 2003/04. From the above analysis it is clear that NABIL has made lesser investment in government securities as it has injected more funds on other productive sectors. The reason behind NBL higher ratio could be attributed to more deposit collection and unavailability of other secured and profitable investment sectors.

4.1.5 Loan and Advances to Current Assets

It is the ratio of total of loan and advances to total of current assets. The main business of a bank is mobilization of resources. The resources collected from different sources are mobilized in terms of loan and advances and by investing on various types of security and projects. Providing Loan and advances is one of the major functions of income of the commercial bank. This ratio helps us showing the portion of loans and advances out of total current assets. This ratio is calculated dividing loan and advances by total deposits.

Table 4.5

Loan and Advances to Total Current Assets Ratio

Fiscal Year	NBL	NABIL
2003/04	67.69	50.78
2004/05	57.72	67.20
2005/06	57.34	61.86
2006/07	39.93	60.11
2007/08	43.26	60.56
Mean	**53.19**	**60.10**

Source: Annex-5

Table 4.5 shows the loan and advances to current assets ratio. The ratio of NABIL is higher than NBL i.e. 60.10%>53.19. NBL has high ratio of 67.69% in FY 2003/04 and

NABIL has high ratio of 67.20% in FY 2004/05. The calculation shows the portion of loan and advances out of current assets is high in both banks.

4.2 Assets Management Ratio

Asset management ratio is here used to indicate how efficiently the selected banks have arranged and invested their limited resources. These ratios are designed to answer this question: "Does the total amount of each type of asset as regard on the balance sheet seem reasonable, too high or too low, in the view of current assets and operating levels?" Either a company or a Bank must borrow or obtain fund from other sources to acquire assets. If it has too many assets, its interest expenses will be too high and hence its profits will be depressed and on the other hand, if assets are too low, profitable sales may be lost. Following ratio need to be calculated under this study.

4.2.1 Loan and Advances to Total Deposit Ratio

It is a traditional approach which is used to measures the bank's liquidity position. Loan and advance to total deposit ratio analysis how much deposit could be fulfill the demand of loan. This ratio actually measures the extent to which the banks are successful to mobilize the total deposits for loan and advances for purpose of profit generation. Loan and advances refer to total sum of loan, advances, credit, overdraft, local and foreign bills purchased and discounted. Bank's high ratio of loan and advances indicated that better mobilization of collected deposit and low ration of loan and advances indicated collected deposit should not utilization to the different investment portfolio. It is able to estimate high liquidity problems. But it should be noted that too high ratio may not be better from its liquidity point of view. This ratio is calculated dividing loan and advances by total deposits.

Table 4.6

Loans and Advances to Total Deposit Ratio

Fiscal Year	NBL	NABIL
2003/04	50.20	60.55
2004/05	46.79	75.05
2005/06	34.67	68.63
2006/07	35.26	68.13
2007/08	37.69	68.18

Mean	**40.92**	**68.11**

Source: Annex-6

Table 4.6 shows that the loan and advances to total deposit of NBL is in decreasing trend and NABIL is in fluctuating trend. NBL has a high ratio of 50.20% in F/Y 2003/04 and a low ratio of 34.67% in F/Y 204/05. Accordingly, NABIL has a high of 75.05% and a low of 60.55%. The mean ratio of NABIL is higher than that of NBL i.e. 68.11% >40.92%. NABIL seems to be strong in terms of mobilization of its total deposits as loan and advances when compared to NBL. On the contrary, a high ratio should not be perceived as a better state of affairs from the point of view of liquidity, as loan and advance are not as liquid as cash and bank balance and other investment. From the above description, it can be concluded that NBL is found weak in comparison to the NABIL's total deposit as loan and advances.

4.2.2 Investment to Total Deposit Ratio

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

Table 4.7

Investment to Total Deposit Ratio (%)

Fiscal Year	NBL	NABIL
2003/04	30.80	41.33
2004/05	39.51	29.31
2005/06	40.44	31.93
2006/07	41.20	38.32
2007/08	39.62	31.14

Mean	**38.31**	**34.41**

Source: Annex-7

Table 4.7 reveals investment to total deposit ratios of NBL and NABIL. The investment to total deposit ratio of NBL is slightly increasing trend up to FY 2006/07 but decreased in FY 2007/08. The highest ratio is 41.20% in FY 2006/07 and lowest ratio is 30.80% in FY 2003/04. In 2007/08 it decreased to 39.62%. The investment to deposit ratio of NBABIL is in fluctuating trend. The highest ratio is 41.33% in FY 2003/04 and lowest ratio is 29.31% in FY 2004/05. Comparatively, NBL is more successful in utilizing its resources in investment than that of NABIL. NBL has a high mean ratio than NABIL i.e., 38.31%>34.41%. From mean ratio perspective, NBL has been more successful in mobilization of deposits on various forms of investment.

4.2.3 Loan and Advances to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total working fund on loan and advances for the purpose to income generation. A high ratio indicates a better mobilization of fund as loan and advances and low ratio indicates a lower mobilization of fund as loan and advances.

Table 4.8

Loan and Advances to Total Working Fund Ratio

Fiscal Year	NBL	NABIL
2003/04	50.51	58.87
2004/05	44.71	72.66
2005/06	33.00	66.05
2006/07	33.82	64.08
2007/08	36.07	64.02
Mean	**39.55**	**65.14**

Source: Annex-8

Table 4.8 shows that loan and advances to working fund ratios of NBL and NABIL. The mean ratio of NABIL is far higher than that of NBL i.e. 65.14%>39.55%. NBL has the highest ratio of 50.51% in FY 2003/04 and lowest ratio of 33.00% in FY 2005/06.

Similarly NABIL has highest ratio of 72.66% in FY 2004/05 and lowest ratio of 58.87% in FY 2003/04.

4.2.4 Non Performing Loan Ratio

Non performing loan is defines as a banks investment which not in generating any kinds of earning. In other works the investment in outdated or dead, this can not produce any kind of return. Non performing loan in fact to some extent show operational efficiency of any commercial bank. Existence of higher amount loan provision is an indication of presence of higher non performing loans in their loan portfolio. Growth of financial institution and activities also led to stiff competition within the industry which brought NPL. Higher the ratio indicates lower the operational efficiency and vice versa. This ratio is calculated by dividing non performing loan by total loan.

Table 4.9

Non Performing Loan to Total Loan Ratio

Fiscal Year	NBL	NABIL
2003/04	53.74	3.35
2004/05	49.75	1.32
2005/06	18.15	1.38
2006/07	13.49	1.13
2007/08	13.11	0.74
Mean	**29.65**	**1.58**

Source: Annex-9

Table 4.9 presents ratio of non performing loan to total loan of NBL and NABIL. Over the five year study period the ratio of both banks is decreasing. On average 29.65% of NBL and 1.58% of NABIL out of total loan distributed is being non-performing. NABIL has very less non income generating investment. The major income part of NBL is not working. NBL and NABIL banks have the highest ratio of 53.74% & 3.35% respectively in FY 2003/04 and the lowest ratio of 13.11%& and 0.74% respectively in FY 2007/08.

4.2.5 Loan Loss Provision Ratio

The control of loan loss is an important part of banks operation and the banks is greatly concerned to minimize it. Inadequately administered loan portfolios usually have significant negative impact on the earnings and capital of the bank. Loan loss ratio provides useful insight into the quality of a banks loan portfolio and bad debts coverage, and the adequacy of loan loss provisions. Greater loan loss provision is required to allow in income statement if high loss is expected. This ratio shows the possibility of loan default of a bank. It indicates how efficiently it manages its loan and advances and makes effort for the loan recovery. Higher ratio implies higher portion of non-performing loan. This leads to low profit and possible losses that produce low increase of decrease in capital. The Loan Loss Provisioning ratio indicates adequacy of allowance for loans and trend in the collection of loan and the performance in loan portfolio. The loan loss occurs when a borrower fails to repay the loan or banks failure in loan recovery leads to the loss its loan. The loan loss ratio and loan provision shows the possibility of loan default of NBL and NABIL. Existences of high volume of NPAs indicate that both banks fail to recover of loan. It indicates how efficiently the bank manages its loan and advances and makes efforts for timely recovery of loan. It is obtained by the ratio of loan loss provision to the total loan.

Table 4.10

Loan Loss Provision Ratio

Fiscal Year	NBL	NABIL
2003/04	50.59	4.20
2004/05	51.39	3.29
2005/06	21.56	2.68
2006/07	19.61	2.25
2007/08	15.94	1.61
Mean	**31.80**	**2.80**

Source: Annex-10

Table 4.10 shows the mean loan loss ratio of NBL is far higher than that of NABIL i.e. 31.80%>2.80%.The ratio of NBL is firstly increased then decreasing over the year, but ratio of NABIL is in decreasing trend over the study period. In case of NBL, the highest ratio recorded in FY 2004/05 to 51.39% and lowest recorded in FY 2007/08 at 15.94%.

Similarly, the highest ratio on NABIL is 4.20% in FY 2003/04 and lowest ratio is 1.61% in FY 2007/08.

4.3 Leverage Ratios

Capital Structure or Leverage Ratio can examine the long-term solvency of a firm. Leverage ratios are financial ratios which throw light on the long-1errn solvency of a firm as reflected in its ability to assure long-term creditors with regard to periodic payment of interest during the period of the loan and repayment of principal on maturity or in pre-determined installments at due dates.

4.3.1 Total Debt to Total Equity Ratio

This ratio measures total obligation of the bank. Debt of the banks refers to those liabilities, which have higher obligation. Debt includes borrowings from banks, deposit, bills payable & other liabilities. The debt equity ratio is calculated to ascertain the soundness of the company's long term financial position. It indicates the extent to which it depends upon borrowed funds for its existence. It portrays the proportion of its total fund acquired by way of external financing. Debt to equity ratio is calculated by dividing total debt by total equity.

Table 4.11

Total Debt to Equity Ratio

Fiscal Year	NBL	NABIL
2003/04	(5.89)	10.30
2004/05	(734)	9.29
2005/06	(5.62)	10.90
2006/07	(7.28)	12.24
2007/08	(7.99)	14.23.
Mean	**(6.82)**	**11.39**

Source: Annex-11

Table 4.11 reveals the debt to equity ratio of NBL and NABIL. NBL has again negative ratio due to negative reserve and fund. NBL has the highest negative ratio of 7.99 in FY

2007/08 and the lowest negative ratio of 5.62 in FY 2005/06. Similarly, NABIL has positive ratio with the highest ratio of 14.23 in 2007/08 and the lowest ratio of 9.29 in FY 2004/05. The mean ratio of NABIL is far higher than that of NBL i.e. 11.39 > (6.82). Here the ratio shows that both banks are using more debt than that of equity. Using much higher debt than equity is not good for the company's future perspective. It may threaten to the firm for the insolvency of debt.

4.3.2 Total Debt to Total Capital Ratio

This ratio shows the relationship between long-term debt and total capital employed by the company. Total capital includes long term liabilities plus shareholders' equity. Total capital is also regarded as permanent capital or capital employed or long term fund. The ratio ascertained by dividing total debt by total capital.

Table 4.12

Total Debt to Total Capital Ratio

Fiscal Year	NBL	NABIL
2003/04	(5.90)	9.48
2004/05	(764)	8.72
2005/06	(7.21)	9.79
2006/07	(8.38)	10.91
2007/08	(8.55.)	11.57
Mean	**(7.53)**	**10.09**

Source: Annex-12

Table 4.12 represents the debt to total capital ratio of NBL and NABIL. Here NBL has negative ratio but NABIL has positive ratio. The mean ratio of NABIL is higher than that of NBL i.e. 10.09> (7.53).

4.4 Profitability Ratio

Profitability ratios are calculated to measure the efficiency of operation of a firm on term of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of the bank and vice versa. Profitability position can be evaluated through following different way.

4.4.1 Return on Total Deposit

The sum of deposit accepted by the bank under various accounts is termed as total deposit. According to the terms and condition of the deposit, the bank should pay interest on these deposits. The deposit so accepted is mobilized by the bank into various sectors in form of investment, loan and advances from which it generates earnings in the form of interest or other. Higher the ratio indicates that the bank has earned the more profit out of its deposit. This ratio is calculated by dividing net profit by total deposit.

Table 4.13

Return on Total Deposit

Fiscal Year	NBL	NABIL
2003/04	1.99	3.22
2004/05	4.81	3.57
2005/06	3.37	3.28
2006/07	0.58	2.89
2007/08	0.57	2.34
Mean	**2.27**	**3.06**

Source: Annex-13

Table 4.13 shows the return on total deposit. The mean ratio of NABIL is higher than that of NBL i.e. 3.06%>2.27%. It indicates the return of NABIL on total deposit is higher than NBL. The ratio of NBL is in fluctuating trend with highest ratio of 4.81% in FY 2004/05 and lowest ratio of 0.57% in FY 2007/08. In FY 2004/05 and 2005/06 the bank is able to earn more profit than in other year. Similarly, NBL also has the fluctuating trend of ratio over the study period. It has highest ratio of 3.57% in FY 2004/05 and lowest of 2.34 in FY 2007/08.

4.4.2 Return on Total Assets

Net profit is the after tax profit of a firm, which can be utilized by the firm for its own purpose or for the benefit of owners. Total assets also termed, as working fund is the total utilization of a firm's fund. It is primarily an indicator of managerial efficiency; it indicates how capably the management of the bank has been converting the institution's assets into net earnings. Return on total assets is a popular tool to measure how well its asset is utilized in generating profit. It measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks resources are well managed and efficiently utilized. Generally, the return on assets ratio should be 1% and higher is desired to the banking industry.

Table 4.14

Return on Total Assets

Fiscal Year	NBL	NABIL
2003/04	1.61	2.72
2004/05	3.68	3.05
2005/06	3.36	2.84
2006/07	0.58	2.47
2007/08	0.57	2.01
Mean	**1.96**	**2.62**

Source: Annex-14

Table 4.14, the return on asset ratio of NBL is minimum in 2007/08 with 0.57% and maximum in 2004/05 with 3.68%. The mean ratio of the bank is 1.96%. The bank's ROA is in fluctuating trend which shows the quality of assets and their efficiency to generate return is also fluctuating. Similarly, the ROA of NABIL is minimum of 2.01% in FY 2007/08 and maximum of 3.05% in FY 2004/05. The bank's mean ratio is 2.62%.

4.4.3 Net Profit to Working Fund Ratio

This ratio establishes the relationship between net profit and total assets. This ratio is also called 'profit to assets ratio'. It is calculated dividing return on net profit/loss by total working fund.

Table 4.15

Net Profit to Total Working Fund Ratio

Fiscal Year	NBL	NABIL
2003/04	1.99	3.14
2004/05	4.60	3.45
2005/06	3.21	3.16
2006/07	0.56	2.72

2007/08	0.55	2.20
Mean	**2.18**	**2.93**

Source: Annex-15

Table 4.15 reveals that the ratio of return on total working fund is fluctuated in both banks during the study period. NBL has the highest ratio of 4.60% in F/Y 2004/05 and the lowest ratio of 0.55% in F/Y 2007/08. Similarly, NABIL has the highest ratio of 3.45% and the lowest ratio of 2.20% in F/Y 2004/05 and 2007/08 respectively. NBL has a slightly high mean ratio than NBL i.e., 2.93>2.18. It reveals that NABIL has been able to earn high profit on total working fund in comparison to NBL. Both banks need to exert more effort in mobilizing its working assets more efficiently.

4.4.4 Return on Equity

Return on Equity is measure of the rate of return flowing to the bank's shareholders. This ratio expresses the capacity of the bank to utilize its owner's fund. It reveals that how well the firm has deployed the resources of the owner to earn profit. Organization objective is to maximize profit as well as its wealth. Earning on adequate return on the shareholder's fund can maximize shareholder's wealth. ROE is the profit as a percentage return on the owner's stake in a firm. The level of profit depends on the ROE i.e. the profit per dollar invested. Computed as the ratio of net income to the equity, it reflects the income earned from its internal sources. The ROE measures the book return to the owners of the firm. It is a "bottom line ratio' in that sense. Return on equity reveals how well the bank uses the resources of owners. The higher ratio represents sound management and efficient mobilization of the owner's equity and vice- versa. ROE of 15% is treated as standard and banking industry are desired to have higher than this.

Table 4.16

Return on Equity

Fiscal Year	NBL	NABIL
2003/04	(7.88)	30.73
2004/05	(23.30)	31.38
2005/06	(16.08)	33.88
2006/07	(3.63)	32.76

2007/08	(3.98)	30.63
Mean	**(10.97)**	**31.88**

Source: Annex-18

As shown in table 4.16, the ROE of NBL is negative due to mass amount of negative reserve and fund. From many years NBL is suffering from accumulated loss. NBL has mean ratio of 10.97% which is negative. NBL has the highest negative ratio of 23.30% in FY 2004/05 and the lowest negative ratio of 3.63% in FY 2006/07. Hence the NABIL bank's ROE ratio is sound. In the other hand, ROE of NABIL is maximum with 33.88% in the FY 2005/06 and minimum of 30.63% in FY 2007/08. The mean ratio of the bank is 31.88%.

4.5 Market Value Ratios

The market value ratio represents a group of ratios that relates the firm's stock price to its earning and book value. This ratio also gives the management an indication of what investors think about the firm's past performance and future prospects. If other ratios indicate a favorable condition, then its market value ratio will be high and its stock price also will high. The following ratios are calculated to evaluate the market value of the firm's. This ratio examines the conditions of the company through its market. These are other types of profitability ratios under which following ratios may be calculated.

4.5.1 Earning per Share Ratio

EPS measures the profit available to equity shareholders on per share basis. This ratio expresses the earning power of the company in terms of a share held by the equity shareholders. This ratio is computed by dividing the net profits after preference dividend by the number of equity share outstanding. It is expressed in an absolute rupee figure.

Table 4.17

Earning Per Share

Fiscal Year	NBL	NABIL
2003/04	186.76	92.61
2004/05	455.00	105.49
2005/06	317.00	129.21

2006/07	59.66	137.08
2007/08	62.89	108.31
Mean	**214.26**	**114.54**

Source: Annex-17

Table 4.17 shows the earning per share of the NBL and NABIL over the study period. The EPS of both banks are fluctuating. NBL has the minimum EPS in 2006/07 with Rs.59.66/share and maximum in 2004/05 with Rs.455.00/share. The average EPS of the period is Rs.214.26/share. The EPS of the NABIL has been ranged between Rs.92.61 in FY 2003/04 to Rs.137.08 in FY 2005/07. The mean EPS is Rs.114.54. Comparatively; NBL has higher EPS than that of NABIL.

4.5.2 Dividend per Share

The profit earned by the company finally belongs to the equity shareholders. Therefore, all or some of them are distributed to them which are known as dividends. This ratio shows how much per share of stock held by them is paid out as dividends. Thus, this ratio show the relationship between dividends paid to shareholders and the number of shares outstanding. The amount of earning distributed and paid as cash as dividend is considered for calculating the dividend per share.

Table 4.18

Dividend per Share

Fiscal Year	NBL	NABIL
2003/04	-	65.00
2004/05	-	70.00
2005/06	-	85.00
2006/07	-	140.00
2007/08	-	100.00
Mean	**-**	**92.00**

Source: Annex-17

Table 4.18 exhibits the dividend per share of the NBL and NABIL. NABIL has the mean DPS of 92.00% over the study period. It has the increasing trend from 65% to 140% in FY 2003/04 to 2006/07, and then decreased to 100% in FY 2007/08. NABIL has distributed the dividend towards its shareholders, which is more attractive income of every shareholders of the company. In contrast, NBL has not distributed any dividend to its shareholders. Till date NBL has not issued its share to the public too. In the dividend distributing perspective NABIL seems very effective.

4.5.3 Price Earning Ratio

Price earning ratio measures the amount investors are willing to pay for each rupee of the firm's reported profit. It reflects the investor's expectations about the growth in the firm's earnings. It is calculated by dividing the market price per share by earning per share.

Table 4.19

Price Earning Ratio

Fiscal Year	NBL	NABIL
2003/04	1.20	10.80
2004/05	0.49	14.27
2005/06	0.71	17.34
2006/07	3.77	36.84
2007/08	3.58	48.70
Mean	**1.95**	**25.59**

Source: Annex-17

Table 4.19 price earning ratio of NBL and NABIL has been exhibited. The P/E ratio of NBL has in fluctuating trend but of NABIL is in increasing trend. NBL has the highest ratio of 3.77 times in FY 2007/08 and the lowest ratio of 0.71 times in FY 2005/06. Similarly, NABIL has the highest ratio of 48.70 times in FY 2007/08 and the lowest ratio of 10.80 times in FY 2003/04. The higher the P/E ratio indicates the grater the investor's confidence in the firm's future. The above calculation shows the investors are willing to invest in NABIL because of their expectations about the growth in the firm's earning.

4.6 Statistical Tools

4.6.1 Coefficient of Correlation

Correlation analysis is the relationship between dependent variables so it is called constant variable also. Correlation is denoted by ‘r’ and ranges from +1.0 indicating perfect positive correlation to -1.0, indicating perfect negative perfect correlation. If the correlation coefficient is zero, then the factors are independent or un-correlated. In this chapter, correlation between deposit & total investment, deposit and loan & advances have been calculated. Then results have analyzed and interpreted and then significance of correlation has been tested using Karl Pearson's correlation of co-efficient.

Interpretation of Correlation Co-efficient

- It lies always between +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.
- When r lies between 0.7 to 0.999 (or -0.7 to -0.999) there is a high degree of positive (or negative) correlation.
- When r lies between 0.5 to 0.6999 there is moderate degree of correlation.
- When r is less than 0.5 (-0.5), there is a low degree of correlation.

Probable Error

- If r < 6 P.E, then the value of 'r' is not significant.
- If r > 6 P.E, then the value of 'r' is definitely significant.
- If the other situations happen, nothing can be concluded with certainty.

4.6.1.1 Correlation between Total Deposit and Total Investment

Coefficient of correlation between deposit and total investment measures the degree of relationship between these two variables. Here deposit is taken as independent variable (x) and the variable dependent on deposits is total investment, which is denoted by (y). The purpose of calculating 'r' is to judge whether deposits are significantly mobilized as Investments or not. The following table shows the value of 'r', r^2, P.E. & 6P.E. of NBL and NABIL during the study period.

Table 4.20

Statement Showing Correlation between Total Deposit and Total Investment

Evaluation Criterion

Banks	r	R^2	P.E.	6 P.E.
NBL	0.7635	0.5830	0.1258	0.7547
NABIL	0.9260	0.8576	0.0430	0.2578

Source: Annex-18

The coefficient of correlation 'r' between deposits and total investment in case of NBL is 0.7635, which indicates a positive correlation between deposits and total investment. Coefficient of determination (r^2) is 0.5830, this means 58.30% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.7635 is also greater than six times P.E. This states that there exists a significant relationship between deposits and total investment.

The coefficient of correlation 'r' between deposits and total investment in case of NABIL is 0.9260, which indicates a positive relationship between the two variables. The coefficient of determination (r^2) is 0.8576. This indicates that 85.75% of the variation of the dependent variable has been explained by independent variable, which further states that there is a significant relationship between deposits and total investment.

In Comparison, the value of 'r' of the NABIL is higher than that of NBL. It indicates the deposit and investment of NABIL is much correlated than NBL. When the deposit increases, consequently the investment also increases in higher ratio than NBL.

In conclusion, it can be said that both the banks show significant relationship between total deposits and total investment.

4.6.1.2 Correlation between Total Deposit and Loan and Advances

The coefficient of correlation between deposits and loan and advances measures the degree of relationship between them. In our study, we have taken deposit as an independent variable denoted by (x) and loan and advance as dependent variable (y). The main objective of calculating 'r' between these two variables is to justify whether deposits are significantly used as loan and advances or not.

The following table shows the value of r, r^2, P.E. and 6P.E. between total deposits and loan and advances of NBL and NABIL during the study period.

Table 4.21

Statement Showing Correlation between Total Deposit and Loan and Advances

Evaluation Criterion

Banks	r	R^2	P.E.	6 P.E.
NBL	(0.1062)	0.0113	0.2982	1.7895
NABIL	0.9849	0.9790	0.0063	0.0380

Source: Annex-19

In the above table the coefficient of correlation between deposit and loan and advance in case of NBL is (0.1062). This indicates that there is a negative low degree of relationship between deposit and loan and advances. It indicates that though the deposit increased, the loan and advances decreases but in low degree. The calculated value of (r^2) or coefficient of determination of NBL is 0.0113. This means 1.13% of variation of the dependent variable (loan and advances) has been explained by the independent variable (deposit). When the value of 'r' i.e., (0.1062) is compared with six times the probably error or 6P.E. i.e., 1.7895, we can say that there is not significant relationship between deposits and loan advances because 'r' is less than six times P.E. i.e. (0.1062) < 1.7895. The coefficient of correlation 'r' between deposits and loan and advances in case of NABIL is 0.9849, which gives us an indication of higher positive correlation between them. Similarly, the value of coefficient of determination (r^2) is 0.9790. This shows that 97.90% variation of dependent variable (loan and advances) has been explained by the independent variable (deposits). The value of 'r' is greater than six times P.E. i.e. 0.9849 >0.0380. This further shows that the value of 'r' is significant. In other words, there is significant relationship between deposit and loan and advances.

From the above analysis, we can conclude that NABIL has shown positive relationship between deposits and loan and advance, but NBL has shown negative relationship. The relationship is highly significant in case of NABIL the value of (r^2) shows higher percentage of dependency. NBL has the insignificant relationship and lesser percentage of dependency. Further, the increase in loan and advance is due to effective mobilization of deposits, and other factors have marginal role in increase in loan and advances.

4.7 Major Findings of the Study

Having completed the basic analysis required for this study, the final and the most important task of the researcher is to enlist the findings. This will give meaning to the desired result. A comprehensive summary of the major findings of this study is presented below.

The main findings of the study derived from the analysis of financial data of NBL and NABIL are given below.

Liquidity Ratio

The liquidity position of NBL and NABIL reveals that:

From the analysis of current ratio it is found that the mean ratio of NABIL is higher than BNL. The ratio of NABIL is consistent. The mean current ratio of NABIL is greater than 1 and NBL mean current ratio is less than 1.

The mean ratio of cash and bank balance to current assets of NBL is higher than NABIL. This shows NBL's greater capacity to meet its customer's daily cash requirement than NABIL. The ratios of NABIL are less variable and more consistent than NBL.

The mean ratio of cash and bank balance to total deposits of NBL is higher than NABIL. NBL has better liquidity position than NBL because of high percentage of liquid assets. This shows NBL readiness to meet its customer requirement. On the contrary, a high liquidity also indicates the ability of the bank to mobilize its current assets.

The mean ratio of investment in government securities to current assets of NBL is higher than NABIL. This shows that NBL has invested more of its fund in government securities than NABIL.

The mean ratio of loan and advances to current assets of NABIL is slightly higher than NBL. It shows the portion of loan and advance out of current assets of NABIL is higher than NBL. NABIL has provided more loan and advances than NBL.

From the above findings, we can conclude that the liquidity position of NBL is comparatively better than NABIL. It has the highest cash and bank balance to total deposit, cash and bank balance to current assets and loan and advances to current assets ratio. NBL is in a better position to meet its daily cash requirement. NABIL has a higher current ratio, which justifies that it is also capable enough to meet its current obligations. NBL's mean investment in government securities is better than NABIL. The higher degree of variability in investment in government securities of NBL during the study period shows lack of concrete policy of the bank in this regard.

Asset Management Ratio

The asset management ratio of NBL and NABIL reveals that:

The mean ratio of loan and advances to total deposit ratio of NABIL is much higher than NBL. It shows NABIL seems to be strong in terms of mobilization of its total deposits as loan and advances as compared to NBL.

The mean ratio of total investment to total deposits of NBL is slightly higher than NABIL. NBL has been more successful in mobilization of deposits on various forms of investment.

The mean ratio of loan and advances to working capital of NABIL is higher than NBL.

The mean ratio of non performing loan ratio of NBL is far higher than that of NABIL. It indicates the lower operational efficiency of NBL than NABIL.

The mean ratio loan loss ratio of NBL is far higher than NABIL. It indicates that the possibility of loan default of NBL is higher than NABIL.

From the above findings we can conclude that NABIL has been more successful in mobilization of its total deposit as loan and advances, whereas NBL seems more successful to invest its deposit. On the other hand, the non performing loan ratio of NBL is higher than NABIL, which reveals higher amount of loan in passive in terms of profit generating aspect. The loan loss ratio of NBL is much higher than NBL, which means the chances to recovery of loan is very less than NABIL which has less loan loss ratio.

Leverage Ratios

The leverage ratio of NBL and NABIL reveals that;

The mean ratio of debt to total equity ratio of NBL is negative, whereas NABIL has positive ratio. But both banks have the ratio more than 100 percent. It indicates that banks are using mire debt than equity.

The mean ratio of debt to total capital of NBL is negative and lower than NABIL.

From the above findings it can be said, though the banks are using more debt than equity, the capital structure position of NBL is worse than NABIL.

Profitability Ratios

The profitability ratios of NBL and NABIL reveal that,

The mean ratio of return on total deposit of NABIL has been found to be significantly greater than NBL. It indicates the return of NABIL on total deposit is higher than NBL.

The mean ratio of return on total assets of NABIL is higher than NBL. It indicates quality of assets and their efficiency to generate return of NABIL is also higher. The ratios of NBL are more consistent than NABIL.

The mean ratio of net profit to total working fund ratio of NABIL is slightly than NBL. However, NBL ratios are more variable than NABIL ratios.

The mean ratio of return on equity of NABIL is higher, whereas NBL has negative ratio. Because of having negative amount of reserve and fund NBL is suffering from negative ROE.

On the basis of above analysis, we can conclude that NABIL has been more successful in maintaining its higher return on loan and advances and total assets and also successful to meet its shareholders expectation than NBL. In terms of profitability concern NBL seems very weak in every aspect with compare to NABIL.

Market Value Ratios

The market value ratio of NBL and NABIL reveals that;

The mean ratio of earning per share of NBL is higher than NABIL. It indicates the earning power of the share of NBL is higher than NABIL.

The mean ratio of dividend per share of NABIL is 92%, whereas NBL has not distributed any dividend to its shareholders. It concluded dividend distributing perspective NABIL seems effective.

The mean ratio of price earning ratio of NBL is much higher than NBL

Correlation Coefficient

The correlation coefficient between total deposit and total investment of NABIL is higher than that of NBL. It expresses the portion of investment of NABIL is more related to its deposit that that of NABIL. NABIL has high degree of positive correlation whereas NBL has moderate degree of positive correlation. Coefficient of determination of NBL is higher than NBL. Both banks have significant relationship between deposit and total deposit.

Likewise the correlation between total deposit and loan and advances of NABIL is higher, whereas NBL has negative correlation between these two variables. The negative correlation of NBL indicates that when the total deposit increases the loan and advances decreases and vice-versa. NBL has no significant relationship between two variables; in contrast NABIL has significant relationship between total deposit and loan and advances.

CHAPTER - V

SUMMARY CONCLUSION & RECOMMENDATIONS

This chapter is an accomplished specific and indicative enclose which contains summary and conclusion of finding and recommendations. Brief introduction to all chapters of the study and genuine information of the present situation under the topic of the study is defined on summary. Conclusions are analysis of applicable data by using various financial and statistical tools, which presents strengths, weakness, opportunities and threats of the CBs. And suggestions are obtainable in recommendation, which is arranged on the based from finding and conclusions.

5.1 Summary

The development of any country depends upon its economic development. Economic development demands transformation of savings or invertible resources into the actual investment formation is the prerequisite in setting the overall pace of the development of a country. It is the financial institutions that transfer funds from surplus spending units to deficit units.

The evolution of the organized financial system in Nepal has a more recent history than in other countries of the world. In Nepalese content, the history of development of modern banks started from the establishment of Nepal bank limited in 1937 A.D. nowadays there are 26 CBs operating in Nepal financial market which is in increasing due to the country moved towards economic liberalization, financial scenario has changed, and foreign banks were invited to operate in Nepal. For the better performance of CBs, successful formulation & effective implementation of investment policy is the prime requisite. Nowadays there is a very high competition in the banking industries but very less opportunity to make investment. The opportunities are hidden. Thus these CBs should take initiative action in search of the new opportunities. So they can easily survive in this competitive banking business world & earn profit. A bank manager its investment has a lot to do with the economic health of the country because the bank loans support the growth of new business & trade empowering the economic activities of the country.

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector which deals in the process of channeling the available resources in the needed sector. It plays the role of intermediaries between the deficit and surplus of financial resources. Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels. In the absence of such institution it is possible that the saving will not be safely and profitable utilized within the economy. It will be diverted aboard into unproductive sectors.

The primary objectives of the study is to analyze the overall performance of NBL and NABIL, however other objectives are to examine the overall performance of NBL and NABIL in terms of liquidity, activity, profitability, leverage ratio, to study the achievement of NBL and NABIL, to evaluate the effectiveness of collection of deposit and their utilization, to provide suggestion and recommendation for the improvement of future performance and maximum utilization of deposit.

At last but not least we can conclude that financial analysis is done to determine the bank's financial position in order to identify its current strength and weaknesses and to suggestion that might enable the firm to take advantage of its strengths and correct its weaknesses. The study is about the financial performance of the NBL and NABIL based on its financial data of five years. By using financial and statistical tools, the overall financial performance of the bank has tried to analyze. The various ratios have revealed the financial condition of the bank over the five years. Correlation analysis helps to establish the relationship between two variables which can be useful to know how one variable affect the another variable.

By mobilizing its funds more in loans and advances, the bank could have increased its profit. But form the tabulated figures, it is evident that NBL and NABIL had preferred to invest in secured sectors like government securities and shares and debentures than in lending. From various finding have shown in above chapter from that finding conclusion have been drawn which are presented below.

5.2 Conclusion

This study reveals that the current ratio of NABIL is greater than 1 and NBL current ratio is less than 1, which should be considered satisfactory for NABIL but not satisfactory for NBL. The liquidity position of NABIL is better than NBL. The cash and bank balance of NBL with respect to current assets is higher than NABIL. This shows greater capacity of NBL to meet its customer's cash requirement but that does not mean NABIL can not meet its daily customer cash requirement. The cash and bank balance of NBL with respect to deposits is greater than NABIL. This puts, NBL in a better position with respect to meeting customer requirement than NABIL. In contrast, a high ratio of non-earning cash and bank balance is an indication of bank's unavailability to invest its fund in income generation areas. NBL needs to invest its funds in more productive sectors. NBL mean investment in government securities is better than NABIL. The higher degree of variability in investment in government securities of NBL during the study period shows lack of concrete policy of the bank in this regard. The mean ratio of loan and advances to current assets of NABIL is slightly higher than NBL. It shows the portion of loan and advance out of current assets of NABIL is higher than NBL. NABIL has provided more loan and advances than NBL.

NABIL has been more successful to mobilize its total deposit in terms of loan and advances than NBL. On the other hand, NBL appears to be stronger in mobilization of total investment to total deposits. Both the banks have successfully managed their assets towards different income generation activities. NABIL has been more successful in maintaining its higher return on loan and advances and total working fund. NBL seems less operational efficient with the higher non performing loan ratio than NABIL. The ratio of non performing loan ratio of NBL is far higher than that of NABIL. It indicates the lower operational efficiency of NBL than NABIL. The loan loss provision ratio of NBL is far higher than NABIL, meaning that the possibility of loan default of NBL is higher than NABIL.

The debt to total equity ratio of NBL is negative, whereas NABIL has positive ratio. But both banks are using more debt than equity. Likewise the debt to total capital ratio of NBL is negative.

The return on total deposit of NABIL has been found to be significantly greater than NBL. The return on total assets of NABIL is higher than NBL. It indicates quality of assets and their efficiency to generate return of NABIL is also higher. The net profit to total working fund ratio of NABIL is slightly than NBL. Return on equity of NABIL is higher, whereas NBL has negative ratio. Because of having negative amount of reserve and fund NBL is suffering from negative ROE. On the basis of above analysis, we can conclude that NABIL has been more successful in maintaining its higher return and to meet its shareholders expectation than NBL. In terms of profitability concern NBL seems very weak in every aspect with compare to NABIL.

The earning per share of NBL is higher than NABIL. It indicates the earning power of the share of NBL is higher than NABIL. The mean ratio of dividend per share of NABIL is 92%, whereas NBL has not distributed any dividend to its shareholders. It concluded dividend distributing perspective NABIL seems effective. The mean ratio of price earning ratio of NBL is much higher than NBL

The correlation coefficient between total deposit and total investment of NABIL is higher than that of NBL. It expresses the portion of investment of NABIL is more related to its deposit that that of NABIL. NABIL has high degree of positive correlation whereas NBL has moderate degree of positive correlation. Coefficient of determination of NBL is higher than NBL. Both banks have significant relationship between deposit and total deposit. Likewise the correlation between total deposit and loan and advances of NABIL is higher, whereas NBL has negative correlation between these two variables. The negative correlation of NBL indicates that when the total deposit increases the loan and advances decreases and vice-versa. NBL has no significant relationship between two variables; in contrast NABIL has significant relationship between total deposit and loan and advances.

5.3 Recommendation

On the basis of analysis, findings, following recommendations are made. The banks can make use of these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall financial analysis. Based on the analysis conducted on previous chapters, some shorts are found. Thus, following recommendations could be possible helpful to improve their future financial performance.

- Current ratio of the bank is found below the standard. So it is recommended that the bank should increase the current assets to meet the short-term obligation of the bank. Otherwise there may arise question to the creditworthiness of the bank at any point of time.

- Cash and bank balance of total deposit ratio of the bank were fluctuation order. Since it is the most liquid assets some provisions regarding on this should be made to have consistency. It is recommended to have moderate level of cash and bank balance to meet unanticipated deposits.

- The banks should be very careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its all customers. NBL is strongly recommended to gain highest profit margin.

- The main source of commercial banks is collecting deposit from public who don’t need that fund recently. So, it is recommended to collect more amounts as deposits through large variety of deposits schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift, cheques scheme, recurring deposit scheme (life insurance), monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.

- Profit is essential for the survival and growth of banks. As per the findings, profits of the NBL seems bit satisfactory than NBL which is suffering from huge loss.

Therefore, they are suggested to generate higher profit for the survival and growth of the firm.

- There is low liquidity position in the both of the sampled banks. Therefore, both the banks should be diagnosed the root cause for low liquidity ratio and should improve the liquidity ratio. For this sake not the liquidity of the liquidity but also quality of the liquidity should be considered.

- The deposit of NABIL is on the way of degradation. Low volume of deposits adversely affects in investment, which ultimately decreases the profitability of the bank. The management should start the deposit promotion programmed to increases the deposit level of the bank.

- The assets management ratio of NBL is poor in compare to NABIL. Thus, NBL bank is suggested to improve its activity ratio by efficiency mobilizing the fund of the bank.

- It is recommended to adopt innovative approach to marketing. In the light of growing competition in the banking sector, the business of the bank should be customer oriented. It should strength and activates its marketing function as it is an effectively tools to attract and retain the customers for the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way be optimally utilizing the modern technology and offering new facilitu8es to the customers at competitive prices. The bank is also required to explore the new market areas. For this purpose, it is recommended to form a strong marketing department in its central level, which deals with the banking products, places, prices and promotion.

- Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corners of the country. Though NBL has expanded its branches all over the country but it is recommended to provide more banking facility in all branches. Similarly NABIL is recommended to expand their branches and banking services and facilities in rural areas and communities to accelerate their economic development. NRB should implement policies to encourage banks, which provide extensive services while disincentive sings those who are not responsive to the banking needs of the community, including the underprivileged.

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