CHAPTER-I
INTRODUCTION

1.1 Background of the study

Banks play an important role in the economic growth of a country. Banking when properly organized aids and facilitates the growth of trade and industry. The issue of development always rests upon the growth of trade and industry. The issue of development always rest upon the mobilization of resources. Banks function of lending ensures required volume of capital to resources mobilization. In the modern economy banks are considered not as dealers in money but as leaders of development. The economic growth of a country depends on the growth and development of trade and industry. Industrial development can take place only if sufficient money is invested in industries. Nepal is an underdeveloped country with per capita income of US$ 240 and most of the people are under poverty line. Many features are there for slow pace of development such as land locked position, misuse of resources, poor economy policy and institutional weakness. Economic development depends upon various factors however the major are capital formation and proper utilization of the capital.

Capital accumulation plays an important role in accelerating the economic growth of the nation, which in terms is basically determined among others by saving and investment propensities. However, the capacity to save in developing countries is quite low with a relatively higher marginal propensity of consumption. As a result, such countries are badly entrapped in to the circle of poverty. So, the basic problem of developing countries is raising level of saving and thus investment.

The basis for the financial planning, analysis and decision making is the financial information. Financial information is needed to predict, compare and evaluate the firm's earning ability. It is required to aid in economic decision making. The financial information of an enterprise is contained in the financial statements or accounting reports.

"Financial statement analysis applies analytical tools and techniques to general purpose financial statements and related data to derive to estimate and interferences useful in business decisions. It is a screening tool in selecting investment or merger candidates and is a forecasting tool of future financial condition and consequences. It is a diagnostic tool in assessing financing, investing and operating activities and is an evaluation tool for managerial and other business decision.” Bernstein, Leopard. A, wild John J. (1998; 3)

Financial statement analysis reduces over reliance on hunches, guesses and intuition and in turn, it diminishes our uncertainty in decision making. It does not lessen the need for expert judgment but rather establishes an effective and systematic basis for making business decision.

Financial statements of a firm mainly include income statement and balance sheet. They are important source of financial information regarding the firm’s operations and its financial position. To analyze the financial performance, strength and weakness of the firm, many types of tools and techniques are used.

Ratio analysis is one of the popular and widely used tools of financial analysis. It is done with different ratios, which are calculated from the accounting data contained in financial statement. It is the primary tool for examining the firm’s financial position and performance. Ratio analysis is used a yard stick for evaluating the financial condition and performance of firm.

The financial system in Nepal has from a narrow, repressed regime till the eighties to a dynamic expanding sector in nineties. Indicators of the last decade show that the sector has grown both quantitatively and qualitatively. It could be observed that at the same time, the financial market has become more competitive and dynamic. This constitutional networks and volume of operations of financial system have expanded and diversified with the number of increased in commercial banks.

The adoption of market economy has given birth to many private commercial banks in the country as said earlier. So far, all these banks are doing very well in the slow of the economy, interest rates are falling down. All the banks are with funds and looking for safe and profitable avenues to invest in it.

1.1.1 Concept of Banking

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 mobilizing the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial institutions and non depository financial institutions. Commercial Banks a Finance Companies (in Nepalese context) are the examples of depository financial institutions whereas Employment Provident Fund, Development Banks, Insurance Companies etc. are the examples of non- depository financial institutions. All the economic activities are directly or indirectly channeled through these banks. People keep their surplus money as deposits in the banks and hence banks can provide such funds to finance the industrial activities in the form of loans and advances.

Financial institutions play a major role in the proper functioning of an economy. These institutions act as an intermediary between the individuals who lend and who borrow. These institutions accept deposits and in turn lend it to people who are in need of financial resources. These institutions make the flow of investment easier. So we cannot deny the role a bank plays in developing an economy. It pools the funds scattered in the economy and mobilizes them to the productive sector. Bust these institutions inherent a large amount of risk. Which cannot be, denied either. If a bank behaves irresponsibility, the costs borne by the economy are enormous. A larger amount of depositor's money is at stake.

Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

Commercial Banks are directly related with the people and institution so it is an important bank whose functions are very attractive for people. Although these banks are truly inspired with the objectives of gaining profit, these commercial banks are established to accelerate common people's economic welfare and facilities, to make available loan to the agriculture, industry and commerce and to provide the banking services to the public and the state. Commercial Bank, primarily being profit making organization try to use every rupee they own in such a way that it yields something which is sufficient to meet the entire expenses and some profit from. However, at the same time due to some statutory as social obligations, they are bound to maintain a certain level of liquidity and to extend certain amount of unproductive credit yielding come returns indeed. CBs are directly with the people and institutions, which is to improve the economic condition of the country.

Nepal is predominantly an agricultural country due to the topographical feature. Ninth development plans have been already executed since 1956 A.D. for the development of country and the eight plans is operative from the fiscal year 1992/93 A.D. However, the central issue of the development in Nepal even today, continues to be the eradication of poverty. Since 82% of the population, are dependent upon agriculture, the sector is unable full employment to the rural labor force. The economic development of the country heavily depends upon the improvement of the agricultural sector. To support this view, Sapkota had mentioned that, "here exist a great need for agricultural financial institute to provide the loans because the main problems on economic development are related to agriculture sector and lack of adequate credit facilities" *(Sapkota; 1979)*. In spite of the huge investment in the past 40 years, a low saving rate, heavy dependence on external assistance , a low export base, a low level of industrialization, vulnerability in agricultural productions high population growth are some constraints that the country presently faces in its quest for sound and sustainable development.

Simply, commercial bank is a largest financial institution whose primary business is providing financial services to the people. Commercial banks are one of the major financial institutions, which help to mobilize the finds in the economy. It does not produce anything but transaction of money. It simply acts as a mediator between people who want to save their surplus money and those who need some money to operate their business or projects. It deal with money and attracts deposits. It acts as a mediator between the businessmen and helps transfer of funds from one location to another that might be national or international.

As per commercial bank act 1974,"A commercial bank means bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transaction."

According to Ministry of Law HMG/N Commercial Bank Act 2031 B.S. "A commercial bank is one which exchanges money, deposits money, accepts deposits, grant loan and advances and performs commercials banking functions and which is not a bank meant for co-operation, agriculture industries or for such specification."

Thus commercial bank is an institution that deals with money. It attracts deposits and it leads the same into various productive sectors analyzing the feasibility of the project. It also acts as a mediator between the businessmen and also helps to transfer of funds from one location to another that might be national or international.

"Principally speaking, a commercial bank accepts deposits and provides loans primarily to business firms thereby facilitating the transfer of finds in the economy (Abrol & Gupta: 1987, p.101)."

Although in the past, banks were considered to be acceptors of deposits and providers of loans, modern commercial banks work for the overall development of industries, trade and commerce, services as well as agriculture. There are four functions of the commercial bank which have been laid down by the American Institute of Banking. There are:

1. Receiving and handling deposits,
2. Handling payments for its clients,
3. Granting loans and investment and
4. Creating money by extension of credit.

A commercial bank is a dealer which deals with money as well as the substitutes for money such as cheques and bills of exchange. It also provides a variety of financial services.

To overcome this economic situation, government has to formulate and implement strategies focusing overall industrialization of the nation and development of a sound banking system is necessary for the rapid industrial development. Dr. Shrestha says “Financial infrastructure of an economy consists of financial intermediation, financial institution and financial market” *(Shrestha; 1990/91)*. Therefore the financial institution plays a great role in the overall development of the country.

Bank is also a resource for economic development which maintains the self- confidence of various segments of the society and extends credit to people. It is assumed that the word “

Bank” has been originated through the Italian word ”Bank” which refers to the meaning of accumulation of money or stock (i.e. Share Capital).

Similarly the word bank has also been derived from German word “Bench” which signifies heap or mound. We can also say that a bank is related to collection of deposits, advancing loan and other credit activities. A Bank will generally collect deposits from different individuals and institution and utilizes it by giving loans to industries and commercial enterprises.

1.1.2 Historical Development of Banking System in Nepal

“ Banking concept existed even in the ancient period where the rich people used to issue the common people against the providers of safe keeping of their valuable items on the presentation of the receipt the depositors would get bank their gold and valuables of the paying a small amount of safe keeping and saving.” (Paul A. Samuelson 1973; 27)

In the country, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual money lenders has acted as fence to institutional credit in presence of unorganized money market.

Though establishment of banking industry was very recent, some crude bank operations were in practice even in the ancient times. In Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shakhadhar, a Sudra merchant of Kantipur in 879 or 880 A.D. after having paid all the outstanding debts in the country. This shows the basic of money lending practice in ancient Nepal. Towards the end of 8th century, Gunkam Dev had borrowed money to rebuild the Kathmandu valley. In 11th century, during Malla regime there was an evidence of professional moneylenders and bankers. It is further believed that money lending business, particularly for financing the foreign trade with Tibet, became quite popular during regime of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues on loans advanced.

Like other countries goldsmith, merchants and money lenders were the ancient bankers of Nepal. Tejrath Adda established during the tenure of the then Prime Minister Ranoddip Singh during the year 1877 A.D. (1933 B.S.) was the first step towards the institutional development of banking in Nepal. Tejrath Adda did not collect deposits from the public but gave loans to employees and public against the bullion. Tejrath Adda was fully subscribed by the Government of Kathmandu valley, which played a vital role in the banking system. This establishment helped the general public to provide credit facilities at a very low rate of 5 percent. The Tejrath Adda distributed credit facilities to the public especially on the collateral of gold and silver. Several branches were opened in different part of the country. Hence the establishment of Tejrath Adda could be regarded as pioneer foundation of banking in Nepal. "Tejrath Adda" was running smoothly for flow decades.

The main defects of this institutions soughed as there was no other financial institution set-up and there was not effort to expand the services. Above all of the defects, this institution did not accept any deposits from the public. In the absence of saving mobilization the "Adda" faced financial problems making it impossible to Carter to the credit and service need of the general population throughout the country. After that again, for a long time, several unorganized bankers and indigenous moneylender continued to flourish as the sole provider of the credit and services to the general public.

At the same time, the government started trade with India and Tibet. And the various indigenous bankers handled even the trade, because transfer of the money could be safely made only through these bankers in the absence of modern banking institutions. Hence, the need of banking intuition was realized. This was even strongly supported by the situation caused during 1934 AD, earthquake where there was a need of finance for the reconstruction of works. Reviewing these situations the "Udyog Parishad" (Industrial Development Board) was constituted in 1936 A.D. One year after its formulation, it formulated the "Company Act" and "Nepal Bank Act" in 1937.

Banking in modern sense started with the inception of Nepal Bank Limited (NBL) on B.S. 1994. Nepal Bank Limited had a Herculean responsibility of attracting people toward banking sector from pre-dominant money lenders net and of expanding banking services. Being a commercial bank, it was natural that NBL paid more attention to profit generating business and preferred opening branches at urban centers.

Government however had onus of stretching banking services to the nook and corner of the country and also managing financial system in a proper way. Thus, Nepal Rastra Bank (NRB) was set up on B.S. 2013.01.14 as a Central Bank under functioning as the Government's bank and has contributed to the growth of financial sector. The major challenge before NRB today is to ensure the robust health of financial institutions. Accordingly, NRB has been trying to change them and has introduced a host of prudential measures to safeguard the interest of the public. NRB is yet to do a lot to prove them an efficient supervisor. NRB really requires strengthening their policy making, supervision and inspection mechanism.

Integrated and speedy development of the country is possible only when competitive banking service reaches nooks and corners of the country. Keeping this in mind, government set up Rastriya Banijya Bank (RBB) in B.S. 2022.10.10 as a fully government owned commercial bank.

As the name suggest, commercial banks are to carry out commercial transaction only. But commercial banks had to carry out the functions of all types of financial institutions. Hence, Industrial Development Centre (IDC) was set up in 2013 for industrial development. In 2016, IDC was converted to Nepal Industrial Development Corporation (NIDC). Similarly, Agriculture Development Bank (ADB) was established in B.S. 2024.10.07 to provide finance for agricultural product so that agricultural productivity could be enhancing by introducing modern agricultural techniques. Moreover, Security Exchange Centre was established in 1976 to enhance capital market activities. Securities Exchange Centre was renamed Nepal Stock Exchange (NEPSE) in 1993. NEPSE opened its trading floor on 13 January 1994.

With the establishment of RBB and ADB, banking service spread to both the urban and rural areas. NRB also gave incentive to NBL to expand their branches to rural areas. This helped the common people reduce their burden of paying higher rate of interest to money lenders and absolved them from kowtowing before money lenders. It is natural expectations of customers keep on increasing. Once they got banking services they were expecting improvement and efficiency. However, excess political and bureaucratic interference and absence of modern managerial concept in these institutions was hurdle in this regard. Banking service to the satisfaction of customers was a far cry.

1.1.3 Concept of Commercial Banks

Literally, an institution which accepts deposits makes business loans and offers related services are called commercial banks. The primary activities of banks are accepting demand and other deposits and making commercial, industrial and consumer loans. They accept deposit from the public on the condition that they are repayable on demand and grant loan in the form of cash, credits and overdrafts. Moreover varieties of services like collection of bills and cheques, credit cards, automatic teller machine, safe deposit locker, internet banking etc. is offered among its valued customers.

Commercial Banks are one of the vital aspects of the banking sectors, which deal in the process of canalizing the available resources in the needed sectors. It stands as the intermediary between deficit and surplus of financial resources.

According to Section 2(a) of Commercial Bank Act 1974, The Commercial Banks are the heart of the economic system. Thus, their task is to provide a collecting point for saving or relatively small average amount from a large number of individual sources and invited them into a productive and needed sector of the country, so as to develop the nation.

“ A Commercial Bank is one which exchange money, deposits money, accepts grants, loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose.’’(Nepal Commercial Bank, Act 2031; 1)

“Commercial Bank’s are the heart of financial system they hold the deposit of many persons, government established business unit. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services for the producers, to customers and the financial activities of the government. They provide a large portion of the medium of exchange and they are media through which monetary policy is affected. These facts show that the commercial banking system of nation is important to the functioning of economy.”(Read, Cotler, Will, Smith1976; 9)

“Commercial Bank is a dealer in money and substitute for money such as cheque or bill of exchange. It also provides a variety of financial services.” (The New Encyclopedia Britannica; 1985; 600)

Altogether there are 31 commercial banks, 58 development banks, 78 finance companies and 17 cooperatives. They all have their own rules and regulations and own vision but ultimately they are serving the nation to build a huge financial resource and mobilize in the best possible way. In the present scenario Nepalese banking system is evolving itself as a powerful instrument of planning and economic growth of all developed and underdeveloped sectors.

1.1.4 Concept of Joint Venture Banks

"A joint venture bank is joining of forces between two or more enterprise for the purpose of carrying out a specific operation i.e. industrial and commercial investment production or trade."(Gupta, 1984; 15)

"A joint venture business involves in equity arrangement between two or more independent enterprises which results in the creation of new organization."(Jauch & Glueck, 1988; 232). This thought identifies the joint venture as a mutual understanding among two or more firms then bringing a new enterprise in existence. Basically, they are constant about the ownership of new firms. In what proportion they are going to contribute ownership is also decided mutually .The foreign joint venture banks with full fledged banking functions in Nepal are formed under Company Act 2021 B.S and operated under the Banijaya Bank Act 2031 B.S.Joint Venture Bank have been established for trading to achieve mutual exchanges of goods and services, for sharing comparative advantages by performing joint investment schemes between Nepalese investors, financial and non financial institutions as well as private investors and their parents banks. The parent banks that have experience in highly mechanized and efficient modern banking services in the many parts of the world have come to Nepal with superior technology, advanced management, skills and international network of banking.

"The existence of foreign joint venture banks has presented an environment of healthy competition among the existing commercial banks. The increased competition has led to improve their quality and has caused an extension of services by simplifying procedures and training". (Chopras, 1990; 231).

"HMG's deliberate policy of allowing foreign joint venture banks to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their balanceable capacity through competitive efficiency, modernization via computerization and prompt customer service."(Shrestha 2041; 44).

Joint Venture banks in Nepal are expected to be the medium of economic development and uplift the community under the guidance, operate under supervision, controlling and direction of Nepal Rasta Bank.

1.1.5 Introduction of Two Selected Joint Venture Banks

The establishment of joint venture and commercial bank has given a new horizon to the financial sector of Nepal. The study focuses on financial performance of two commercial banks namely Nepal SBI Bank and Nepal Bangladesh Bank.

1.1.5.1 Introduction to Nepal SBI Bank

Nepal SBI Bank ltd. is the first indo- Nepal joint venture in the financial sector sponsored by three institutional promoter's namely State Bank of India, Employees Provident Fund and Agricultural Development Bank Nepal through a memorandum of understanding signed on 17th July 1992. NSBI was incorporated as a public Ltd Company at the office of the company register at April 28, 1993 under the registration No. 17-049/50 with authorized Capital of Rs 12 corers and was licensed by NRB, on July 6, 1993. NSBL commenced operation with effect from July7, 1993 with one full fledged of office at durbar marga, Kathmandu with 18 staff members. The staff strengthen has increased to 533, among them 465 are full time employees and 68 are contracted employees. Under the Bank and financial institution act 2063 NRB Granted fresh license to NSBI classifying it as "A" class license institution on April 26, 2006. The management team and the managing director, who is also the CEO of the Bank, are deputed by NSBI. NSBI also provides management support as per the technical services agreement.

NSBI Bank Share Subscription:

The Share subscription of NSBI Bank has been as under:

State Bank of India	55%
Employee Provident Fund	15%
General Public	30%
Total	100%

The capital structure of NSBI Bank has been as under:

Authorised Capital	240 Million
Issued Capital	84 Million
Paid Up Capital	36 Million

Objectives of Nepal SBI Bank Ltd.

The Indo- Nepal Joint Venture has been established with some of the objectives which can be stated below:

- This is established with an objective to provide a wide range of international banking services to facilitate Nepal Trade and Tourism.
- Its objectives are to provide meaningful support to development banking in Nepal by joint effort with Agriculture Development Bank and NIDC.
- One of the important objectives of this bank is to facilitate Indo- Nepal trade, which is growing with the support of long networks of branches of state Bank of India.

Services offered by Nepal SBI

There are many services offered by Nepal SBI among which some are as bellows:

Deposits, Saving, Current, Fixed Remittance, Money transfers from and to 770 branches of State Bank of India, Loans and Advances. To priority and deprived sector, Letter of Credit, Consortium lending, Bank Guarantee, Sales, Enhancement of Nepal’s rupees and travelers Cheques.

1.1.5.2 Introduction to Nepal Bangladesh Bank Ltd.

Competition with the global market outside the country the government was also well aware to the fact of the joint venture in the country which leads to the establishment of a many new bank with different branches all over the country.

The establishment of Nepal Bangladesh Bank is also a part of that impact in June 1994 with a joint venture of IFIC (International Finance Investment and Commerce Bank Ltd). Which is a pre- premier commercial bank of Bangladesh with its 58 branches and also have a joint venture exchange company in Oman and a joint Venture Bank in Pakistan? The Bank is managed by very expert team of professionals? Its head office is situated at Bijuli Bazar Kathmandu. Nepal Bangladesh Bank Share Subscription:

The Share subscription of Nepal Bangladesh Bank has been as under:

IFIS Bank Ltd	50%
Local Promoters	20%
General Public	30%
Total	100%

Nepal Bangladesh Bank Capital Structure:

The capital structure of Nepal Bangladesh Bank has been as under:

Authorized Capital	240 Million
Issued Capital	120 Million
Paid Up Capital	60 Million

Objectives of Nepal Bangladesh Bank

The main objectives of Nepal Bangladesh Bank can be highlighted as below:

1. Its objectives are to provide full- fledged commercial banking services to its clients.

2. Another main objective of this bank is to render banking services to the different sectors like Industries, trade, Business person, priority sector, small entrepreneur and many more as well.
3. Its objectives are to accommodate large number of client and provide appropriate service to the client.
4. Objectives are to provide meaning support to development banking in Nepal by joint effort with IFIC.
5. The objectives is to facilitate the reliable, prompt and high standard of banking services adopting the latest version banking technology incompliance with the need and demand of market.

Services offered by Nepal Bangladesh Bank:

There are many services offered by Nepal Bangladesh Bank among which some are as follows:

Trade Finance, Term Loan, Hire Purchase, Demand Loan, Trade Finance, Letter of Credit, Bank Guarantee, Bills Purchase, remittance services all over the world, Locker Facility. Tele Banking and many more it has also introduced free accidental insurance scheme up to Rs. 5 lakhs and medical insurance benefits up to Rs. 10 thousand to the individual saving account holders.

1.2 Focus of the Study

This study focuses our attention to revel the struggle & success achieved there form by joint venture banks, namely Nepal SBI Bank and Nepal Bangladesh Bank.

The main objective of this research is to analyze the financial performance through the use of appropriate financial tools. The banks have managed to perform better than other commercial banks with short span of time; they have been facing a neck to neck competition against one another so the focus is to reveal the competition among this company.

“To highlight the financial portion of the banks, the research is based on the certain financial tools i.e. Ratio Analysis”

1.3 Statement of the Problem

The economic development of any country is mainly based on the different financial sectors established in the country.Emphasing the role of commercial banks Indira Dali says, “The major problem in almost all underdeveloped countries and Nepal is no exception is that of capital formation and proper utilization”.

While assessing the financial health of the company answers to the questions relating to the company’s profitability, assets utilization, liquidity financing capabilities may be sought. A number of questions go beyond the scope of ratio analysis. They however need to be answered while assessing the financial health of the company. Therefore it’s very necessary to compare the profitability ratio and other financial aspects of Nepal SBI as compared to Nepal Bangladesh Bank.

The profitability rate, operating expenses and dividend distribution rate among the shareholders has been found different in the financial performance of the two joint venture banks in different periods of time in the context of Nepalese banking industries. So here the study will emphasized on the reason about difference in financial performance. This study will be highly beneficial to point out the strength and weakness.

Similarly, financial companies have been emerging rapidly and the bank has to compete with them since finance companies are making investment in the same sectors where the commercial banks invest in these aspects the question here arise as follows.

1. Whose performance is better among the joint venture banks?
2. How to identify the best opportunity possible among the banks?
3. Although commercial banks are considered efficient how far are they efficient?
4. These questions arise in banking sector. Among the many other joint venture banks the study here mainly emphasizes on Nepal SBI and Nepal Bangladesh Bank and trying to solve following questions:

a. Are they maintaining sufficient Liquidity?
b. How and why do cash and bank balances change each other?
c. What is the relationship between total deposit and total investment?
d. Do these banks managements utilize these resources satisfactorily?
e. Do they maintain sufficient refund in its capital employments?

The study tries to solve this question and the issues. Therefore this study attempts to evaluate the various measures of financial performance such as, profitability, turnover, efficiency in operation sources and application of funds as well as other related dimensions and they determine the overall financial strength or weakness of these two joint venture banks.

1.4 Objectives of the Study

The study here has been with a view to examine the financial strength and weaknesses of Nepal Bangladesh Bank and Nepal SBI Bank Ltd.The following objectives are taken for the study:

1) To evaluate liquidity position to measure the strength of financial performance of selected banks.
2) To evaluate leverage position of selected banks.
3) To evaluate activity position with reference to mobilization of collected funds.
4) To evaluate profitability position of selected banks.
5) To analyze Earning per share, Dividend payout ratio and Price earning ratio.

1.5 Significance of the Study

Since the study unites the different financial aspect of the bank. It would be useful to the concerned organization, institutions and general public to formulate strategies to utilize the opportunities and face the increasing threats. The stockholders that are concerned to the bank include shareholders, management, outsiders (general public, government, central bank etc.) and policy makers. Thus the main importance of the study is:

- The study focuses on financial performance of selected joint venture banks, NRB act and directives for the joint venture banks.
- This study will be valuable for the shareholders, management of the banks and board of directors of the respective banks, as they hold the position where they stand in the market.
- It will provide information to the general public regarding success of these joint venture banks on the investments they have made.

1.6 Limitation of the Study:

The study no doubt has certain limitation of the following kinds.

1. The study here focuses only on the financial performance of selected banks.
2. The study covers only the financial performance of the 5- year, which is very short period to analyze the financial performance.
3. The study mainly concentrates on the financial performance of Nepal Bangladesh and Nepal SBI Bank.
4. Many financial and statistical tools are used to study the financial performance. But this study has used limited tools.
5. This study will be mainly conducted on the basis of secondary data such as annual report of two banks and other related journals, magazines and books.

1.7 Organization of the Study:

The study will be designed into five main chapters. They are:

Chapter - I: - Introduction

It is and initials phase of the thesis that includes general introduction, a brief review of Nepal Bangladesh and Nepal SBI Bank, focus of the study, statement of the problem, significance, objectives and limitations of the study.

Chapter - II: - Review of Literature

Earlier to this study the researcher have found various studies regarding the financial performance of the financial institution and banks. So in this study the researcher is trying to review the importance and relevant aspect of banking, which have been conducted by previous studies.

Chapter - III: - Research Methodology

This chapter reveals the methodology adopted in carrying out the research work. It includes introduction, research design, sources and nature of data, period covered, research variables, research tools used and research questions for the study.

Chapter - IV: - Presentation and Analysis of Data

It will be concerned with the presentation and analysis of data that has been collected through various sources. It will mainly consist of interpretation and analysis of data with the help of various analytical tools and techniques and major findings regarding the study will also be included.

Chapter - V: - Summary, Conclusion and Recommendations

This chapter includes summary and conclusions of the study and also recommends some suggestions. The researcher have divided the study in 3 main chapters; among which, first chapter includes introduction portion. The second chapter includes the calculation of the necessary data and major findings. The third chapter includes the conclusions of the study and some package of recommendation based on the major findings.

CHAPTER-II

REVIEW OF LITERATURE

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what has been already explained by the authors and researchers and how the current research adds further benefits to the field of research.

Review of literature is focused and directed towards specific purpose. A researcher has to select the kind of literature to be reviewed and determine the purpose. It starts with selection of problem for research, continues through the various stages of research process and ends with report writing. Review of literature is divided into two categories.

2.1 Conceptual Framework / Theoretical Review

2.1.1 Concept of Financial Statement Analysis

"Financial statements analysis is largely a study of relationship among the various financial factors in a business as disclosed by the statement and a study of the trend of these factors as shown in a series of statement". *(Mayer; 1961:4).*

"Financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statement by making comparison of various components and by examining. Their context, this can be used by financial managers as the basis to plan future financial requirements by means of forecasting and budgeting procedures" *(Manmohan and Goel; 1997:356).*

Financial decisions are very sensitive and important and cannot be taken blindly or in vacuum. "Financial analysis is to analyze the achieved statement to see if the result meets the objectives of the firm, to identify problems, if any, in the past or present and or likely to be in the future, and to provide recommendation to solve the problems."(Pradhan 2000; 120).

“Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet, which represents analysis snapshots of the firm’s financial position analysis at analysis moment in time and next, income statement, that deposits analysis summary of the firm’s profitability overtime.”(Van Horne &Watchowlcz, 1997; 120).

Financial statement gives insight knowledge on the firm’s financial position at a point of time and on its operations over some past companies regarding what they have performed financially. Financial report is reporting about what the company has done in terms f assets, liquidity, income and expenses. On the other hand financial statement also highlights other aspects of company such as liquidity, capital structure and market.

Business organizations are inspired to generate profit. The volume of profit is also one of the major indications of a good financial performance of firm. “Profit earned by the firm is the main financial performance indicator of a business enterprise”. (Robinson, 1951; 21-22).

A quantitative judgment of financial performance and financial position of firm should be made from viewpoint of firm’s investment. A ratio is defined as the indicated quotient of two mathematical expressions and the relationship between two or more figure. “In financial analysis ratio analysis is used for evaluating the financial position and performance of the firm.”(Pandey 1991; 104).

“Financial performance analysis is the process of identifying the financial strengths and weakness of properly established relationship between the items of the balance sheet and profit and loss account. Financial analysis is the key tool for financial decision and starting point for making plan before using sophisticated forecasting and budgeting procedures. The value of this approach is that the qualitative relation can be used to diagnose strength and weakness of the firm’s performance”. (Pandey; 1998; 500).

2.1.2 Need of Financial Analysis

The analysis of financial statement is mainly focus with the some questions.

1. What is the present performance of the firm?
2. What will be the position of the firm in future? What are the projections? Is there any likely problems are the way in the future?
3. What are the recommendations? *(Charles; 1994:103)*

The main source of financial statements is the basis of analysis, which includes Income Statement, Balance Sheet and additional inertia. This contains summary of the firm's financial affairs the top management undertakes the financial statements. The investors and financial analysts are the major interested party to ensure the firm's performance through the statement. This analysis is significant in making investment decisions. These statements are published in company's annual report. The annual report is specially prepared for the shareholders, which includes the chairman's speech, the director's report and auditor's report with accounting policies. Though the financial statements are prepared for the external reporting the speech, report and policies are useful in internal management. The present study focus the financial statements of the annual report which is the combination of Balance Sheet (or statement of financial position) Profit and Loss account (or income statement).

2.1.3 Ratio Analysis

"Ratio analysis is such a powerful toll of financial analysis that through this economic and financial position of a business unit can be fully X- rayed". (Kothari, 1991; 48).

"A ratio is simply one number expressed in terms of another. It is found by dividing one number by the other". (A.N Anthony).

"Ratio analysis is the systematic use of ratio to interpret the financial statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined". (Khan and Jain; 1992:80).

"Financial ratios help us to find symptoms of problems. The cause of any problems may be determined only after locating symptoms. The operational and financial problems of a corporation can be ascertained by examining the behavior of these ratios". (Pradhan; 1986; 14)

The following are some important financial ratios to analyze the financial performance of selected banks.

(i) Liquidity Ratio

It measures the ability of the firm to meet its current obligations. In fact, analysis of liquidity need the preparation of cash budgets and cash and funds flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity a firm should ensure that it doesn't suffer from lack of liquidity and also that it doesn't have excess liquidity. The failure of company to meet its obligations due to lack of sufficient liquidity, will result in poor creditworthiness, loss of creditors' confidence or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad, idle assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

(ii) Leverage Ratio

The short term creditors like bankers and suppliers of raw materials are more concern with the firm's debt-paying ability. On the other hand, long term creditor's like debenture holders, financial institutions etc are more concerned with the firm's long-term financial strength. In fact, a firm should have a strong short as well as long term financial position. To judge the long term financial position of firm, financial leverage or capital structure ratios are calculated. These ratios indicate mix of debt and owners equity in financing the firm's assets. The process of magnifying the shareholders return through the use of debt is called financial leverage or financial gearing or trading on equity.

(iii) Activity Ratio

It is concerned with the measuring of efficiency in assets management. These ratios are also called turnover ratios because they indicate the speed with which the assets are being converted or turn over into sales.

(iv) Profitability Ratio

A company should earn profit to survive and grow over a long period of time. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of the company and it will have no future, if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profit. The profitability ratios are calculated to measure the operating efficiency of company.

2.1.3.1 Importance of financial ratio analysis

Ratio analysis is an important and useful technique to check upon the efficiency of an organization. The management can arrive at important decisions by using ratio analysis. The following are the important managerial uses of ratio analysis:

(i) Helpful in measuring financial solvency

Ratios are useful tools for evaluating the liquidity and solvency position of business. They point out the liquidity position of an organization to meet its short and long term obligations

ii) Helpful in future forecasting

Ratio analysis is very helpful in financial forecasting and planning. The ratio calculation of past years works as a guide line for future.

iii) Helpful in comparing inter-firm performance

Due to inter-firm comparison, ratio analysis also serves as a stepping stone to remedial measures. It helps management evolving future market strategies.

iv) Helpful in decision making

Ratio analysis is also very helpful for decision making. The information provided by ratio analysis is very useful for making decision on any financial activity.

v) Helpful in corrective action

Ratio analysis can also point out the difference of the business so that corrective action can be taken accordingly.

2.1.3.2 Limitations of ratio analysis

Ratio analysis is a widely used technique to evaluate the financial position and performance of business firm. But there are certain problems in using ratio analysis. The analysis should be aware of these problems. The following are the limitations of ratio analysis.

a) The ratio calculated at a point of time is less informative and detected as they suffer from short term change.
b) Different companies have different accounting periods, implying difference in the composition of the assets, particularly current assets. This may limit the comparative study of ratios' between two firms.
c) Ignores qualitative aspects.
d) The ratios are calculated from past data statement that are no indicators of future.

2.2 Review of Articles, Thesis and Journals

2.2.1 Review of Articles

Shrestha (1990) entitled *"Commercial Banks' Comparative Performance Evaluation"* stresses on a proper risk management with appropriate classification of loans under performing and non performing category. He further clarifies that adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income.

Regarding the risk management of the bank Shrestha suggests that:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservations are required in restructuring portfolio related to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

He found JVBs are new, operationally more efficient, have better performance in comparison to NBL and RBB. Better performance of JVBs is due to their sophisticated technology, modern banking methods and skills.

State owned banks are efficient at rural sector however they are facing growing constraints from social, economical, political system as well as the issues and challenges from JVBs.

Thapa (1994) has expressed that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing to non- traditional sectors along the traditional sector. In Nepal, Nepal Bank ltd. and Rastriya Banijya Bank are opening with a nominal profit. The late turning towards negative form time to time because of non- recovery of accrued interest, the margin between interest income and interest expenses as declining. Because of these two local banks, in traditional off- balance sheet operations, these banks have not been able to increase their income from commission and discounts. On the contrary they have to go heavy burden of personal and administration overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand foreign joint venture banks have been functioning in an extreme efficient way. They are making huge profit year after year and have been distributing large amount of bonus and dividends to its employees and shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loan have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off- balance sheet operation and efficient personnel management has added to the maximization of these profits.

At the end of article concluded that by its very nature of public, the domestic banks could not compete with the private sector banks, so only remedy problems of these banks, as the government decided is, to hand over the ownership as well as the management of these banks to the private hands.

Poudel (1996) has given more emphasis on the financial performance of finance companies in the article “An Overview on Financial Companies of Nepal”. He had written that at the time 1996, the ratio of capital funds to deposits has been increasing over the time but on top of this, the ratio of capital funds to deposits has been increasing over the time but on top of this is, it is substantially below than the authorized level of deposit mobilization, which is ten times of the capital base.

Never the less, some of the finance companies have even mobilized the deposit by more than ten times of their capital base by violating the regulatory norms issued by NRB. The credit/ deposit ratio has remained quite high leaving the room for doubt about loan especially in the absence of repayment schedule. The loan diversification has been improved however, however during a short span of time. As such, the hire purchase housing and term loans are the major sectors, which all together received more than 95% of the total loans and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies, the average sources of funds for each company are natural to decline.

Since the varying factor, it is too early to evaluate the performance of financial companies in Nepal but equally important factor is that the regulatory and supervisory authority should keep close eyes to monitor their activities.

Shrestha, (1997), entitled "*Portfolio Behavior of Commercial Banks in Nepal"* analyzed the financial performance of the commercial banks through ratios and management achievement index. She also analyzed the investment and lending operations of commercial banks and their contribution to the national economy. She used data from 1975 to 1990 and analyzed the portfolio composition of the commercial banks and their behavior by testing the relationship with economic and fiscal variables of the country.

Some of her conclusions relevant to this thesis are:

- Per capita deposits as well as per capita credit in commercial banks have increased tremendously. The contribution of deposit in GDP has also been increasing.
- Structural ratios show 75% of their total deposits invested in the government securities and the shares.
- Reserve position shows quite high percentage of deposit as cash reserve.
- The commercial banks are highly leverage and highly risky.
- By risk and return JBVs are aggressive.

- BY comparative total management achievement index JBVs are better.
- Among the commercial banks, Standard Chartered Bank seems to have highest growth rate of EPS.

Poudel (2000) entitled *"Financial Statement Analysis": "An Approach to Evaluate Banks Performance"* has indicated that balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank's balance sheet and P/L account. The bank's 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 forms a small portion of the total assets. Financial innovations which are generally contingent in nature are considered as off balance sheet item.

Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other resources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decision. The requirements of bank's financial statement have been expressly laid down in the concerned act. The 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.

The principle objectives of analyzing financial statement are to identify: liquidity, profitability and solvency. Most of users of the financial statements are interested in assessing the bank's overall performances which are affected by the following factors:

- The structure of balance sheet and profit and loss account.
- Operating efficiency and internal management system.
- Managerial decision taken by top management regarding rate, exchange rate, lending policies etc.
- Environmental changes (technology, government, competition and economy)

- The other factors to be considered in analyzing the financial statements of a bank are to assess the capital adequacy ratio and liquidity position. In the line of adequacy, a bank is assessed on the basis of risk weighted assets. It indicates a bank's strength and solvency. Bank 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 a bank's assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

Pandey (2003), made "*A Study on a Topic of a Study of Financial Analysis on HBL"*, the study was conducted to analyze and evaluate the financial position of HBL in order to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, coefficient of correlation, probable error in his study. And he found that overall liquidity and capital structure position of the bank is not satisfactory. Overall profitability condition was highly appreciable profit generating capability through loans and advances appeared satisfactory. Trend of deposit collection showed that the bank was in a higher risk with respect to saving deposit as against the fixed deposit.

2.2.2 Review of thesis

Gurung (2001) entitled "*A Financial Study of Joint Venture Banks in Nepal A Comparative Study of Nepal Grindleys Bank Ltd. And Nepal Indosuez Bank Ltd.*" concludes that both Joint Ventures banks includes unsatisfactory in liquidity position and interest coverage ratio. The capital structure of the banks is extremely leveraged but they have been maintaining sound capital adequacy ratio as directed by Nepal Rastra Bank. Both the joint Venture banks have registered an increasing trend during the first half but the study period has been decreased thereafter. The researcher has recommended maintaining improved capital structure by increasing equity base. Both the banks should pay due attention in liquidity and coverage position. The researcher further suggests extending their banking facilities even in rural areas by opening up branch office.

Major finding of these thesis are:

- The both bank are not use their capital properly.
- Both joint venture banks have registered an increasing trend during the first half but the study period it has decreased thereafter.
- The researcher suggests that extending their banking facilities even in rural areas.

Subi Joshi (2003), in her thesis entitled "*Financial performance of Nepal Bank Limited*", has tried to summarize the financial performance of NIBL and she has pointed out the following objectives:

- To evaluate liquidity position of NIBL
- To analyze the financial performance of this bank.
- To offer a package of suggestion to improve the financial performance
- To identify the relationship between interests earned and operating profit.

Major findings of the study are as follows:

- The result of the analysis indicates that the bank had the high debt ratio which again exhibits that the creditors have invested more in the bank than the owners.
- The result of the analysis indicated that the bank has better mobilization of saving deposit in loans and advances for income generating purpose.

Mr. Prabhu Narayan Pradhan (2004), in his thesis entitled "*A comparative financial performance of HBL and SCBNL"* has pointed out the following objectives.

- To analyze comparative financial performance of both banks.
- To evaluate liquidity position of both banks.
- To identify the relationship between interests earned and operating profit.
- To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows:

- Current ratios of both banks are below the standards; this might affect the liquidity position of these banks.
- SCBNL's loan and advances to total deposit ratio significantly lower than that of HBL.

- SCBNL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loan and advances.
- HBL is strongly recommended to increase its earning per share and dividend per share to keep investors within the bank.

Mr. Babu Kaji Karki (2005), in his thesis entitled "*A comparative analysis of financial performance of NABIL and SCBNL*", has pointed out the following objectives.

- To evaluate liquidity position of both banks.
- To analyze comparative financial performance of both banks.
- To study the comparative position of both banks.
- To offer a package of suggestion to improve the financial performance.
- To identity the relationship between interests earned and operating profit.

Major findings of this study are as follows:

- SCBNL has efficiently operated its long term fund, deposit and assets to generate more profits.
- Liquidity position of NABIL bank is favourable in many cases it seems excessive. The proposed recommendation for these banks is to reduce its excessive non-performing assets (cash and bank balance) and invest on the income generating current assets (Treasury Bills), while SCBNL must strengthen the liquidity position.
- Comparatively SCBNL's profit ability position is better than that of NABIL.

Mr.Shrestha (2005), has conducted a study on "*Financial performance analysis of Nepal Bangladesh bank Ltd*" with the objective of:

- To analyze the functions, objectives procedure and activities of the NB bank.
- To analyze the ending practices and resources utilization of NB bank.
- To determine the impact of growth in deposit on liquidity and lending practices.

- To examine the lending efficiency and its contribution to profit.
- To make suitable suggestion based on the findings of this study. The financial and statistical tools are used.

Major findings of this study are as follows:

- NB bank has utilized most funds in the form of credit and advances. More than 75%of total deposit of the bank has been forwarded to customers as a credit and advance.
- Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposit to the needy area to make profit for the bank.

Mr. Maharjan (2006), made "*A Comparative Analysis of Financial Performance of Nepal Bangladesh Bank Ltd and Nepal Grindlays Bank Ltd*." The main objective was to analyze and evaluate the financial position of Nepal Bangladesh Bank Ltd and Nepal Grindlays Bank Ltd in order to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, Hypothesis tests. He used the data of five years till the year 2000. At liquidity position NGBL don't meet the required standard but it is consistent. At fund utilization NBBL is better. NBBL is more aggressive at fund mobilization bearing higher risk. At profitability NBBL has increasing trend till 1997. NGBL has higher fluctuation at profitability. Overall capital position is better at NGBL.

Objectives of the study:

- To evaluate the financial position of the selected banks.
- To find out better performance of capital structure, mobilization of resources and increasing trend of profitability.

Major findings of this study are:

- The fund utilization NBBL is better than NGBL.

- NBBL is more aggressive at fund mobilization bearing higher risk.
- NGBL has higher fluctuation at profitability.

Mr. Gautam (2006) has conducted research on "*A Comparative Study on Financial Performance of Standard Chartered Bank Limited and Nepal Bangladesh Bank Limited"* with the objectives:

- To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
- To access the debt servicing of the joint venture commercial bank.
- To examine the correlation and the significance of their relationship between different ratios related to capital structure.
- To provide suggestion and recommendation for the optimal capital structure of the joint venture commercial bank.

Major findings of the study are as follows:

- On an average, NBBL bank constitutes 16.27 time of P/E ratio, which should be reduced as quickly as possible.
- The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicate the higher degree of financial risks 3.73 times which indicate the higher degree of financial risks.
- The average ROE of joint venture banks i.e. SCBNL and NBBL are 37.6% and 21.75% respectively.

Mr. Milan Sadula (2007), in his thesis "*Financial performance of commercial banks and returns to investors: with special reference to BOK, EBL, SCBNL, NIBL, NABIL"* has pointed out the following objectives:

- To evaluate liquidity position of these banks.
- To analyze comparative financial performance of these banks.
- To study comparative position of selected banks.
- To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows:

- Commercial bank except SCBNL and NABIL are not maintaining constant DP ratio, it is recommended to maintain a constant DP ratio so as to have the confidence of general shareholders.
- Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCXBNL has highest EPS and that of BOK is lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

Deoja (2008) entitled *"A Comparative Study of the Financial Performance Between Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd"*. His main objective was to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. And after having studied the performance of five consecutive years till 2005 he concludes a sound liquidity position in both banks. NBBL has better utilization of resources to generate income than NSBI. Profitability of NBBL is better than NSBI. Interest earned to total assets and return on net worth of NBBL is higher than NSBI. Both are highly leveraged.

Major finding of this study:

- NBBL has better utilization of resources to generate income than NSBI.
- Profitability of NBBL is better than NSBI.
- Interest earned to total assets and return on net worth of NBBL higher than NSBI.

Kapadi (2008) entitled made *"A Comparative Study of Financial Performance of NABIL and SCBNL"*. The main objective was to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors from his findings. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, coefficient correlation, probable error, hypothesis tests in his study. He used the data from 2003 to 2008 and used most of the ratios and extensively used statistical tools. And he concluded that both have lower liquidity position, both are highly leveraged, performing assets to total assets ratio satisfactory in both ,unsatisfactory profitability in both , threat of solvency being high, recommends to increase equity base, improve operational profit ,and to decrease operating expenses, expand services to rural areas.

The main objectives of this study are:

- To find out the comparative study of financial performance of the selected banks.
- To find out how the liquidity are mobilize in every sector.
- To evaluate the deposits, fixed assets, shareholders and management system of the bank.

Major finding of this study are:

- The researcher has found out the lower liquidity position.
- The performing assets to total assets ratio satisfactory in both banks.
- The threat of solvency being high.

Dangi (2009), made "*A Comparative Study of Financial Performance of SCBNL, NABIL and HBL"*. His main objective to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools excessively but did not use any statistical tools in his study. And he concludes all have unsatisfactory liquidity position, all are highly leveraged, all have low coverage ratio due to excessive use of debts, SCBNL is better at mobilizing assets, SCBNL is better at EPS suggesting effective utilization of owners' equity. DPR higher with SCBNL, HBL is better at lending and SCBL better at service giving, SCBNL has higher expenditure at staff, HBL at interest payment, NABIL at general expenditure, all borrowed but SCBNL is continuously borrowing throughout the period, suggests to improve quality of current assets structure, to increase equity base, and EBT.

The main objectives of this study are:

- To find out the financial position of sampled Institutions.
- To find out the management system of selected Institutions.
- To analyze the lending and borrowing position.

The major findings of this study are:

- Both institutions liquidity position was unsatisfactory.
- Low coverage ratio due to excessive use of debts.
- SCBNL is better at mobilizing assets then HBL.
- Improve quality of current assets structure, to increase equity base.

Mr. Raju Pandey (2009), in his thesis entitled "*Comparative analysis of financial performance of Nabil Bank Ltd, Investment Bank Ltd and Standard Chartered Bank"* has pointed out the following objectives:

- To evaluate liquidity position to measure the strength of financial performance of selected banks.
- To evaluate the activity and operation with reference to mobilization of collected funds.
- To analyze price earning, market value to book value per share and dividend payout.
- To evaluate the earning and profitability position of selected banks.
- To identify the relationship between total deposit and total investment.
- To identify the relationship between interest earned and operating profit.

Major findings of the study are as follows:

- Credit ratio of all sample banks i.e. Nabil and SCBNL is greater than 1, but Nabil Bank has the highest credit ratio. It means Nabil banks solvency position is better than NIBL and SCBNL.

- Cash and Bank balance of NIBL with respect to total deposit is more liquidity than other sample banks. It indicates that NIBL is more able to make immediate payments' to its depositors.
- NIBL has lowest ratio of net profit to total assets. It means NIBL has not mobilized its assets into profit generating projects. Nabil bank has been successful in earning more net profit by the proper use of its available assets.
- Earning per share of SCBNL is higher than other selected joint venture banks whereas NIBL has the highest price earning ratio than other banks.

Kamala Hamal, (2010), in her thesis entitled, "*Comparative financial performance of Nepal Investment Bank Ltd and Himalayan Bank Ltd*", has pointed out the following objectives:

- To compare and analysis of various ratios between NIBL and HBL
- To examine the relative financial performance of NIBL and HBL in terms of different kinds of ratios like financial ratios and profitability.
- To perform trend analysis of these selected banks and make a projection of these banks for next five years.
- To provide meaningful suggestion and recommendation to these banks for improvement in their financial performances.

Major findings of this study are as follows:

- Liquidity position of NIBL is comparatively better than HBL.Lower liquidity position of HBL shows that the current assets have been utilized in some profit generating sectors, but at the same time bank has weak short term solvency position.
- Cash and bank balance to total deposit ratio of NIBL has higher than HBL i.e. 10.65%>6.82%, which indicates that the bank has higher liquidity as compared to HBL.
- Loans and advance to total deposit ratio of HBL is lower than NIBL i.e. 59 %< 71.82%. It indicates the better mobilization of deposits by NIBL.

- Profitability ratio shows that NIBL has earned higher profit in relation to every aspects of the bank than HBL.

2.3 Research Gap

Large numbers of research are available bearing the same topic, “A comprehensive analysis of financial performance” of commercial banks. After reviewing the researches done throughout the past, the present researcher has found that comparative study of the financial performances of the banks has not been long analyzed especially between the Nepal Bangladesh Bank Ltd and NSBI Bank Ltd. The past studies have recommended some of the remedial references like to reduce the debt, increase the liquidity, to limit the operating cost. It’s been time to check how far the differences have occurred in the banks. The present study explores the comparative and financial performances of the banks: NSBI Bank and Nepal Bangladesh Bank as sample banks.

The purpose of this research is to develop some expertise in ones area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to comparative financial performance of commercial banks. Financial analysis is the major concern of every commercial bank for evaluating the financial performance. It is the major concern of stakeholders to know the financial situation of bank. Thus, the previous studies cannot be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on that exact topic, i.e. financial performance, therefore to fulfill this gap, this research is selected. To complete this research work: many books, journals, articles and various published and unpublished dissertation are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of financial performance. Our main research problem is to analyze whether the sample bank has right level of profitability and liquidity as well as to know whether it is able to utilize resources effectively or not. To achieve this main objective, various financial and statistical tools are used. Therefore, this study is expected to be useful to the concerned banks as well as different persons; such as shareholders, investors, policy makers, stockbrokers, state of government etc.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology is composed of two words; Research and Methodology. Research is the systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answer to problem.

Research refers to search of knowledge. The Webster international dictionary gives a very inclusive definition of research as, "A careful critical inquiry or examination in seeking facts and principles; diligent investigation in order to ascertain something". (Saravanavel, 1990).

Research methodology is a road map of study or research to solve the research problems systematically. It contains research design, sources of data, data gathering procedure and data analysis tools. "Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation, backed by collection, presentation and interpretation or relevant details or data." (Michael, 1985; 57).

"Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view". (Kothari, 1994; 19). A research methodology helps us to find out accuracy, validity and suitability.

The main objective of this report is to analyze, examine, highlight and compare the financial performance of Nepal Bangladesh Bank and Nepal SBI Bank and to recommend and suggest for better performance. It involves research design, population sampling, sampling procedure, sources of the data, data collection technique etc.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure *(Kothari; 1990: 39).*

Research design is plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variances to achieve of the study, descriptive and analytical research design have been used. In other words research design is the framework for study that helps for the analysis of data related to study topic.

"A research design is the arrangement of conditions, for collecting and analysis of data in a manner that aims relevance to the research purpose with economy in procedure". Chaire, Selliz and others. (1967; 261).

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework of the project that stipulates what information to be collected from which source by what procedures. The design may be a specific presentation of the various steps in the problems, conceptual clarity and methodology, survey of literature and documentation and report writing. Generally, a common research design possess the five basic elements via i) selection of problem ii) methodology iii) data gathering iv) data analysis v) report writing.

It is the task of defining the research problem. It is the main part of any research work. The present study consists of analytical as well as descriptive design. Here, the study aim at portraying accurately upon the financial performance and other aspects related to finance of the two Joint venture banks, namely Nepal Bangladesh Bank Ltd and Nepal SBI Bank Ltd.

3.2 Population and Sample

At present there are 31 commercial banks operating in Nepal under the guidance of Nepal Rastra Bank. For the purpose of convenience only, two commercial banks via, Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited have been taken as sample of this study and rest of the commercial banks are considered as population. Five years data are taken to conduct the study from 2061/62 to 2065/66.

3.3 Sources and Collection of Data

For the purpose of study only the secondary data are used. The required data and information for analysis are directly collected from the annual reports of the respective banks. The supplementary data are collected from number of institution like Shankar Dev

Campus Library and documentation section of T.U. Library, company office etc. Similarly related books magazine Journals articles reports bulletins and data from security board Nepal. Further the secondary data have been collected from reports and financial statement of the company, published and unpublished officials reword, books, articles magazine, annual report etc.

3.4 Data collection procedure

The researcher used two types of data collection techniques.

a) Primary data
b) Secondary data

The primary data are those which are collected a fresh and for the first time and thus happen to be original in character. The secondary data, on the other hand are those which have already been by someone else and already been passed through the statistical process. (Kothari 1990). The major sources of secondary data for this study are as follows:

a) Annual report of the bank
b) Published and unpublished bulletins, reports of the bank
c) Published and unpublished bulletins, reports of Nepal Stock Exchange
d) Previous studies and reports
e) “Banking and Financial statistics” reports of Nepal Rastra Bank magazines
f) Journals and other published and unpublished related documents and reports from central library of T.U, library of Shanker Dev Campus, library of Nepal Commerce Campus and library of Nepal Rastra Bank.

3.5 Method of Data Analysis

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. Among them, correlation analysis is regarded as the major tools used for this research. To make the study more specific and reliable, the researcher has used two types of tools for analysis;

a) Financial tools
b) Statistical tools

3.5.1 Financial Tools

The measuring instrument, which can be used in financial analyses, is known as financial tool. It helps to calculate relationship between two financial variables on ratio and percentage basis. In this study the following financial tools have been used to measure the strength and weakness of samples banks.

3.5.1.1. Ratio Analysis

Ratio Analysis is the powerful tools of financial analysis, which helps in identifying the strength and weaknesses of an organization or business concern about the financial performance. The term ratio refers to an arithmetical relationship between two items/figures, to make rational decision of financial variability of the company. This relationship can be expressed in terms of percentage, fractions or proportions. To achieve an effective result, ratio must be analyzed in comparative basis "the techniques of ratio analysis are the art of the whole process of the analysis of financial statements of the whole business or the industrial concern, especially to take output and credit_decision. Ratio analysis is a widely used tool of financial analysis it is defined as the systematic use of ratio to interpret the financial analysis statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined *(Khan and Jain; 2003: 4.1).*

"In financial analysis, a ratio is used as a benchmark for the evaluation of the financial position and performance of the firm".

The following are the ratios that are going to be analyzed under the financial performance of Nepal Bangladesh Bank and Nepal SBI Bank Ltd.

3.5.1.1.1 Liquidity Ratio

Liquidity ratios are used to judge firm's ability to meet short term obligation. It is the comparison between the short term obligation and short term resources available to meet these obligations. Liquidity ratios should neither be inadequate nor high. Inadequate liquidity can lead to unexpected cash shortfalls. A very high degree of liquidity is also not good, as ideal assets earn nothing leading to fewer assets yields and contributing to poor earnings performance. Commercial banks need liquidity to meet loan demand and deposit withdrawal. Liquidity is also needed for the purpose of meeting cash reserve ratio and statutory liquidity ratio requirements prescribed by the Central Bank. The following ratios are calculated under liquidity ratio:

a) Current Ratio

Current ratio indicates bank's liquidity and short term debt paying ability. Current ratio is also known as working capital ratio. The ratio is to evaluate or indicate the current solvency position of the organization. The current ratio represents a margin of safety for creditors at bad situation. Financial norms say that 2:1 is the optimal position of liquidity and profitability point of view. If the current ratio of the firm is less than 2:1 the solvency position of the firm is not good. The cash may not be available to pay current liabilities. If the ratio of firm is under financial standard, the firm's liquidity position measured as better. It shows the relationship between current assets and current liabilities. It is calculated by dividing the current assets and current liabilities. Thus;

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

Current assets are those assets which can be converted into cash within short period of time. Normally, not exceeding one year. Cash and bank balance, money at call, loans and advances, debtors, bills purchased and discounted and miscellaneous are he examples of current assets. Similarly, current liabilities are those obligations which are payable within short period. Deposit and short term loan, bills payable, tax provision, staff bonus, dividend payables are the examples of current liabilities.

b) Cash and Bank to Total Deposit Ratio

This ratio shows ability of banks fund to cover their current margin call and saving deposits. It shows the proportion of total deposits held as most liquid assets. High ratio shows strong liquidity position of the bank. But too high ratio is not favourable for the banks because it produces adverse effect in profitability due to idleness of high interest bearing fund. It is calculated in order to see the position of cash and bank balance to make the payment of deposit when demanded. This ratio is calculated by the following formula:

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

Cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposit, saving deposit, fixed deposit, money at call and short deposit and other deposits. A high ratio indicates greater ability to meet their deposit and vice versa. Moreover, too high ratio is unfit as capital will be tied up and opportunity cost will be higher.

c) Cash and bank balance to Current Assets Ratio

This ratio is used to measure the proportion of liquid assets i.e. cash and bank balance among the total current assets of bank. Higher ratio shows the bank's ability to meet its demand for cash. This ratio is computed by dividing cash and bank balance by current assets. It is calculated by the following formula:

Cash and bank balance to current saving deposit ratio= $\frac{\text{Cash and Bank balance}}{\text{Current Assets}}\text{x}100$

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposit and vice versa.

3.5.1.1.2 Leverage Ratios

Leverage ratios are concerned with the long term solvency of the banks and show the proportion of debt and equity in financing in financing. Long term creditors like debenture holders, financial institution etc are more interested to the firm's long term financial strength. The capital structure ratio mainly highlight on the long term financial health, debt servicing capacity and strength and weakness of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. These ratios measure the enterprise's ability to pay the interest regularly and to repay the principal on maturity. The following ratios are used for analyzing long term financial health debt servicing capacity and strength and weakness of joint venture banks.

a) Total Debt to Total Equity Ratio

This ratio is calculated to find out the proportion of the outsiders fund to owners fund to finance the total assets. The ratio shows the mix of debt and equity in capital. It measures creditors claim against owners. High ratio shows that the creditors' claims are greater than those of owners. Low ratio implies greater claim of owners than creditors. This ratio is computed by using the following formula

Debt-equity ratio= $\frac{\text{Total Debt}}{\text{Shareholder'sEquity}}$

This ratio helps to ascertain the measure stake in commercial bank between lenders and owners.

b) Total Debt to Total Assets Ratio

This ratio reflects that portion of outsiders fund financed in the total assets. It signifies the extent of debt financing on total assets and measure the financial securities to the outsiders. Greater proportion of the bank's assets has been financing through outsiders fund. High ratio shows that the greater portion of bank's assets has been financed through outsider's fund. The ratio should neither be too high or too low. This ratio is calculated by using the following formula:

$$\text{Debt assets ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

c) Interest coverage ratio

This ratio indicates the ability of firm to pay interest charges on its borrowed capital. The ratio is also known as times interest earned ratio is used to test debt servicing capacity of the bank. It shows the number of times the interest chargers are covered by funds that are ordinarily available for their payment. Higher ratio is desirable, but too high ratio indicates the firm is very conservative in using debt .A lower ratio indicates excessive use of debt or insufficient operation. This ratio is calculated by dividing earning before tax and interest by the amount of fixed interest charges.

$$\text{Interest coverage ratio} = \frac{\text{Earning Before Interest \& Tax}}{\text{Interest Charged}}$$

3.5.1.1.3 Activity Ratio

Activity Ratio is concerned with measuring the efficiency in its assets management. The funds of creditors and owners are invested in various assets to generate income and profit. Better the management of assets, the larger the amount of income. This ratio is also called turnover ratio because they indicate the number of times the assets are being converted or turnover into income. This ratio measures the degree of effectiveness and use of resources of a firm. It indicates how quickly certain current assets are converted into cash. Higher the ratio means more efficient in management on the utilization of its resources and vice versa. Following ratios are used under utilization ratio:

a) Total Investment to Total Deposit Ratio

This ratio is calculated to see how efficiently the banks have mobilized the deposit on investment. Higher ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds. This ratio is calculated by using the following formula:

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

b) Loan and Advance to Total Deposits

This ratio is also called credit- deposit ratio (CD ratio). It is calculated to find out how successful the bank is able to utilize its total deposits on loan and advance for profit generating purpose. The ratio can be calculated as under:

$$\text{Loan \& Advance to Total Deposit Ratio} = \frac{\text{Total Loans \& Advance}}{\text{Total Deposit}}$$

Higher ratio shows the finance companies ability to provide the loan and advances to the people. A high ratio of loan and advances is considered to be the sign of efficient commercial bank and better mobilization of collected deposit and vice versa.

c) Loan and Advance to Total Assets Ratio

Commercial Bank's working fund plays very active role in profit generation through mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advance for the purpose of income generation. This ratio is calculated by following formula.

$$\text{Loan and advance to Total Assets Ratio} = \frac{\text{Loan and Advance}}{\text{Total Assets}}$$

3.5.1.1.4 Profitability Ratios

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. It measures how effectively the firm is being operated and managed. Besides managers and owners, creditors are also interested to know the financial soundness of firm. Owners are eager to know their return whereas managers are interested in their operating efficiency. So they calculate profitability ratios because exceptions of both owners and managers are evaluated in terms of profit earned by the firm. For better performance the profitability ratio of firm should be higher.

Profitability ratios can be calculated in the following ways:

a) Return on Total Assets Ratio

This ratio measures the overall profitability of all working fund i.e. total assets. In other words it measures the efficiency of bank in utilization of the overall assets. The firm has to earn satisfactory return on assets or working funds otherwise its survival is threatened. It reflects the sufficiency of banks in utilizing its overall resources. It is calculated as follows;

$$\text{Return on total assets ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

The numerator indicates the position of income left to the interval equities after all costs, changed, expenses have been deducted. Total assets include all those assets which appear on the asset side of balance sheet. The higher ratio implies that the available source and tools are employed efficiently.

b) Return on Shareholder's Equity

This ratio measures the return on owner's investment in firm. Equity capital is owned capital of banks. It helps to judge whether the company has earned satisfactory return for its shareholder's or not. This ratio can be calculated:

$$\text{Return on shareholder's equity} = \frac{\text{NPAT}}{\text{Shareholder's Equity}}$$

Where, total shareholder's equity=ordinary share capital+ preference share capital + reserve and surplus+ undistributed profit- accumulated loss- preliminary expenses – discount and commission on issue of share and debentures. Higher ratio represents sound management and efficient mobilization of owner's equity.

c) Return on Loan and Advance Ratio

This ratio indicates how efficiently the bank utilizes its resources in form of loan and advance. This also measures the earning capacity of its loan and advance. This ratio is computed by dividing net profit by loan and advance which can be expressed as:

$$\text{Return on loan and advance ratio} = \frac{\text{NPAT}}{\text{Loan and Advance}}$$

d) Total interest Earned to Total Assets Ratio

This ratio is computed to find out percentage of interest earned to total assets. Higher ratio implies better performance of bank in terms of interest earning on its working fund. This ratio is computed by dividing total interest earned by total assets.

$$\text{Total interest earned to total assets ratio} = \frac{\text{Total Interest Earned}}{\text{Total Assets}}$$

e) Return on total deposits

This ratio enables to evaluate what extent the management has been successful to mobilize the deposit in generating profit. It reveals the relationship between net profit after tax and total deposit with an ability of firm to utilize maximum of deposit to earn much profit. This ratio is calculated as follows:

$$\text{Return on total deposit} = \frac{\text{Net Profit After Tax}}{\text{Total Deposit}}$$

Here, total deposit means that total amount deposited in various account i, e current, fixed, saving, call and short deposits and others. Generally higher ratio indicates better utilization of total deposit and vice versa.

3.5.1.1.5 Other ratios

Besides above stated ratios some other indicators are dealt here which provides more knowledge about their performance of bank. They are as follows:

a) Earnings Per Share

It measures the profit available to the common shareholders as per share basis i.e. the amount they get from every share. Company can decide whether to increase or reduce the number of share issued. This decision will automatically alter the earning per share. The earnings per share can be calculated by dividing the profit available after tax to the shareholders by the number of outstanding shares.

$$\text{Earning Per share} = \frac{\text{Net Profit Available to Equity Shareholders}}{\text{Number of Share Outstanding}}$$

b) Dividend Per Share

Dividend implies that portion of Net Profit, which is allocated to the shareholders as return on their investments on cash. The net profit after taxes belongs to shareholders. But the income, which they really receive, is the amount of earning distributed as cash dividends. The earnings per share implies what the owner are theoretically entitled to get form the company while dividend per share is that portion of earning which is allocated to shareholders divided by total number of share outstanding. Thus, DPS is computed by dividing the total amount of dividend paid by the number of share outstanding.

$$\text{Dividend per Share} = \frac{\text{Earning Paid to the Shareholders}}{\text{Number of Common Shares}}$$

A higher dividend per share indicates the higher profit earning of company. So, the higher dividend per share is preferable to the shareholders.

c) Dividend Payout Ratio

Dividend payout ratio indicates the percentage amount of dividend paid to the shareholders out of earning per share i.e. this reflects of what percentage is to be retained in company as retained earnings. This earning is needed for business to grow and to expand. From the Shareholders point of view, the dividends are more desirable to significant internal sources of financing for the growth of the firm. This ratio is calculated by dividing the dividend per share by earning per share. Therefore if there is no dividend paid than there is no D/P Ratio. The Shareholders always expect a higher D/P Ratio.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

d) Price Earning Ratio

This ratio is closely related to the EPS. It is calculated by dividing the market value per share by earning price per share. It indicates investor’s judgements or expectation about the firm’s performance. This ratio is widely used by the security analysis to value the firm’s performance as accepted by the investors. Higher ratio indicates more values of the stock that is being ascribed to future earning as opposed to present earnings.

Price Earnings Ratio= $\frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$

Here, total equity capital includes shareholders reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share preference share capital.

3.5.2 Statistical Tools

For supporting the study, statistical tool such as Mean, Standard deviation, Coefficient of Variation, Correlation, Trend Analysis have been used under it.

3.5.2.1. Arithmetic Mean (Average)

An average is the typical values around which other items of distribution congregate. Arithmetic mean of a given set of observation is their sum divided by the number of observation. (Gupta, S.C, 1995: 31).

Average is statistical constants which enables us to comprehend in a single effort the significance of the whole. It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

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

Where,

$\bar{x}$= Arithmetic Mean

N = Number of Observations

$\sum X$= Sum of Observations

3.5.2.2. Standard Deviation (S.D.)

Standard deviation is the square root of the arithmetic mean of the square of the deviations of the given observations. It enables us to determine with great deal of accuracy where the value of a frequency distribution are located in relation to the mean. It measures the absolute dispersion or variability. It is said higher value of standard deviation, higher the value of variability and vice versa. It is calculated:

$$\text{S.D. }(\sigma) = \sqrt{\frac{\sum X^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

Where,

σ = Standard Deviation

$\frac{\sum x^2}{N}$ = Sum of Squares of Observation

$\left(\frac{\sum X}{N}\right)^2$ = Sum of Square of Mean

3.5.2.3. Coefficient of Variation (CV)

"Co-efficient of variance is the relative measure of dispersion comparable across distribution, which is defined as the ratio of the standard deviation to the mean express in percent". *(Levin, and Rubin; 1994: 144).*

"Co-efficient of variation is the relative measure based on the standard deviation and is defined as the ratio of standard deviation to the mean expressed in percentage. (Shrestha, 1991)."

A series with smaller CV is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa.

Co-efficient of variance denotes by C.V. is given by:

$$\text{C.V.} = \frac{\text{S.D.}}{\text{Mean}} \times 100 = \frac{\sigma}{\bar{\bar{X}}} \times 100$$

3.5.2.4. Correlation Coefficient (r)

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. It measures the degree of relationship between the two casually related variables. Karl Pearson's coefficient of correlation between two variables X and Y is usually denoted by r, which is the numerical measure of linear association between the variables. Karl Pearson's coefficient of correlation is most widely used in practice. The Karl Pearson's coefficient of correlation is denoted by symbol (r). It measures the relationship between two variables. In the present context, the coefficient of correlation is calculated in order to examine the relationship between two variables. This tool is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y, and is usually denoted by 'r' can be obtained as:

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

Where,

N = no of observation in series X and Y

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

Interpretation of correlation coefficient: the coefficient of correlation as obtained by the above formula shall always lie between + - 1, when r is +1, then there is perfect positive correlation between the variables.

When r is -1, there is perfect negative correlation between the variables.

When r is between 0.7 to 0.999, there is high degree of correlation between the variables.

When r is between 0.5 to 0.699 there is moderate degree of correlation between the variables.

When r is less than 0.5 there is low degree correlation between the variables. When r is zero, there is no correlation between the variables.

Coefficient of Determination (r^2)

It explains the variation percent derived in dependent variable due to the any one specified variable; it denotes the fact that the independent variable is good predictor of the behavior of the dependent variable. It is square of correlation coefficient.

Probable Error of Correlation Coefficient

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

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

Where,

$\frac{1 - r^2}{\sqrt{n}}$ = Standard Error

Reasons for taking 0.6745 is that in a normal distribution 50% of observation lies in the range $\mu \pm 0.6745\ \sigma$ where, μ and σ denotes the population mean and standard deviation.

It is used in interpretation whether calculated value of 'r' is significant or not.

- If r < P.E., it is insignificant. So, perhaps there is no evidence of correlation.
- If r > P.E., it is significant.

3.5.2.5 Trend Analysis

Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period. The linear trend values from a series in arithmetic progression.

Mathematically,

$$Y = a + bX$$

Where,

Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

X = value of the independent variable i.e. e. time.

Limitations of research methodology

a) Only the selected financial and statistical tools have been used in this thesis.
b) Researcher mainly depends on the secondary data i.e., financial statement of bank and data provided by the NRB.
c) Sample taken by the researcher is only of two banks.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

In this chapter, data collected from secondary sources are presented and analysed by using financial and statistical tools. The available data are tabulated, analysed and interpreted so that financial forecast of banks can be done easily. To evaluate the financial performances of selected joint venture banks, ratio analysis, correlation analysis and trend analysis are used for the study.

4.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weakness of the banks. It is also inevitable for the qualitative judgement with which financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision. The ratios of a firm by themselves do not reveal anything. For meaningful interpretation the ratio of a firm should be compared with the ratios of similar firms. Four main categories of ratios have been taken in this study that is mainly related to financial performance of banks.

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of a firm to meet its short-term obligations and reflects the short-term financial solvency of a firm. Bank must maintain its satisfactory liquidity level to satisfy the credit needs of community, to meet demands for deposit, withdrawal, pay maturity obligations in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long run profit. It is mainly used to analyze the short term strength of commercial banks. Liquidity position of NB Bank and NSBI Bank is analyzed using the following relevant liquidity ratio.

4.1.1.1 Current ratio

It measures the firm’s short term solvency. It indicates the availability of current assets in rupees for each one rupee of current liabilities. A ratio of greater than one means that the firm has more current assets than current liabilities. It indicates the ability of banks to meet the current liquidity. The following table shows current ratio of NBSI and NBBL.

Table 4.1

Current Ratio

(Rs in thousands)

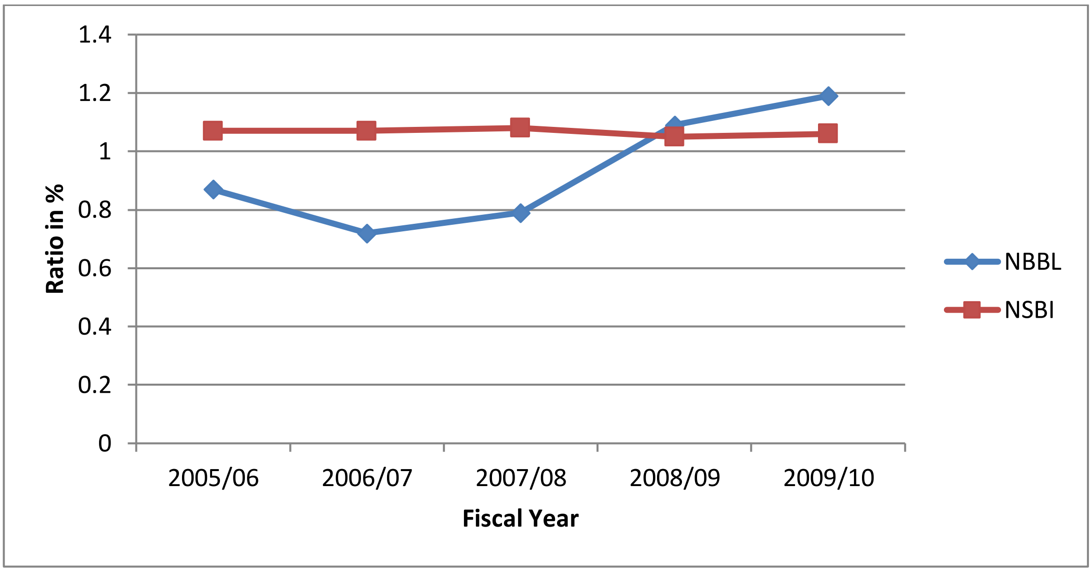
Bank	**NBBL**			**NSBI**		
Year	Cur. Assets	Cur. Liabilities	Ratio (%)	Cur. Assets	Cur. Liabilities	Ratio (%)
2005/2006	11536956	13271864	0.87	12969126	12053466	1.07
2006/2007	7113741	9878711	0.72	13803982	12737910	1.08
2007/2008	9243279	115824748	0.79	17067223	15772801	1.08
2008/2009	11825353	10851052	1.09	29912859	28453832	1.05
2009/2010	12375715	10397469	1.19	37629434	35597125	1.06
Mean			0.932			1.06
S.D			0.1769			0.014
C.V			18.98			1.32

Source: Annual Report of NBBL and NSBI (2005 /06 to 2009/10 and Appendix-1)

In the above table current ratio has been calculated by dividing current assets by current liabilities. In the above table it shows that current ratio of both the banks is below the normal standard of 2:1. In general it can be said that both banks have sound ability to meet their short term obligations. On average basis, current ratio of NSBI bank is 1.06 which is greater than NBBL bank i.e. 0.932 so, it can be said that the liquidity position of NSBI bank is better than NBBL bank. NSBI bank is sound in meeting its short term obligations.

However the S.D and C.V of NBBL bank is 0. 1769% and 18.98% which is greater than NSBI bank i.e. 0.014% and 1.32%. This shows that NBBL has high fluctuation with respect to current assets to current liabilities whereas NSBI has less fluctuation with current assets to current liabilities. In other words it can be said that C.R of NSBI bank is more consistent than NBBL. The trend of current ratio of NBBL and NSBI has been presented below:

Figure 4.1
Current Ratio



4.1.1.2 Cash and bank balance to total deposit

This ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. This ratio is calculated by dividing cash and bank balance by total deposit.

Following table shows cash and bank balance to total deposit of NSBI and NBBL

Table 4.2

Cash and Bank Balance to Total Deposit Ratio

(Rs in Thousands)

Bank	**NBBL**			**NSBI**		
Year	**CBB**	**Total Deposit**	**Ratio (%)**	**CBB**	**Total Deposit**	**Ratio (%)**
2005/06	1694684	13015136	13.02	1481358	11002041	13.46
2006/07	1164053	9385949	12.40	1472690	11445286	12.87
2007/08	1922848	10883652	17.66	1646973	13715395	12.01
2008/09	2571417	9997697	25.72	1176440	27957221	4.20
2009/2010	2058298	10052182	20.48	3441261	34896424	9.86
Mean			17.86			10.48
S.D.			4.93			3.36
C.V.			27.60			32.06

Source: Annual Reports of NBBL and NSBI (2005 /06 to 2009/10)

In the above table cash and bank to total deposit ratio has been calculated by dividing total cash & bank balance amount by total deposit amount. The above ratio reveals the ability of bank to cover its short term deposits. The highest ratio of NBBL bank is 25.72% in FY 2008/09 and lowest is 12.40% in FY 2006/07. Similarly, the highest ratio of NSBI is 13.46% in FY 2005/06 and lowest is 4.20% in FY 2008/0. The mean ratio of NBBL and NSBI are 17.86% and 10.48% respectively. NBBL has higher ratio than NSBI which shows that it has greater ability to pay to its depositors.

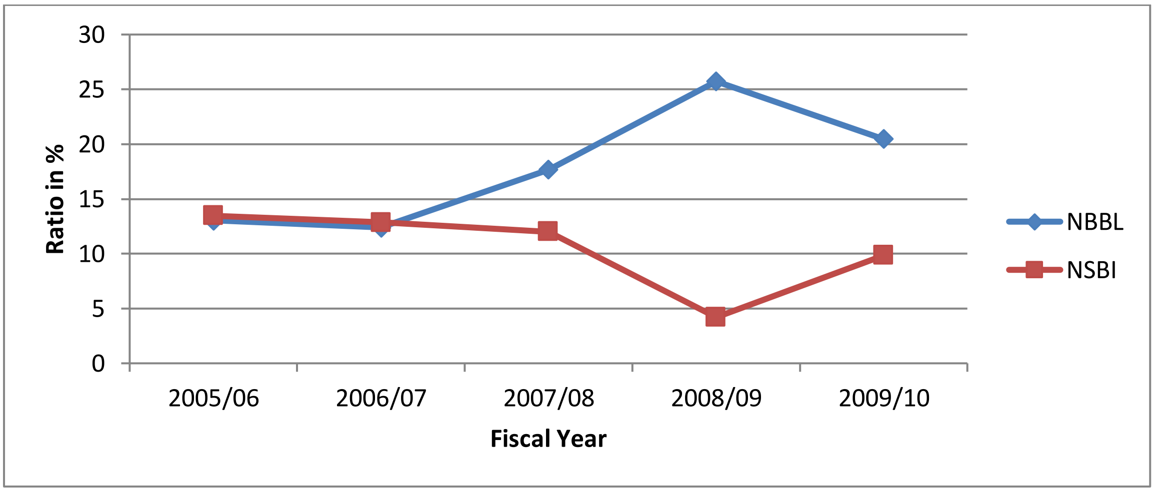
From S.D point of view, NBBL bank has highest S.D of 4.93%, which indicates that there is high fluctuation in cash and bank balance to total deposit ratio. NSBI has S.D of 3.36%, which shows that there is low fluctuation in cash and bank balance to total deposit ratio.

From C.V point of view NSBI has higher C.V i.e. 32.06%, than that of NBBL, C.V i.e. 27.60%.

From the above analysis it can be concluded that cash and bank balance position of NSBI with respect to NBBL is better in order to serve its customer's deposit. It implies better liquidity position of NSBI from the view point of depositors demand. In contrast a high ratio of cash and balance may be undesirable which indicates the bank's inability to invest its fund in income generating areas. Thus, NBBL should invest its fund in more productive sectors like short term marketable securities ensuring enough liquidity which will help the bank to improve its profitability. The trend of cash and bank balance to total deposit has been presented below.

Figure 4.2

Cash and Bank Balance to Total Deposit Ratio



4.1.1.3 Cash and Bank Balance to Current Assets Ratio

This ratio is used to measure the proportion of liquid assets i.e. cash and bank balance among the total current assets of bank. Higher ratio shows the bank's ability to meet its demand for cash. The following table shows the cash and bank balance to current saving deposit of NSBI and NBBL.

Table 4.3

Cash and Bank Balance to Current Assets Ratio

(Rs.in Thousand)

Bank	NBBL			NSBI		
Year	**CBB**	**Cur.Assets**	**Ratio(%)**	**CBB**	**Cur.Assets**	**Ratio(%)**
2005/06	1694684	11536956	14.68	1481358	12969126	11.42
2006/07	1164053	7113741	16.36	1472690	13803982	10.67
2007/08	1922848	9243279	20.80	1646973	17067223	9.65
2008/09	2571417	11825354	21.74	1176440	29912859	3.93
2009/2010	2058298	12375715	16.63	3441261	37629434	9.15
Mean			18.04			8.96
S.D.			2.75			2.638
C.V.			15.24			29.44

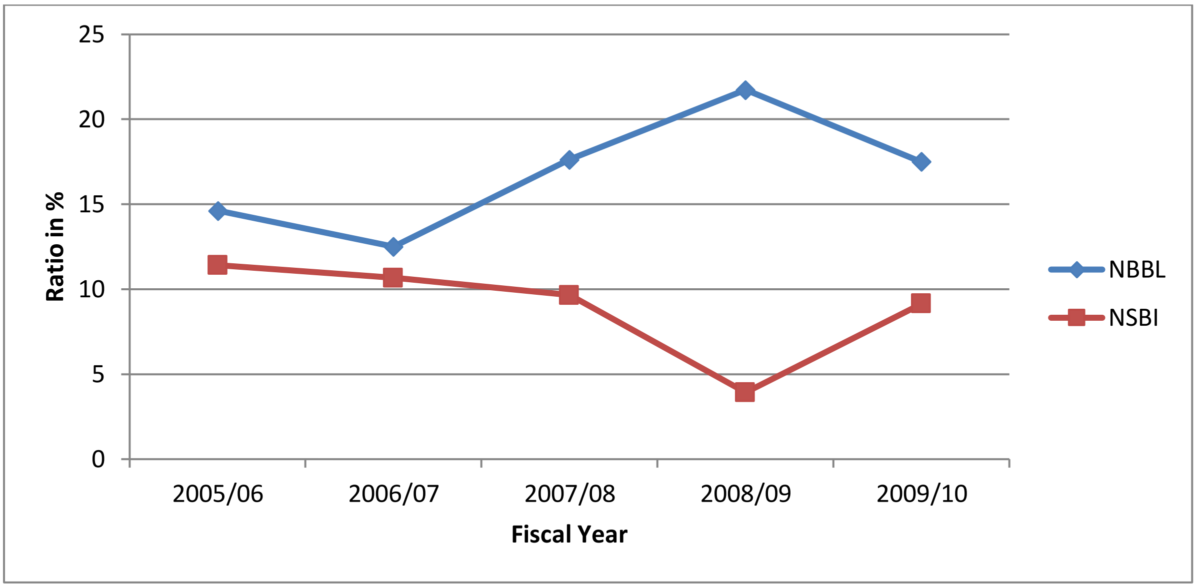
Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

The above has been derived by dividing cash and bank balance by total current assets. The highest ratio of NBBL is 21.74% in FY 2008/09 and lowest is 14.68% in FY 2005/06 and the highest ratio of NSBI is 11.42% in FY 2005/06 and lowest is 3.93% in FY 2008/09 respectively. The mean ratio of NBBL and NSBI is 18.04 and 8.96 respectively. The higher ratio shows that NBBL's liquidity position is better than NSBI. NSBI has lower ratio which implies that the bank has been successful in utilizing depositor's money in short term loans. Moreover the S.D of NBBL and NBSI is 2.75% and 2.638% respectively. NBBL has high S.D ratio which implies that there is high fluctuation in cash and bank balance to current assets over the study period.

From C.V point of view NSBI has highest C.V i.e. 29.44% than that of NBBL i.e. 15.24%. It indicates that NSBI has high degree of variability in holding cash and bank balance. The trend of cash and bank balance to total current assets has been presented below.

Figure 4.3

Cash and Bank Balance to Current Assets Ratio



4.1.2 Leverage ratio

Leverage ratio is used to judge the long term financial position of the firm. These ratios indicate mix of funds provided by owners and lenders. Generally there should be an appropriate mix of debt and owners equity in financing the firm's assets. Leverage ratio of NBSI and NBBL is analysed using the following relevant financial ratio.

4.1.2.1 Total Debt to Total Equity Ratio

This ratio examines the relative claims of creditors and owners against the bank's assets. Total debt to equity ratio indicates the contribution of debt capital and equity capital fund to total investment. This ratio intends to show the long term financial composition/ strength of company. Higher ratio means high financial risk and lower ratio means not proper utilization of leverage. So average position between the two extreme is favourable. This ratio is computed by dividing total debt by total shareholders' equity. The following table shows total debt to total shareholders' equity ratio of NSBI and NBBL.

Table 4.4

Total Debt to Total Equity Ratio

(Rs in Thousands)

Bank	NBBL			NSBI		
Year	**Total Debt**	**SHE**	**Ratio(%)**	**Total Debt**	**SHE**	**Ratio(%)**
2005/06	1966112	(15625835)	(12.58)	1944121	9823737	19.79
2006/07	1405773	(26241630)	(5.36)	2192110	11632908	18.85
2007/08	1701028	(21914483)	(7.77)	2765657	14146448	19.55
2008/09	1755725	11122425	15.78	4328897	17126071	25.28
2009/2010	1820701	21335909	8.53	5307767	24505540	21.45
Mean			0.238			20.98
S.D.			10.66			2.347
C.V.			44.78			11.18

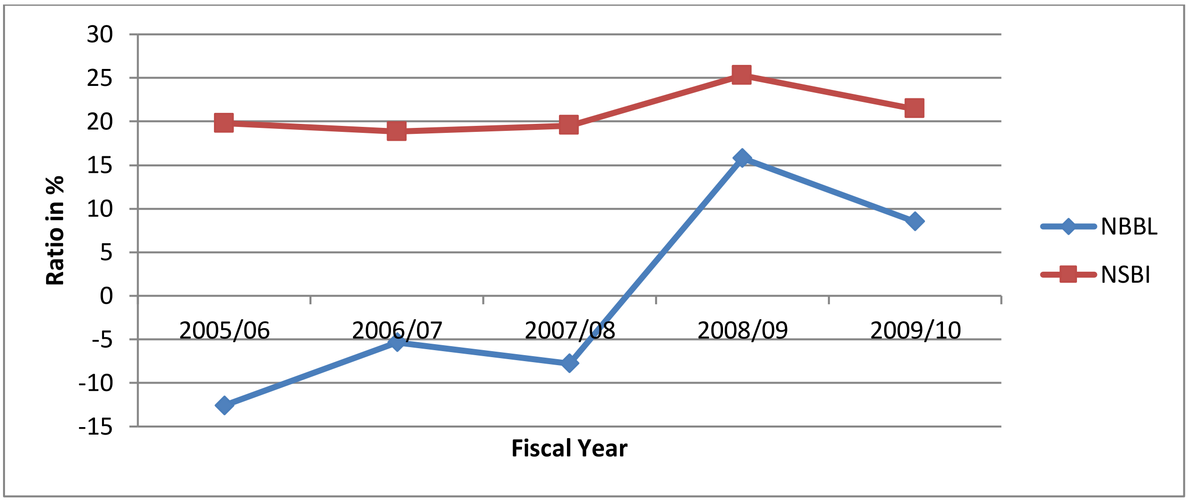
(Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

The above table shows debt equity ratio of selected banks. The trend analysis shows that total debt to shareholder's equity of NBBL is in a decreasing trend. The total debt to shareholders equity ratio shows the portion of total outside liabilities and total owners fund. The above calculation show's that the claim of outsiders is higher than those of the owners. In the FY 2005/06 to 2007/08, the ratio is negative that mean the bank has more debt than equity. After FY 2007/08 the bank has positive ratio which indicates that bank borrowed money from outsiders for smooth operation. In FY 2008/09 the ratio is highest i.e. 15.78%, and in FY 2009/10 it has decreased to 8.53%. This shows that only 8.53% of debt is included in the firm's liability. Similarly the total debt to equity ratio of NSBI seems to be in fluctuating trend. In FY 2005/06 it was 19.79% which decreased to 18.85% in FY 2006/07. Again in FY 2008/09 it increased to 25.28% and in FY 2009/10 it again decreased to 20.98%. From the above calculation it is clear that bank is trying to reduce its debt capital and increase its share capital for investment purpose.

On an average basis, NSBI has higher ratio of 20.98 times which shows that it has high leverage. In other words debt capital financing is higher than 20.98 time of its equity financing. From S.D point of view NBBL has higher ratio of 10.66% than that of NSBI, 2.347%. This shows that NBBL has high fluctuation of total debt to net worth. Similarly from C.V point of view also NBBL has high ratio of 44.78% whereas NSBI has ratio of 11.18%. This shows that NBBL has high degree of variability in maintaining total debt to total equity during the study period. The trend of debt equity ratio is as follows:

Figure 4.4

Total Debt to Total Equity Ratio



4.1.2.2 Total Debt to Total Assets Ratio

The debt assets ratio, simply known as debt ratio shows the proportion of total debt used in financing total assets of a firm. This ratio is computed by dividing total debt by total assets. The following table shows the total debt to total assets relation of NSBI and NBBL.

Table 4.5
Total Debt to Total Assets Ratio

(In Rs. Thousand)

Bank	NBBL			NSBI		
Year	Total Debt	Total Assets	Ratio (%)	Total Debt	Total Assets	Ratio (%)
2005/06	1966112	11709281	16.79	1944121	13035839	14.91
2006/07	1405773	7254548	19.38	2192110	13901200	15.77
2007/08	1701028	9391023	18.11	2765657	17187466	16.09
2008/09	1755725	11964552	14.67	4328897	30916681	14.01
2009/2010	1820701	12531042	14.52	5307767	38047679	13.95
Mean			16.70			14.95
S.D.			1.84			0.878
C.V.			11.02			5.87

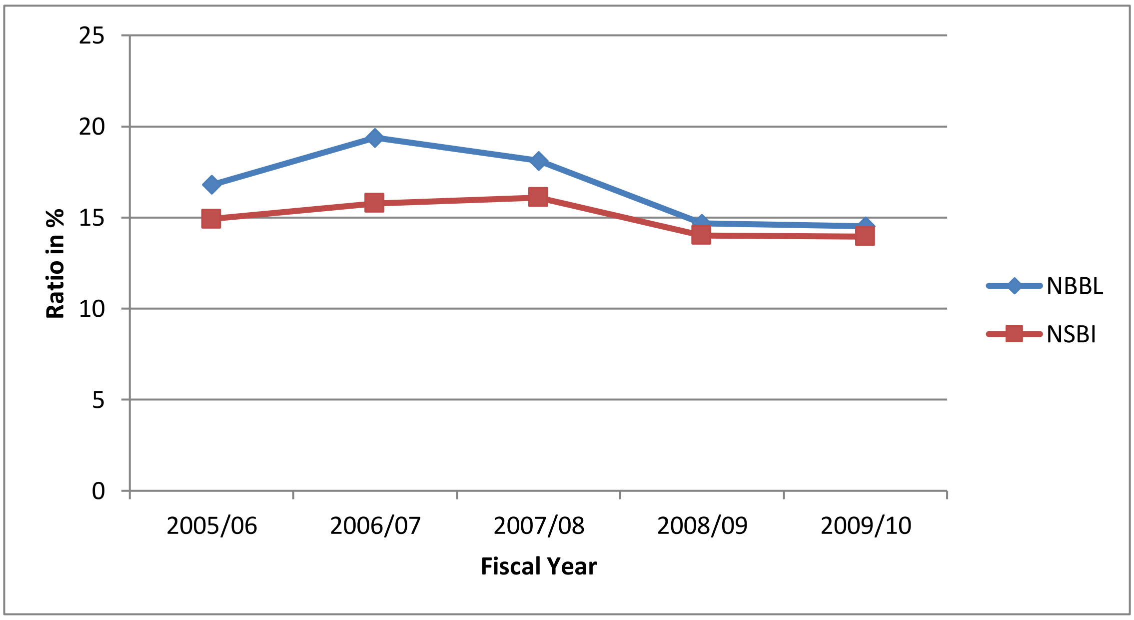
Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

The above table shows the debt assets ratio of selected banks. This ratio reflects the outsiders fund financed in total assets. The debt assets ratio of both banks is seen to be in fluctuating trend. The analysis for five years shows the fluctuating financial activities of both banks. Sometime high percentage of assets financed by debt and sometime the ratio is in increasing decreasing trend. The highest ratio of NBBL is seen in FY 2006/07 with 19.38% and the lowest ratio is in FY 2008/09 i.e. 14.52% respectively. Similarly, NSBI has highest ratio in FY 2007/08 with 16.09% and lowest in FY 2009/10 with 13.95% respectively.

In the above table on an average basis, NBBL has 16.70 and NSBI has 14.95. The average ratio of NBBL is higher than NSBI; this implies that debt amount is comparatively high in NBBL for assets financing purpose. Similarly S.D. and C.V. of both banks are 1.84%, 11.02% and 0.878% and 5.87% respectively. NBBL's C.V is higher, which explains that the bank has high degree of variability. The trend of total debt to total assets ratio of selected banks are given below.

Figure 4.5

Total Debt to Total Assets Ratio



4.1.2.3 Interest Coverage Ratio

Interest coverage ratio also named as times earned ratio is used to test the firm's debt servicing capacity. This ratio reflects the firm's ability to pay interest out of earnings. This ratio shows the number of times the interest charges are covered by funds that are ordinarily available for their payment. Too high ratio implies unused debt capacity or a firm’s conservativeness in using debt to its best advantage whereas low ratio imply danger signal that the firm is using excessive debt and does not have the ability to offer assured payment of interest to its creditors. The following table shows interest coverage ratio of selected banks.

Table 4.6

Interest Coverage Ratio

(Rs. in Thousands)

Bank	**NBBL**			**NSBI**		
Year	**EBIT**	**Interest**	**Ratio(%)**	**EBIT**	**Interest**	**Ratio (%)**
2005/06	(958679)	758131	(1.26)	908483	708719	1.28
2006/07	1048151	982197	1.34	1175707	831117	1.41
2007/08	1590527	828276	1.92	1318547	970513	1.35
2008/09	3722663	1337112	2.78	1903478	1460446	1.30
2009/2010	1628999	1167628	1.39	2808066	2269704	1.24
Mean			1.234			1.316
S.D.			1.35			0.058
C.V.			10.97			4.41

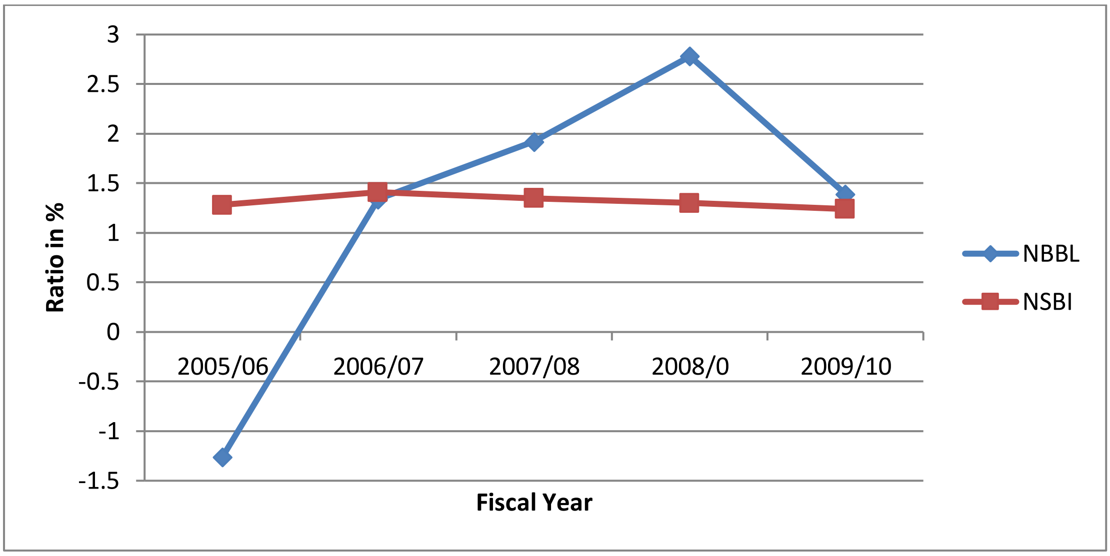
Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

The above table shows the interest coverage ratio of selected banks. The interest coverage ratio of NSBI in FY 2006/07 was 1.41 times, which was the highest ratio over the study period. Thereafter the ratio is seen in decreasing trend for initial three years. i.e. from FY 2007/08 to FY 2009/10 i.e. 1.35, 1.30 and 1.24 respectively. It indicates that the bank was able to maintain sufficient EBIT to meet interest obligations only in FY 2006/07.Similarly interest coverage ratio of NBBL is also seen in fluctuating trend. In FY 2008/09, the ratio was highest with 2.78%. In FY 2005/06, the ratio was negative, this indicates that bank was not able earn sufficient earning. This bank was able to maintain the normal ratio of 2 times in FY 2008/09 with 2.78%.

On average basis, NSBI has higher ratio with 1.32, than that of NBBL with 1.234. The computed interest coverage ratio of both banks shows how many times the interest charges are covered by funds that are ordinarily available to pay interest charges. Although generalization about what is an appropriate interest coverage ratio is difficult, but higher ratio is preferred as desirable. The C.V of NBBL is greater i.e. 10.97%, than that of NSBI i.e. 4.41%, which implies that bank has high degree of variability. The trend of interest coverage ratio of selected banks is as follows:

Figure 4.6

Interest Coverage Ratio



4.1.3 Activity ratio

This ratio refers how efficiently the organization is managing its resources. This ratio is used to measure the efficiency and proper utilization of assets. This ratio measures the degree of effectiveness in use of resource or funds by firm. It is also known as turnover or assets management ratio. Turnover indicates more efficiency of firm in managing and utilizing its assets. The common activity ratios used are as follows:

4.1.3.1 Total Investment to Total Deposit Ratio

Banks invest money in different forms. They are loans, overdrafts, cash credit, discounting, bills of exchange, investment in government securities, investment in share of well established industrial concerns and money at call and short notice. In this analysis investment in government securities, shares and also investment in foreign banks is included to calculate the ratio. Total deposit includes saving, current, fixed and calls deposit of respective banks. The ratio of total investment to total deposit of NSBI and NBBL has been presented in the table below.

Table 4.7

Investment to Total Deposit Ratio

(Rs. in Thousands)

Bank	**NBBL**			**NSBI**		
Year	**Investment**	**Total Deposit**	**Ratio (%)**	**Investment**	**Total Deposit**	**Ratio (%)**
2005/06	2661833	13015136	20.45	3610775	11002041	32.81
2006/07	1034560	9385949	11.02	2659453	11445286	23.23
2007/08	1389901	10883652	12.77	3088887	13715395	22.52
2008/09	2222431	9997397	22.23	13286182	27957221	47.52
2009/2010	2112751	10052182	21.02	16305633	34896424	46.72
Mean			17.49			34.56
S.D.			4.67			10.88
C.V.			26.70			31.46

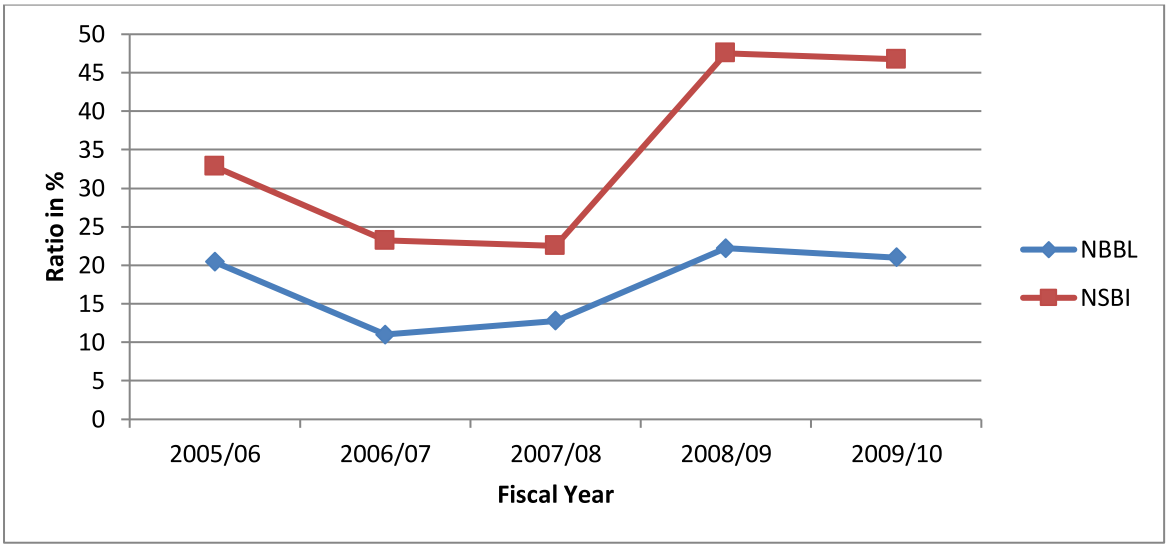
Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

The above table shows total investment to total deposit ratio of NBBL and NSBI. Higher ratio of NBBL is 22.23% in FY 2008/09 and the lowest is 11.02% in FY 2006/07 and in the same way highest ratio of NSBI is 47.52% in FY 2008/0 and lowest is 22.52% in FY 2007/08 respectively. It shows that investment volume of NBBL is lower than NSBI.

The mean ratio of NBBL and NSBI is 17.49 and 34.56 respectively. It signifies that NSBI has successfully allocated its deposit in investment portfolio to get higher investment return. It can also be said that NSBI prefers investing its depositors fund in non risky projects like government bond, treasury bills, government securities, debentures of other organization etc rather than choosing the risky portfolio like loan and advance to its credit customers. From S.D point of view NSBI has higher ratio of 10.88% than that of NBBL i.e.4.67%, which implies that there is high fluctuation in using depositors fund in non risky portfolio. From the above calculation it is found that NSBI is investing more deposit in non risky projects than NBBL. The trend of total investment to total deposit of selected banks has been presented below.

Figure 4.7

Total Investment to Total Deposit Ratio



4.1.3.2 Loan and Advance to Total Deposit Ratio

Commercial banks utilize the outsider's fund for profit generation purpose. This ratio is also called credit deposit ratio. It is calculated to find out how successfully the bank is able to utilize its total deposit on loans and advance. Higher ratio of loan and advance indicates better mobilization of collection deposit and vice versa. But it should be noted that too high ratio might not be better from liquidity point of view. The following table shows loan and advance to total deposit ratio of the selected banks.

Table 4.8

Loans and Advances to Total Deposit Ratio

(Rs. in Thousands)

Bank	NBBL			NSBI		
Year	Loan & Advance	Total Deposit	Ratio (%)	Loan & Advance	Total Deposit	Ratio(%)
2005/06	6460246	13015136	49.63	7626736	11002041	69.32
2006/07	4409013	9385949	46.37	9460451	11445286	82.65
2007/08	5457808	10883652	50.15	12113698	13715395	88.32
2008/09	6704943	9997397	67.06	15131748	27957221	54.12
2009/10	7809544	10052182	77.69	17480548	37896424	50.09
Mean			58.3			68.9
S.D.			12.02			15.09
C.V.			20.62			21.9

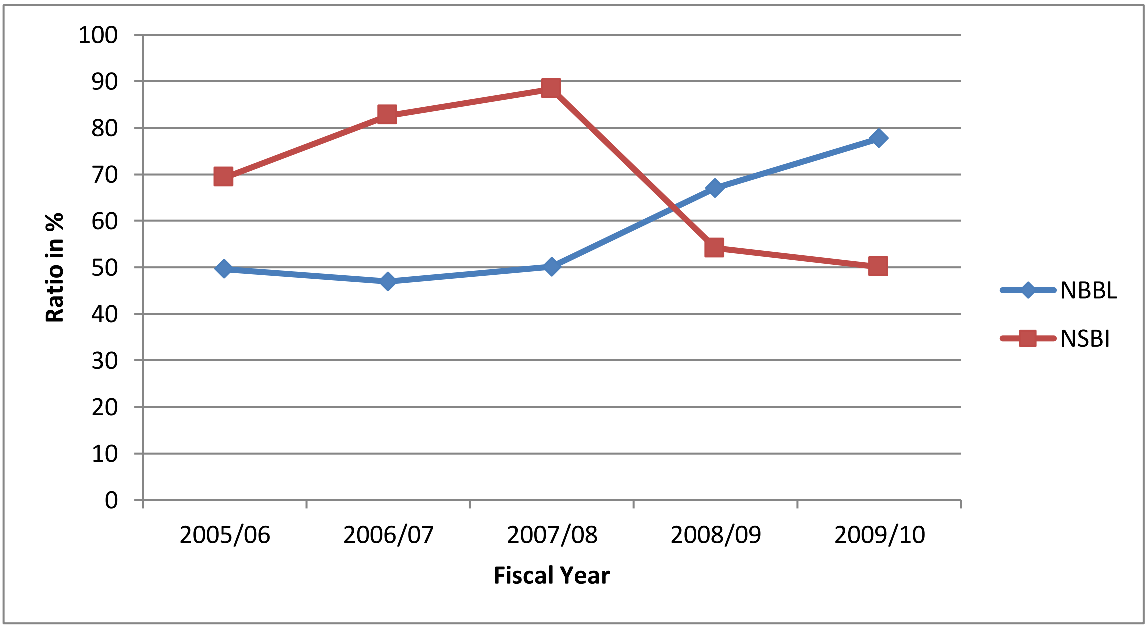
Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

The above table shows loan and advance to total deposit ratio of selected banks. This ratio helps to analyze whether the banks have utilized the outsider's fund properly or not. The highest ratio of NBBL is 77.69% in 2009/10 and lowest is 46.37% in FY 2006/07 whereas NSBI has highest ratio of 88.32% in FY 2007/08 and lowest of 50.09% in FY 2009/10. This indicates that NBBL has better mobilized its deposit. The average ratio of NBBL and NSBI are 58.3 and 68.9 respectively. It reveals that the deposit of NBSI is quickly converted into loan and advance to earn income. In other words it can be said that bank has been successful in utilizing the depositors fund in loan and advance.

From S.D point of view NBBLhas lower ratio of 12.02% than that of NSBI i.e.15.09%, which indicates that NSBI has high fluctuation in utilizing its depositors fund in loan and advance? The C.V of NBBL is 20.62% and that of NSBI is 21.9%. From the above calculation it is found that NSBI on average is investing more than 60% of its total deposit. The trend of loan and advance to total deposit of both banks has been presented below.

Figure 4.8

Loan and Advance to Total Deposit Ratio



4.1.3.3 Loan and Advances to Total Assets Ratio

Commercial Bank's working fund plays very active role in profit generation through mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advance for the purpose of income generation. A high ratio indicates better mobilization of funds and vice versa. The following table shows loan and advance to total assets ratio of the related banks.

Table 4.9

Loan and Advances to Total Assets Ratio

(Rs.in Thousands)

Bank	**NBBL**			**NSBI**		
Year	**Loan & Advance**	**Total Assets**	**Ratio (%)**	**Loan & Advance**	**Total Assets**	**Ratio (%)**
2005/06	6460246	11709281	55.17	7626736	13035839	58.50
2006/07	4409013	7254548	60.77	9460451	13901200	68.09
2007/08	5457808	9391026	58.12	12113690	17187446	70.47
2008/09	6704943	11964552	56.04	15131745	30916681	48.94
2009/10	7809544	12531042	62.32	17480548	38047679	45.94
Mean			58.48			58.38
S.D.			2.80			9.83
C.V.			4.79			16.83

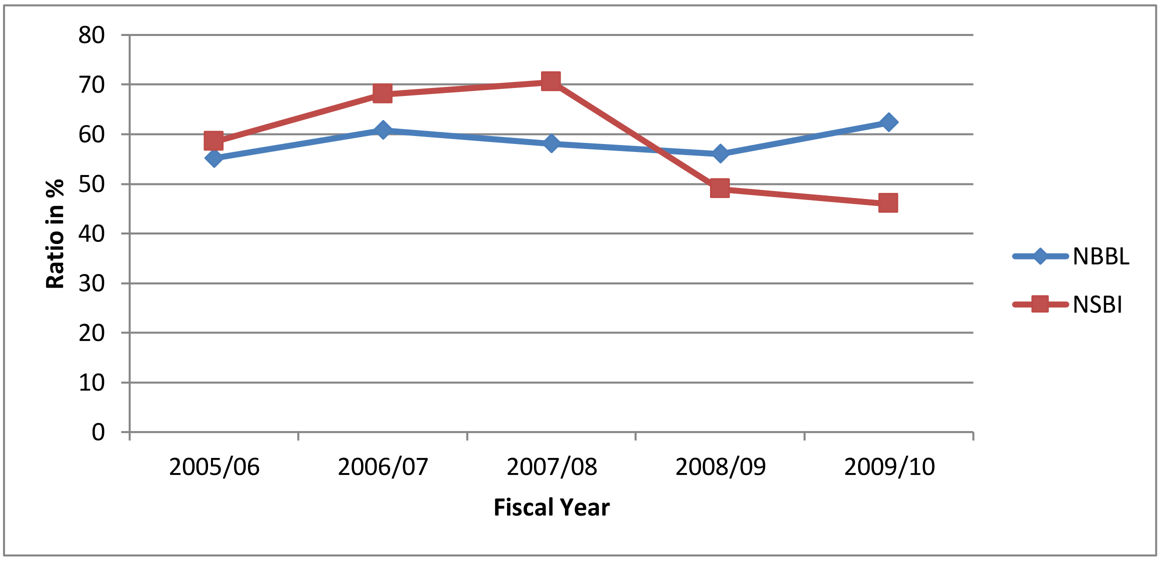
Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

In the above table loan and advance to total assets has been derived by dividing loan and advance by total assets. This ratio helps to analyze whether the banks have utilized the total working fund properly or not. The above table shows that NSBI has highest ratio of 70.47% in FY 2007/08 and lowest ratio of 45.94% in FY 2009/10. Moreover, the ratio is seen to be in fluctuating trend. For the first three fiscal year i.e. from FY 2005/06 to FY 2007/08, it has been increasing and after FY 2007/08 it has been decreasing. This shows that the bank may have idle cash or investing its money on marketable securities. NBBL has highest ratio of 62.32% in FY 2009/10 and lowest ratio of 55.17% in FY 2005/06. The ratio of NBBL is also seen to be decreasing over the study period. The above table also shows that, over the study period on an average basis, NBBL has ratio of 58.48%, and NSBI has ratio of 58.38%.It reveals that both NBBL and NSBI has been successful in mobilizing loan and advance on total working fund. In other words it can be said that both banks have utilized their total assets more efficiently in loan and advance.

From S.D point of view, NSBI has higher ratio of 9.83% whereas NBBL has ratio of 2.80%, this indicates that NSBI has higher variability. Similarly on the basis of coefficient of variation, NSBI has higher C.V of 16.83%; it shows that NSBI bank's ratio is highly fluctuated over the study period. Greater average ratio indicates successful utilization of deposit. So, it can be said that NSBI has successfully utilized total deposit. The trend of loan and advance to total assets ratio has been presented below.

Figure 4.9

Loan and Advance to Total Assets Ratio



4.1.4 Profitability Ratios

Profitability ratios are the measurement of effectiveness. So with the help of these ratios, one decides whether to invest in a particular firm or not. Profit is the difference between total revenue & total expense over a period of time. Profitability ratios are used to indicate the overall efficiency of the firm. Profit is the essential part of business activities to meet internal obligations, overcome the future contingencies, make a good investment policy, expand the banking transaction etc. There are many measures of profitability. Higher degree of profitability ratio shows better financial position & performance to the firms. Under this, the following ratios are used;

4.1.4.1 Return on Total Assets Ratio

This ratio measures the overall profitability of bank that explains a firm to earn satisfactory return on all financial resources in the bank's assets; otherwise its survival is threatened. The ratio explains net income for each unit of assets. Rate of return on total assets is major tool judge the operational efficiency of a firm. A firm has to earn satisfactory return on working fund for its survival. A higher degree of ratio shows that total assets of firm have been used in profit earnings. The following table shows return on total assets ratio of selected banks.

Table 4.10

Return on Total Assets Ratio

(Rs.in Thousand)

Bank	NBBL			NSBI		
Year	**NPAT**	**Total Assets**	**Ratio (%)**	**NPAT**	**Total Assets**	**Ratio (%)**
2005/06	(179715)	1170928	-	107002	1390120	7.6
2006/07	(106157)	725454	-	254909	1303589	19.55
2007/08	596487	9391026	6.35	247771	1718445	14.41
2008/09	215810	11964552	18.03	316373	3091668	10.24
2009/10	1021380	125310428	8.15	391742	3804767	10.30
Mean			3.154			12.42
S.D.			11.15			4.18
C.V.			26.4			33.65

Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

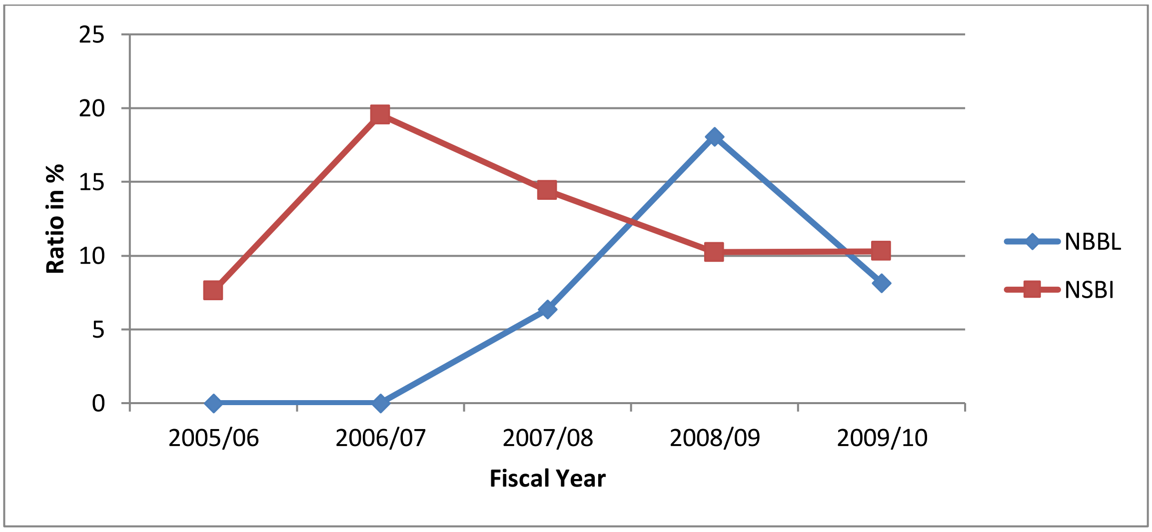
In the above table return on total assets has been derived by dividing net profit by total assets. This ratio shows the relation between net profit and total assets. From the above table it can be seen that NSBI has highest ratio of 19.55% in FY 2006/07 and lowest ratio of 7.6% in FY 2005/06. The calculation shows fluctuating rate of return on assets. After FY 2006/07 the ratio has been seen decreasing, that means the earning capacity of the assets for the bank is decreasing. NBBL has highest ratio of 18.03% in FY 2008/09 and lowest ratio of 14.63% in FY 2006/07 respectively. In FY 2005/06 to FY 2006/07 the ratio was (-15.34) and (-14.63), which indicates the inefficient productivity of the assets, because the company was at loss at that period. Thereafter it was increased by 6.35% in FY 2007/08 to 12.39% in FY 2009/10. These years were somewhere favorable for the bank.

The average ratio NBBL and NSBI are 3.154% and 12.42% respectively. This shows that NBBL has poorest return on total assets which constitutes that the bank has to be more alert in future to utilize its resources to more profitable projects. NSBI has higher average ratio, which shows the bank has been able to utilize its resources in more profitable sectors.

From S.D point of view NBBL has higher ratio of 11.15 %than NSBI i.e. 4.18%. It implies that NBBL bank has high fluctuation in generating profit. Similarly, from C.V point of view NSBI has higher ratio of 33.65% than NBBL i.e.26.4% respectively. This shows that NSBI has high degree of variability in generating net profit and NBBL with lowest C.V shows that it has low degree of variability or is inconsistent in generating net profit by using total assets in systematic way. The trend of return on total assets ratio has been presented below.

Figure 4.10

Return on Total Assets Ratio



4.1.4.2 Return on Equity

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of bank. It reflects the extent to which bank has been successful to mobilize or utilize its equity capital. A high ratio indicates sound and efficient management. The following table shows return on equity of the selected banks.

Table 4.11

Return on Shareholder's Equity

(Rs. inThousand**)**

Bank	**NBBL**			**NSBI**		
Year	**NPAT**	**SHE**	**Ratio(%)**	**NPAT**	**SHE**	**Ratio(%)**
2005/06	(179715)	(1562583)	-	1070019	98237372	10.89
2006/07	(106157)	(2624163)	--	2549088	11632908	22.01
2007/08	596487	(2191448)	-	2477707	14146448	17.51
2008/09	2158104	11122425	19.40	3163734	17126071	18.51
2009/10	102138	21335909	4.79	3917421	24505540	16.05
Mean			2.50			16.99
S.D.			15.86			3.65
C.V.			63.44			21.48

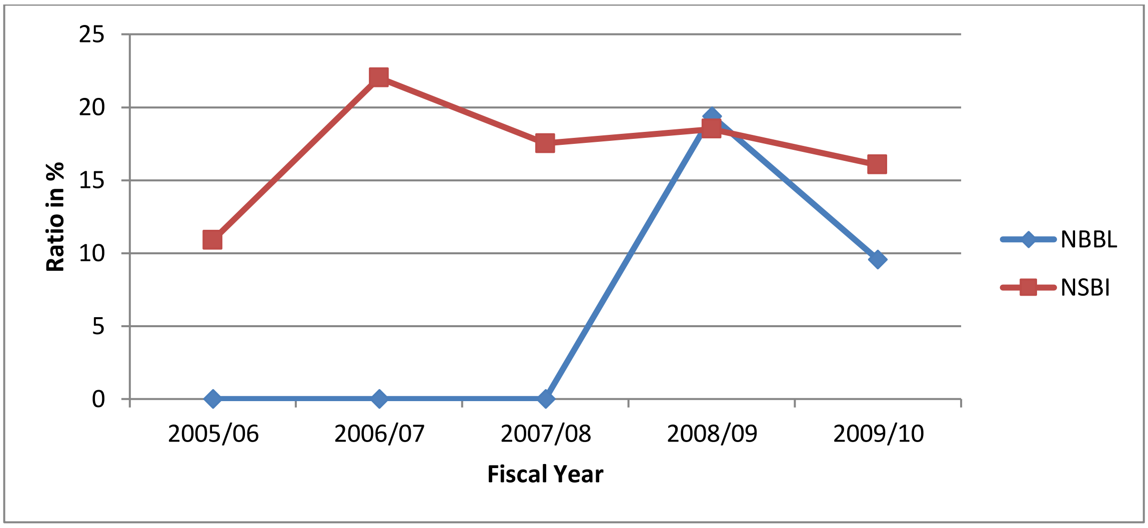
Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

The above table shows the analysis of return on total shareholder's equity of selected banks. From the above table it can be seen that Return on equity of NBBL has fluctuating nature. NBBL bank has negative ratio for the first two years i.e. FY 2005/06 to 2006/07, -11.50 and -4.04, due negative return on profit. After FY 2006/07 the bank received positive ratio. This ratio reveals that there has been improvement in utilizing shareholders fund. In FY 2007/08 the bank received highest ratio of 27.22%, after that the ratio decreased to 19.40% in FY 2008/09 and then to 4.79% in FY 2009/10 respectively. Similarly NSBI had maximum return on shareholder's return of 22.01% in FY 2006/07; thereafter the ratio is seen gradually decreasing. In FY 2007/08 the ratio was 17.51% and in FY 2009/10 it decreased to 16.05% respectively. Despite stiff competition and an adverse macroeconomic environment, NSBI is generating higher ROE in comparison that NBBL.It signifies that shareholders of NSBI are getting higher return.

On average basis, NBBL has ratio of 2.50% and NSBI has ratio of 16.99% respectively. This shows that NBBL utilized only 2.50% of owner's fund. On the basis of C.V, NSBI bank has higher ratio of 21.48% than NBBL i.e. 15.86%. This explains that the variability of return on shareholder's equity of NSBI is quite higher than NBBL. In other words it can be said that NSBI is more efficient in managing and utilizing shareholder's fund. The trend of return on shareholder's equity has been presented below.

Figure 4.11

Return on Shareholder's Equity



4.1.4.3 Return on Total Deposit Ratio

This ratio measures the ability of the bank to earn a return on deposits. This ratio shows how efficiently the management has utilized its deposit in profit generating activities. This ratio is a mirror for bank's overall financial performance as well as its success in profit generating. The reason being that the deposits made by its customers are the major source of earning of the commercial banks. Higher ratio shows the higher degree of utilization of deposits in generating profit. The following table shows return on total deposit ratio of selected banks.

Table 4.12

Return on Total Deposit Ratio

(Rs.inThousand)

Bank	NBBL			NSBI		
Year	NPAT	Total Deposit	Ratio(%)	NPAT	TotalDeposit	Ratio(%)
2005/06	(179715)	13015136	-	107002	11002041	0.99
2006/07	(106157)	9385949	-	254909	11445286	2.23
2007/08	596487	10883653	5.48	247771	13715395	1.81
2008/09	2158104	9997397	2.16	316373	27957221	1.13
2009/10	102138	10052182	1.02	391742	34896424	1.12
Mean			1.23			1.45
S.D.			2.51			0.48
C.V.			203.40			33.10

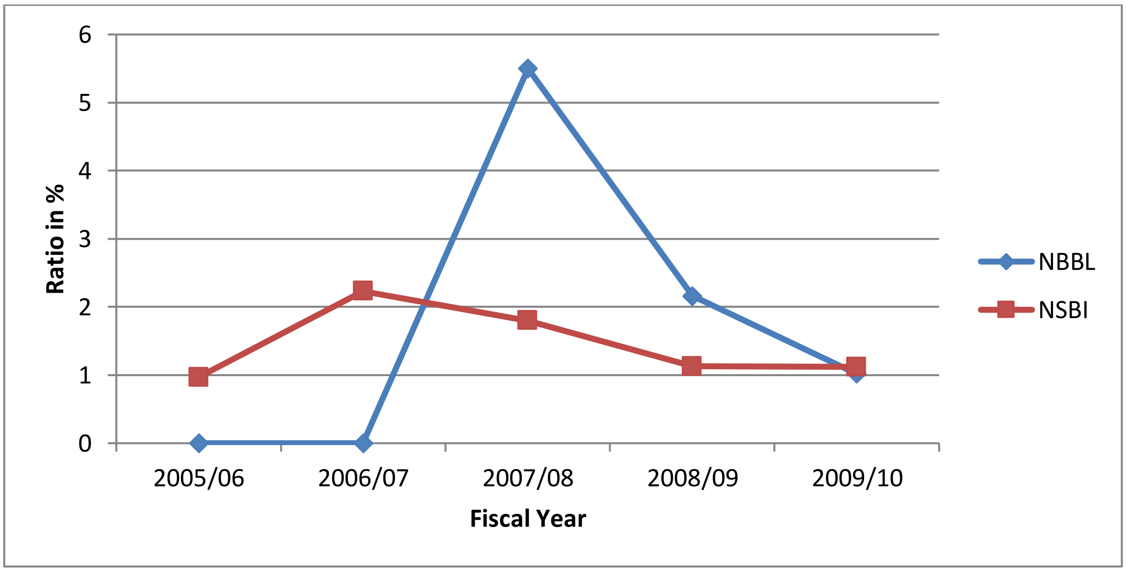
Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

This ratio is calculated in order to diagnosis whether the bank are well efficient or not in mobilizing its total deposit so that corrective action could be forwarded to concerned banks. From the above table it can be clearly seen that return on total deposit of NBBL is more fluctuating than NSBI. For the first two FY i.e. 2005/06 to 2006/07, the ratio is negative,-1.38% and -1.13% respectively. In FY 2007/08 the ratio is higher with 5.48%, after that the ratio is seen to be decreasing. Similarly the ratio of NSBI is also in fluctuating trend throughout the study period. In FY 2006/07 the ratio is seen highest with 2.23% and thereafter the ratio is decreasing.

On average basis, the ratio of NSBI is 1.45, higher than NBBL i.e. 1.23. This shows that NSBI has better mobilization of deposits. In other words NSBI has been successful in mobilizing deposit's fund more efficiently in generating more profit. From S.D point of view NBBL has high ratio, S.D of 2.512 and NSBI has S.D of 0.4835, this implies that NBBL have high fluctuation in generating profit by using deposit. Similarly C.V of NSBI is 33.10% and C.V of NBBL is 203.40%.NBBL has higher C.V which implies that there is high degree of variability in generating profit. The trend of return on total deposit has been presented below.

Figure 4.12

Return on Total Deposit



4.1.4.4 Return on Loan and Advance Ratio

Every financial institution tries to mobilize their deposits on loan and advance properly. So, this ratio helps to measure the earning capacity of selected banks. The following table shows return on loan and advance ratio of selected banks.

Table 4.13

Return on Loan and Advance Ratio

(Rs.in Thousand)

Bank	NBBL			NSBI		
Year	**NPAT**	**Loan & Advance**	**Ratio (%)**	**NPAT**	**Loan & Advance**	**Ratio (%)**
2005/06	(179715)	6460246	--	107002	7626736	1.47
2006/07	(106157)	4409013	--	254909	9460451	2.69
2007/08	5964870	5457808	1.09	247771	12113698	2.05
2008/09	2158104	6704943	3.22	316373	15131748	2.09
2009/10	102138	7809544	1.31	391742	17480548	2.18
Mean			0.088			2.096
S.D.			2.31			0.388
C.V.			26.26			18.51

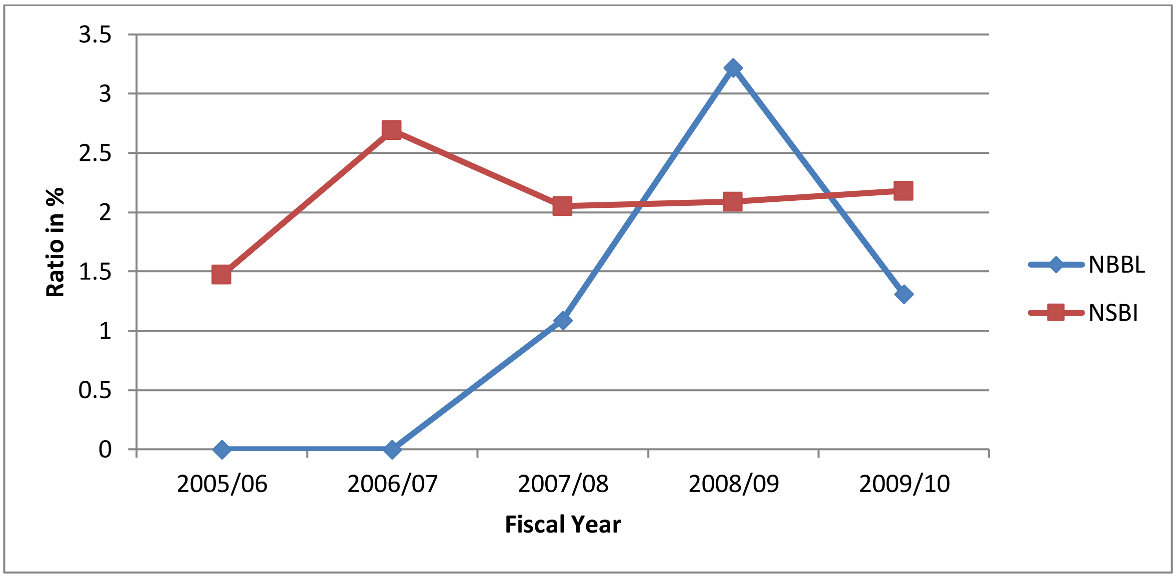
Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

The above table shows the return on loan and advance of selected banks. For the first two FY 2005/06 to 2006/07 the ratio is negative due to negative profit of NBBL. The highest ratio of NBBL is 3.22% in FY 2008/09 and lowest ratio is 1.31% in FY 2007/08. Whereas the highest ratio of NSBI is 2.69% in FY 2006/07 and lowest ratio is 1.47% in FY 2005/06. The mean ratio of NBBL is 0.088 and of NSBI are 2.096. The mean ratio of NSBI is higher than NBBL, this shows that the bank has good earning capacity in loan and advance whereas NBBL has poor earning capacity in form of loan and advance. From the above table it can be seen that NSBI has higher ratio in all the year, which implies that bank has utilized the loan and advance for profit generation purpose in proper way.

From S.D point of view NBBL has higher ratio of 2.31 than that of NSBI with 0.388. This shows that there is high fluctuation in generating profit using loan and advance by NBBL. Similarly C.V of NSBI is lower i.e. 18.51% than that of NBBL with 26.26%respectively. This shows that there is high degree of variability in generating profit. The trend of return on loan and advance ratio is presented below.

Figure 4.13

Return on Loan and Advance



4.1.4.5 Total Interest Earned to Total Assets Ratio

This ratio evaluates how successful selected banks are mobilizing their total assets to achieve high amount of interest. Generally, bank generate income through loan and advance, investment, overdrafts, hire purchase finance and loan given to priority and deprived sector as well. Higher ratio represents better efficiency in mobilizing its resources for the purpose generating interest income. The following table shows total interest earned to total assets ratio of the selected banks.

Table 4.14

Total Interest earned to Total Assets Ratio

(In Rs. Thousand)

Bank	NBBL			NSBI		
Year	Int. Earned	Loan& Advance	Ratio (%)	Int. Earned	Loan& Advance	Ratio (%)
2005/06	240038	11709281	2.05	373949	13035839	2.87
2006/07	549978	72545482	0.76	418855	13901201	3.01
2007/08	430279	93910265	0.46	515595	17187446	3.02
2008/09	927336	11964552	7.75	635746	30916644	2.06
2009/10	690840	12531043	5.51	826010	38047679	2.17
Mean			3.31			2.63
S.D			2.85			0.422
C.V			86.10			16.05

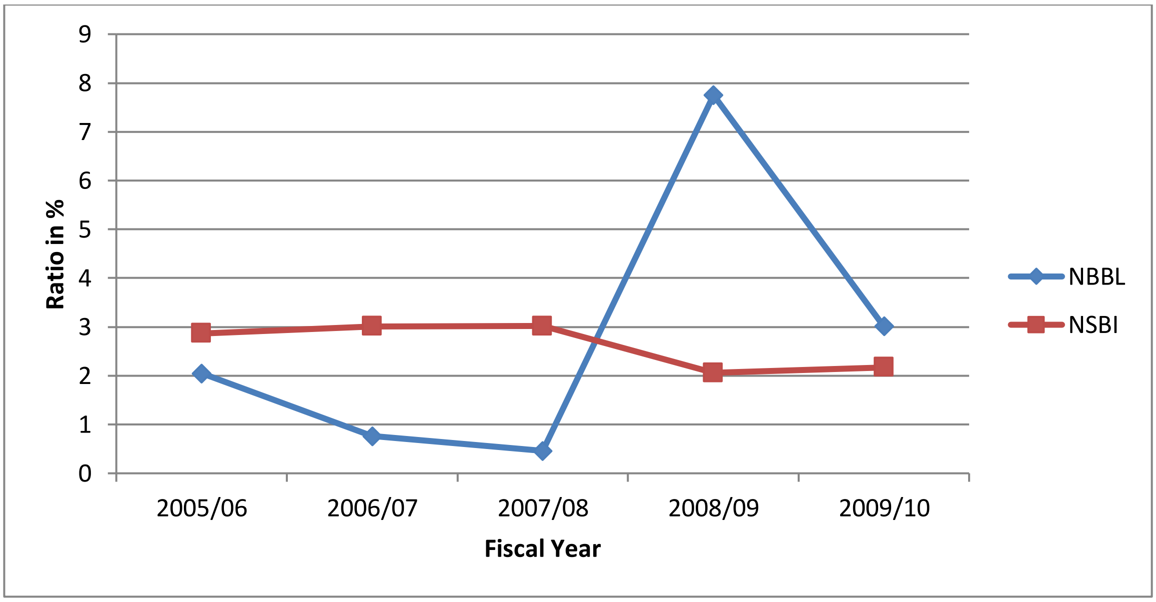
Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

The above table shows net interest earned to total assets ratio of selected banks. The above table shows fluctuating trend of both banks. The highest ratio of NBBL is 7.75% in FY 2008/09 and lowest ratio is 0.46% in FY 2007/08 whereas the highest ratio of NSBI is 3.02% in FY 2007/08 and lowest ratio is 2.06% in FY 2008/09 respectively. On an average, NBBL has higher ratio of 3.31 than that of NSBI i.e. 2.63. This implies that NBBL has been managing the assets efficiently and earning more interest out of it.

From S.D point of view NBBL has higher ratio of 2.85% which shows that there is high fluctuation in interest earning capacity whereas NSBI has S.D ratio of 0.422 which shows that there is low fluctuation in interest capacity over the entire study period. From C.V point of view NBBL has high ratio of 86.10% which shows that there is high inconsistency in earning interest using its assets. The trend of total interest earned to total assets has been presented below.

Figure 4.14

Total Interest earned to Total Assets Ratio



4.1.5 Other Ratio

There are several other widely used ratios relating to financial aspects of company. Although various ratios have been calculated and analysed for the sake of completeness some other indicator has also been considered in this study.

4.1.5.1 Earning Per Share (EPS)

It measures the profit available to the common shareholders as per share basis.
EPS is the ratio by which one can understand the return available for the shareholder's from their investment, because it measures the profit available to shareholders on per share basis.EPS is one of the most widely used measures of the bank's performance. It is an important index of the bank's performance and the investors rely heavily on it for their investment decision.EPS simply shows the profitability of the firm on a per share basis but does not reflect how much is paid as dividend and how much is retained in the business. The following table shows EPS of related banks during the study period.

Table 4.15

Earning Per Share

(In Rs. Thousand)

Bank	NBBL			NSBI		
Year	**Net Profit**	**No of Shares**	**Ratio**	**Net Profit**	**No of Shares**	**Ratio**
2005/06	(179715374)	7200000	-	117001973	6402361	18.27
2006/07	(106157950)	7200000	-	254908844	6477984	39.35
2007/08	59648702	7441000	80.16	247770758	8745278	28.33
2008/09	215810414	18603000	116.01	316373495	8745278	36.18
2009/10	1021380061	18603000	54.90	391742119	16536239	23.68
Mean			42.27			29.16
S.D.			54.41			7.79
C.V.			128.72			26.72

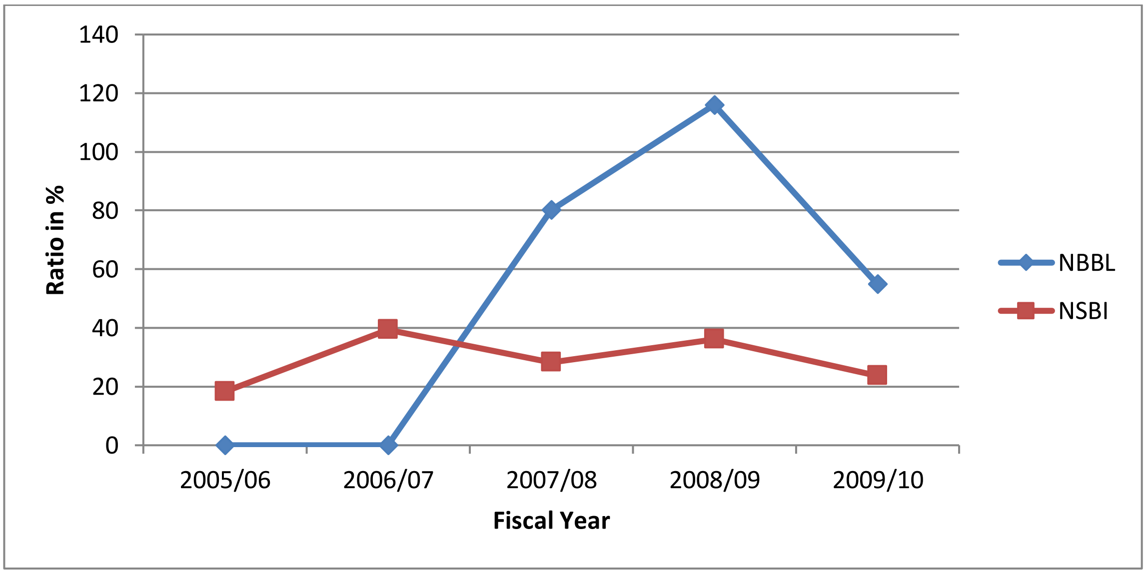
Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

The above table shows EPS of selected banks. It is sad to say that NBBL had negative profit which leads to negative EPS. The negative EPS means that no earning is available for shareholders in that year. But EPS ratio is continuously increasing after FY 2006/07. In FY 2007/08, EPS was 80.16% and in FY 2008/09 it was 116.01% and in FY 2009/10 it was 54.90% respectively. The increasing EPS attracts shareholder's to invest more money. It indicates good earning capacity of the bank as well as shareholders. Similarly EPS of NSBI is seen to be in fluctuating trend. The table shows higher EPS in the FY 2006/07 of 39.35% and lowest ratio of 18.27% in FY 2005/06 respectively. In FY 2009/10 EPS is 23.68%, which is lower than FY 2008/09 i.e. 36.18%.

The calculation of average EPS for NBBL is greater than NSBI i.e. .42.24>29.16 which implies that net profit earning capacity of NBBL is higher than NSBI due to high amount of interest and tax deductible expenses. In other words, higher average ratio indicates that NBBL is able to earn more profit per share to common shareholders than that of NSBI. From S.D point of view NBBL has high ratio of 54.41% than that of NSBI with 7.79%. This shows that NBBLhas high fluctuation in EPS. From C.V. point of view, EPS of NBBL is found to be higher i.e. 128.72%, it implies that NBBL has high degree of inconsistency in EPS amount over the study period. However, EPS does not reveal how much amount out of earning is paid to the owners as dividend or how much of the earning is retained in the business. The trend of earning per share of NBBL and NSBI has been presented below.

Figure 4.15

Earning Per Share



4.1.5.2 Dividend Per Share (DPS)

It implies the profit allocated to shareholders as return in terms of cash on per share basis. Companies generally prefer to pay cash dividends. They finance their expansion and growth by issuing new shares or borrowing. Companies like to follow a stable dividend policy since investors prefer such policy for certainty reason. The following table shows the dividends per share given to the shareholders of respective banks for last five years.

Table 4.16

Dividend per Share

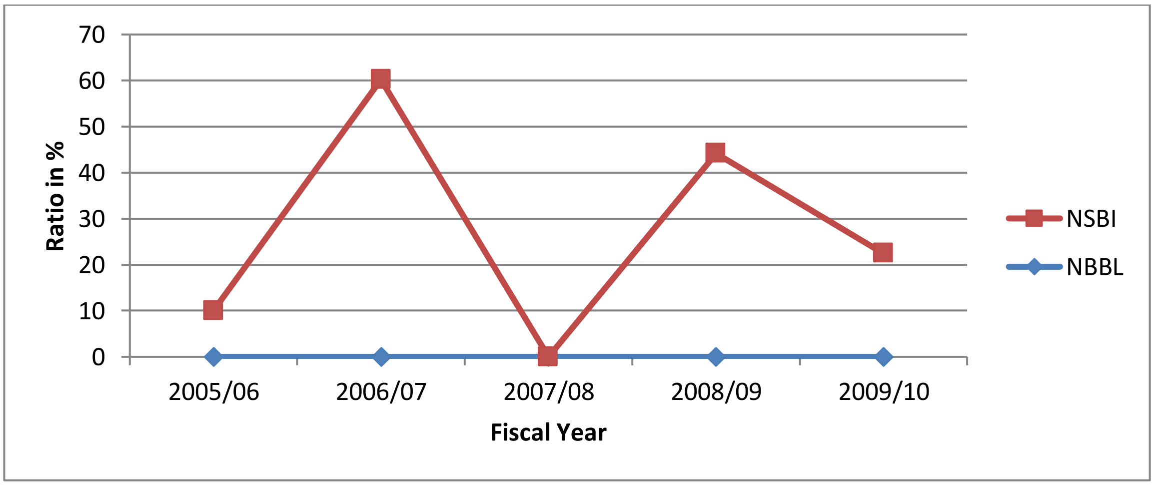
Bank	NBBL			NSBI		
Year	Dividend amount	No of Shares	Ratio	Dividend amount	No of Shares	Ratio
2005/06	0	719852	0.00	6402356	6402361	10
2006/07	0	719852	0.00	3898450	6477984	60.18
2007/08	0	7441000	0.00		8745278	-
2008/09	0	18603000	0.00	3867162	8745278	44.22
2009/10	0	18603000	0.00	3720653	16536239	22.50
Mean			0			27.39
S.D.			0			22.05
C.V.			0			80.50

Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

The above table shows the dividend paid by the selected organization over the study period. The study shows that, NBBL did not pay any dividend. NBBL has failed to earn profit so it could not declare dividend. The dividend per share ratio of NSBI is seen to be in fluctuating trend. The highest ratio was 60.18% in FY 2006/07 and lowest ratio was 10% in FY 2005/06. NSBI issued bonus share along with cash dividend. The issue of bonus share is advantageous in some cases. Sometimes issuing bonus share reduce market price of the share and make it more attractive to investors. On average basis, NSBI has ratio of 27.39. The C.V of NSBI is 80.50%. The trend of Dividend per Share of NBBL and NSBI has been presented below.

Figure 4.16

Dividend Per Share



4.1.5.3 Dividend payout ratio

Dividend payout ratio indicates the percentage amount of dividend paid to the shareholders out of earning per share i.e. this reflects of what percentage is to be retained in company as retained earnings. This ratio represents the percentage of the profit distributed as dividend and the percentage as revenue and surplus for the growth of the bank. The shareholder's prefer usually higher ratio whereas a very high ratio may also slow down the growth rate of the firm. It helps to segregate the proportion of dividend and retained earnings. Importance of DPR lies in its ability to state the dividend policy of the concerned banks more obviously which influences the market value of the share. The following table shows the dividend payout ratio of selected banks.

Table 4.17

Dividend Payout Ratio

(Rs.in Thousand)

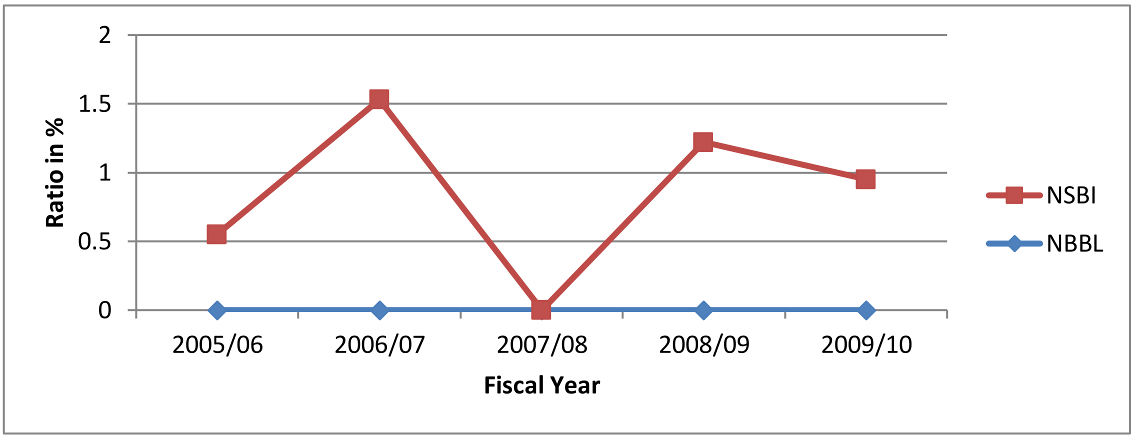
Bank	**NBBL**			**NSBI**		
Year	DPS	EPS	Ratio(%)	DPS	EPS	(Ratio)
2005/06	0	0	0	10	18.27	0.55
2006/07	0	0	0	60.18	39.35	1.53
2007/08	0	80.16	0	-	28.33	-
2008/09	0	116.01	0	44.22	36.18	1.22
2009/10	0	54.90	0	22.50	23.68	0.95
Mean			0			0.85
S.D.			0			0.536
C.V.			0			0.63

Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

The above table represents the dividend payout ratio of selected banks. From the above table it can be clearly known that NBBL dividend payout ratio is almost nil. On the other hand, the ratio of dividend payout of NSBI is in fluctuating trend. In FY 2006/07 the ratio was highest with 1.53% and in FY 2005/06; the ratio was lowest with 0.55%. In FY 2007/08, NSBI did not pay any dividend so dividend payout ratio is nil. On average basis the percentage of payment ratio is 0.85%. The S.D and C.V of NSBI is 0.536% and 0.63% respectively. This implies thatNSBI has high fluctuation in providing dividend to its shareholder's throughout the study period. The trend of dividend payout ratio is as follows.

Figure 4.17

Dividend Payout Ratio



4.1.5.4 Price Earning Ratio

This ratio represents the amount which investors are willing to pay of each rupee of the firms earning. This ratio is closely related to the EPS. It is calculated by dividing the market value per share by earning price per share. It indicates investor's judgements or expectation about the firm's performance. This ratio is widely used by the security analysis to value the firm's performance as accepted by the investors. Higher ratio indicates more values of the stock that is being ascribed to future earning as opposed to present earnings. The following table represents the price earning ratio of the selected banks.

Table 4.18

Price Earning Ratio

(Rs. in Thousand)

Banks	NBBL			NSBI		
Year	Market Value	EPS	Ratio (%)	Market Value	EPS	Ratio (%)
2005/06	199	-	-	612	18.27	33.49
2006/07	550	-	-	1176	39.35	29.89
2007/08	1001	80.16	12.49	1511	28.33	53.34
2008/09	280	116.01	2.49	1900	36.18	52.51
2009/10	265	54.90	4.83	741	23.68	31.29
Mean			3.95			40.10
S.D			4.63			10.53
C.V			117.21			26.27

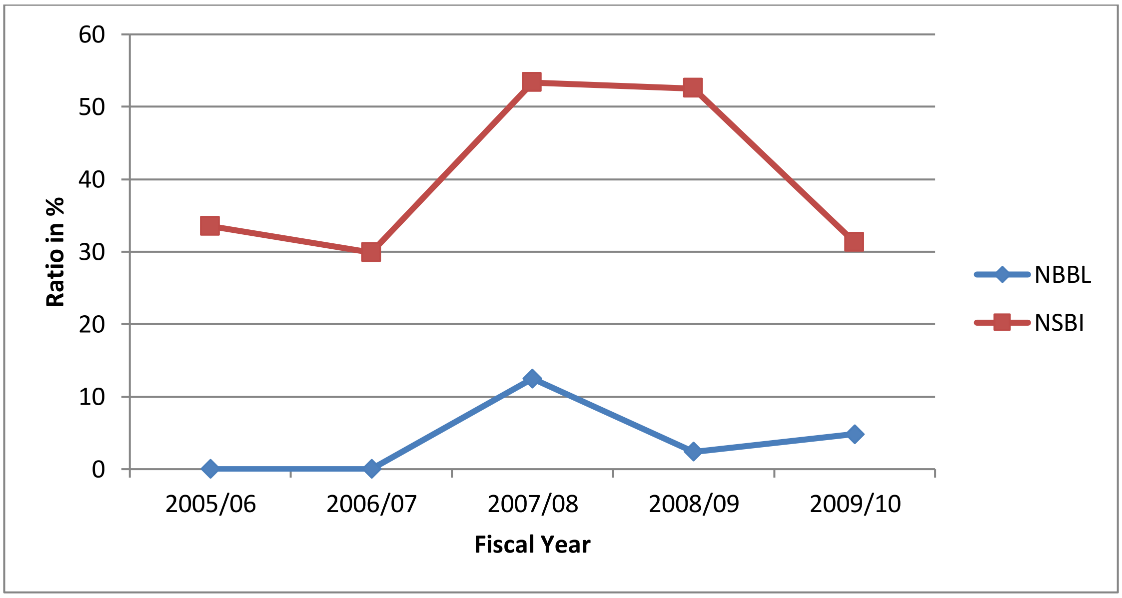
Source: Annual Reports of NBBL & NSBI (2005/06 to 2009/10)

From the above table it can be clearly known that NBBL, price earning ratio is nil for the first two fiscal year. The price earning ratio of NBBL ranged from 12.49% in FY 2007/08 to 4.83% in FY 2009/10. This indicates that the ratio is in decreasing trend. Similarly the price earning ratio of NSBI ranged from33.49% in FY 2005/06 to 31.29% in FY 2009/10. The ratio of NSBI is in fluctuating trend. The highest ratio of NSBI was 53.34% in FY 2007/08.

On an average basis, NSBI has the highest P/E ratio with 40.10 times. Similarly S.D of NSBI is also higher i.e. 10.53%, than NBBL i.e. 4.63%. This implies that NSBI has high fluctuation in market price per share than NBBL. On the basis of C.V, NBBL has higher ratio of 117.21% than NSBI with 26.27%. This implies that high degree of variability is consistent in market price per share as earning per share. The trend of price earning ratio is as follows.

Figure 4.18

Price Earning Ratio



4.2 Statistical Tools

In this study statistical tools have been grouped into coefficient of correlation, probable error and coefficient of determination.

4.2.1 Coefficient of correlation between net profit (dependent) and total deposit (independent) of NBBL and NSBI

Correlation coefficient is calculated to measure the relationship between net profit and total deposit of selected joint venture banks. The value of coefficient of correlation shall always be between ± 1.where r =1, means perfect positive correlation between variables, when r= -1, means there is negative correlation between variables, when r=0, there is no relationship between variables.

Net profit refers to profit after deducting interest and taxes. Total deposit of bank comprises of fixed deposit, current deposit, saving deposit, margin deposit. In, this study correlation analysis between two variables, net profit and total deposit are calculated to measure the closeness of relationship between them, to what extent dependent variable.i.e net profit will be changed when there is change in independent variable i.e. total deposit. Here net profit(X) is dependent variable and total deposit (Y) is independent variable.

Karl Pearson's coefficient of correlation is used to measure the significance of relationship between two variables. The formula for computing Karl Pearson's coefficient of correlation is as follows:

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

Where,

r =Karl Pearson's coefficient of variation

N = no of observation in series X and Y

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

Table 4.19

Correlation between Net Profit and Total Deposit of NBBL and NSBI

Evaluation Criterion

Bank	R	r^2	P.E	6P.E	Relationship	Significance/insignificance
NSBI	0.863	0.7447	0.0768	0.4608	Positive	Significant
NBBL	-0.42	0.1764	0.25	1.5	Negative	Insignificant

From the above table we can see that the correlation of coefficient between net profit and total deposit in case of NBBL is (0.42), which implies that there is negative correlation between the variables. Coefficient of determination of NBBL is 0.1764 i.e. 17.64% only. This indicates that only 17.64% of variation in net profit is explained by the independent variable total deposit. In other words it can be concluded that when there is change in total deposit it brings 17.64% change in net profit. Considering the probable error, the value of ‘r’ is less than six times of P.E. This indicates that there is no significant relationship between variables i.e. total deposit of NBBL is insignificant in generating profit. Similarly the correlation of coefficient of NSBI is 0.863, which implies higher positive correlation between the variables. The coefficient of determination is 0.7447, which implies that when there is change in total deposit it brings 74.47% change in net profit. Considering the P.E, the value of ‘r’ is more than six times of P.E. this implies that the value of r is significant. There is significant relationship between net profit and total deposit.

4.2.2 Coefficient of correlation between Interest Payment (Dependent) and EBIT (Independent) of NBBL and NSBI

The relationship between interest payment and EBIT is evaluated in order to measure debt servicing capacity of the banks. It is assumed that there is significant relationship between EBIT and interest. Here, interest payment(X) is dependent variable and EBIT(Y) is independent variable.

Karl Pearson’s coefficient of correlation is used to measure the significance of relationship between two variables.

Table 4.20

Correlation between Interest Payment and EBIT of NBBL and NSBI

Evaluation Criterion

Bank	R	r^2	P.E	6P.E	Relationship	Significance/insignificance
NBBL	-0.754	0.5685	0.13	0.78	Negative	Insignificant
NSBI	0.99	0.9801	0.00598	0.0358	Positive	Significant

From the above table it is clear that the correlation between interest payment and EBIT in case of NBBL is -0.754, which shows that there is negative correlation between the variables. It refers that increase in interest payment decreases EBIT. Coefficient of determination $(r)^2$ of NBBL is 56.82%, which indicates that only 56.82% of variation in the interest payment is explained by the independent variable EBIT. Considering P.E, the value of r is less than six times of P.E. This indicates that there is insignificant relationship between the variables i.e., the EBIT of NBBL is insignificant in generating interest payments. Similarly, the correlation between interest payment and EBIT of NSBI is 0.99, which shows that there is higher positive correlation between the variables. Coefficient of determination $(r)^2$ is 98.01%. this shows that 98.01% of variation in interest payment is explained by the independent variable EBIT. Considering the P.E, the value of r is greater than six times of P.E, this shows that there is significant relationship between the variables. It depicts that the banks are significantly able to service its debt.

4.3 Trend Analysis by Least Square Method

Trend analysis is also one of the statistical tools used for study forecasting. Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period. The linear trend values from a series in arithmetic progression.

Trend analysis very effectively informs various personnel, directly or indirectly about the performance of commercial banks. For shareholders of bank it informs about the expected future returns which helps them to decide whether to stick in present investment or to search for alternative investment opportunities. For borrowers it assures about the financial capability of bank to furnish their loan and advance in future provided that present trend will continue. For depositors, it provides degree of safety in form of financial credit worthiness of bank in future. Trend analysis will highlight the previous trend of the financial performance and helps in forecasting future financial results of the bank.

4.3.1 Trend analysis of Net Profit

The value of net profit has been calculated for five years FY 2005/06 to 2009/10 and forecasting for next five years till 2014/2015.

We known,

$Y = a+bX$

Where, Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

X = value of the independent variable i.e. e. time

NBBL a= -2473.57 b= 885.673

$Y = -2473.57 + 885.673 * X$

NSBI a = 822.77 b =610.97

$Y = 822.77 + 610.97 * X$

Table 4.21

Trend Value of Net Profit of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.

(Rs. in millions)

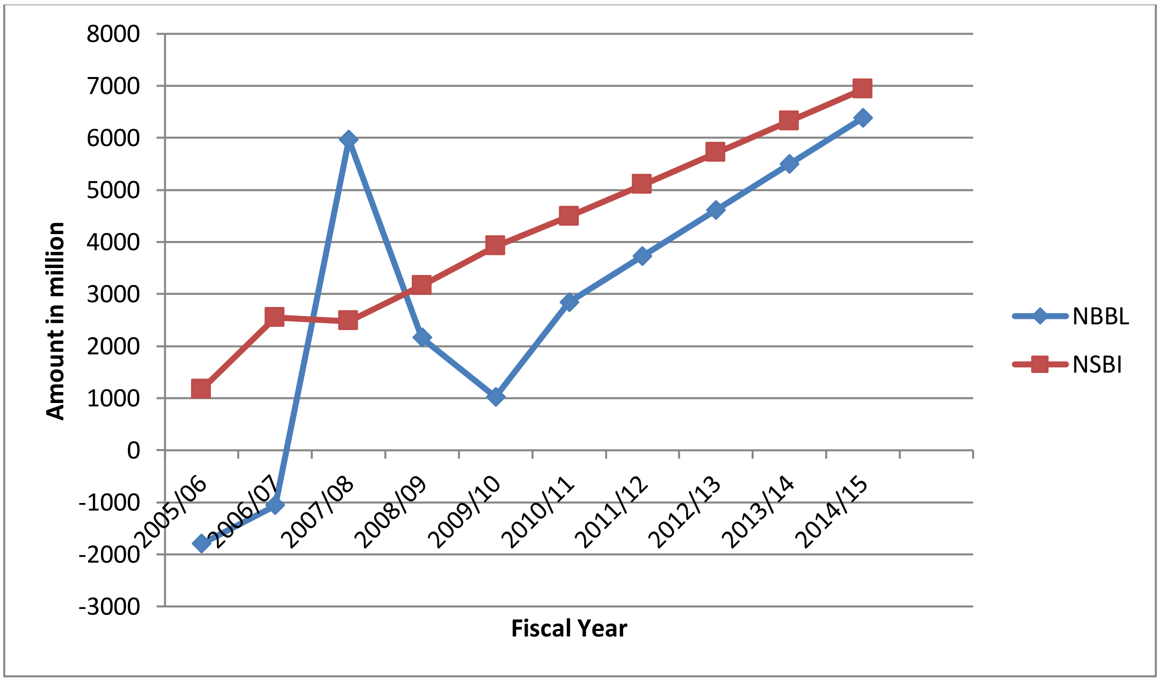
Fiscal Year	NBBL	NSBI
2005/06	(1797.15)	1170.02
2006/07	(1061.57)	2549.09
2007/08	5964.87	2477.71
2008/09	2158.10	3163.73
2009/10	1021.38	3917.42
2010/11	2840.47	4488.41
2011/12	3726.14	5099.35
2012/13	4611.81	5710.29
2013/14	5497.49	6321.23
2014/15	6383.16	6932.17

(Source: See appendix 2 and 3)

From the above table it can be concluded that net profit of both the banks i.e. NBBL and NSBI are in increasing trend. If this trend continues both the banks will be able to earn reasonable profit in coming years. The success to achieve the highly successful growth rate can be attributed to its aggressiveness in advancing credits to various sectors by diversifying its business to various parts of the country. The above given trend values have been fitted in the trend lines as below:

Figure 4.21

Trend Value of Net Profit of NBBL and NSBI



4.3.2 Trend analysis of Loan and Advance

The value of loan and advance has been calculated for five years FY 2005/06 to 2009/10 and forecasting for next five years till 2014/2015.

We known,

Y= a+bX

Where,

Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

X = value of the independent variable i.e. e. time

NBBL a = 4669.92 b= 499.45

$$Y = 4669.92 + 499.45 * X$$

NSBI a = 4748.95 b 2537.89

$$Y = 4748.95 + 2537.89 * X$$

Table 4.22

Trend Value of Loan and Advance of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.

(Rs. in million)

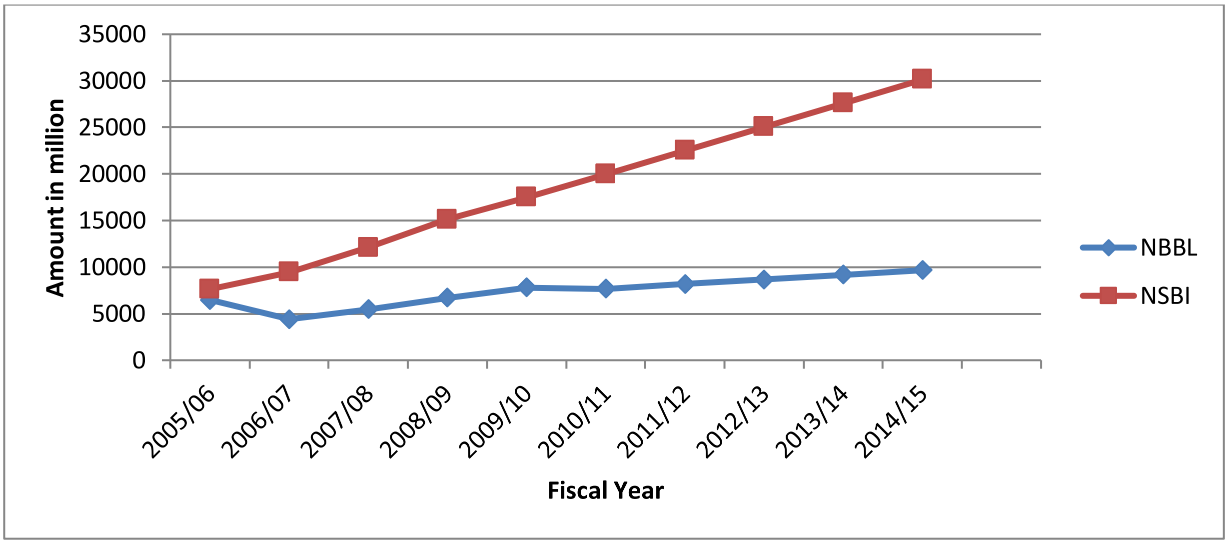
Fiscal Year	NBBL	NSBI
2005/06	6460.25	7626.73
2006/07	4409.01	9460.45
2007/08	5457.80	12113.69
2008/09	6704.94	15131.75
2009/10	7809.54	17480.55
2010/11	7666.62	19976.26
2011/12	8166.07	22514.18
2012/13	8665.52	25052.07
2013/14	9164.97	27589.96
2014/15	9664.42	30127.85

(Source: See appendix 4 and 5)

The above comparative table makes clear that loan and advance of both banks NBBL and NSBI are increasing regularly. From the calculated trend analysis, it is clear that NSBI's utilization of loan and advance is comparatively better than that of NBBL. This proves that NSBI is very aggressive in mobilizing its collected deposit to earn huge return out of it. It refers that success for aggressive lending policies in terms of loan and advance. On the other hand, NBBL has to increase its deposit position to keep up with growth rate in loan and advance. The above calculated trend values of loan and advance are fitted in the trend lines, which is given below:

Figure 4.22

Trend Value of Loan and Advance of Nepal Bangladesh Bank and Nepal SBI Bank Ltd.



4.4 Major findings of the study

The major findings of the study are as follows:

a) Liquidity Ratio

- The mean current ratio of NBBL and NSBI is 0.932 and 1.06 respectively. It shows that current ratio of both banks is below standard 2:1. The current ratio of NSBI is higher, it indicates better liquidity position.
- The mean ratio of cash and bank balance to total deposit of NBBL and NSBI is 17.86 and 10.48 respectively. It indicates that on average NBBL has more liquidity to serve its customers with enough cash in hand. A high ratio of cash and bank balance may also be undesirable which indicates inability to invest in more productive sectors.
- The mean ratio of cash and bank balance to current assets of NSBI has lower ratio which implies that the bank has been successful in utilizing depositor's money in short term loans

b) Leverage Ratio

- The average ratio of total debt to total equity of NBBL and NSBI is 0.238 and 0.98 respectively. It implies that NSBI has high leverage i.e. debt financing is more than 20.98 times of its shareholders equity over the study period.

- The average ratio of total debt to total assets of NBBL and NSBI is 16.70 and 14.95 respectively. Both banks have high debt financing. This implies that debt amount is comparatively high for assets financing purpose.
- Interest coverage ratio of NBBL and NSBI in an average is 1.234 and 1.39. The mean ratio of NSBI is higher which implies that interest paying ability of NSBI is more. It indicates that the bank was able to maintain sufficient EBIT to meet interest obligations.

c) Assets Management Ratio

To earn high profit, to satisfy customers and shareholders and to exist in competitive environment, commercial banks should manage its assets in proper way. The major findings of assets management ratio of selected banks are as follows:

- The total investment to total deposit of NBBL and NSBI is 17.49 and 34.56. It signifies that NSBI has successfully allocated its deposit in investment portfolio to get higher investment return. It can also be said that NSBI prefers investing its depositors fund in non risky projects like government bond, treasury bills, government securities, debentures of other organization etc rather than choosing the risky portfolio like loan and advance to its credit customers.
- The mean ratio of loan and advance to total deposit of NBBL and NSBI is 58.3 and 68.9 respectively. It indicates that NSBI has used 68.9% of total deposit into loan and advance. It reveals that the deposit of NBSI is quickly converted into loan and advance to earn income. In other words it can be said that bank has been successful in utilizing the depositors fund in loan and advance.
- Loan and advance to total assets ratio in average of NBBL and NSBI is 58.48 and 58.38 respectively. It indicates both banks have utilized its total assets more efficiently in form of loan and advance.

d) Profitability Ratio

Profitability ratios are the measurement of effectiveness. So with the help of these ratios, one decides whether to invest in a particular firm or not. The major findings of selected banks are as follows:

- The mean ratio of net profit to total assets of NBBL and NSBI is 3.154 and 1.22 respectively. NBBL has higher ratio than NSBI, this indicates that NBBL has been successful in managing and utilizing the available assets in order to generate higher revenue. NSBI has poorest return on total assets which constitutes that the bank has to be more alert in future to utilize its resources to more profitable projects.
- Return on equity of NBBL and NSBI is 2.50 and 16.99. On an average NSBI is more successful to earn high profit through efficient utilization of equity capital. Return on equity ratio helps to know how profitably the banks have utilized available funds of shareholder's into profit generating activities. The shareholders of NSBI are getting higher return than NBBL.
- The average ratio of net profit to total deposit of NBBL and NSBI is 1.23 and 1.45 respectively. Return on total deposit ratio shows how effectively banks have utilized their deposits in profit generating activities.NSBI has been successful in mobilizing deposit's fund more efficiently in generating more profit.
- Return on loan advance of NBBL and NSBI is 0.088 and 2.09 respectively. The mean ratio of NSBI is higher than NBBL, this shows that the bank has good earning capacity in loan and advance whereas NBBL has poor earning capacity in form of loan and advance. NSBI has utilized the loan and advance for profit generation purpose in proper way.
- Net interest earned to total assets ratio of NBBL and NSBI is 3.31 and 2.63.NBBL has efficiently used its total assets to earn higher interest income.

e) Other Ratios

- The average earning per share of NBBL and NSBI is 42.27 and 29.16 respectively. The calculation of average EPS for NBBL is greater than NSBI i.e. .42.27> 29.16 which implies that net profit earning capacity of

NBBL is higher than NSBI due to high amount of interest and tax deductible expenses. In other words, higher average ratio indicates that NBBL is able to earn more profit per share to common shareholders than that of NSBI.

- Dividend per share of NSBI is 25.39; NBBL did not pay any cash dividend throughout the study period. Cash dividend attracts the attention of shareholders towards the bank. It draws the attention of shareholders towards the bank and helps to increase the market value of share. So, it indicates that NSBI is performing better.
- Dividend payout ratio of NSBI is 0.85.This ratio represents the percentage of the profit distributed as dividend and the percentage as revenue and surplus for the growth of the bank.
- Price earning ratio of NBBL and NSBI is 3.95 and 40.10. Investors of NBSI are getting better profitability because their selling price of share is higher than NBBL.

Correlation and regression analysis

- The coefficient of correlation between net profit (dependent variable) and total deposit (independent variable) of NBBL and NSBI is (0.42) and 0.863 respectively. NBBL has negative coefficient of correlation which indicates that net profit is not affected by total deposit whereas NSBI has positive coefficient of correlation which implies net profit is affected by total deposit. The value of coefficient of correlation of NBBL is less than six times of probable error; it indicates insignificant relationship whereas the value of coefficient of correlation of NSBI is more than six times of probable error which indicates significant relationship between the variables.
- The coefficient of correlation between interest payment (dependent variable) and EBIT (independent variable) of NBBL and NSBI is (0.754) and 0.99. NBBL has negative correlation; the value of coefficient of correlation is less than six times of probable error which implies insignificant relationship. NSBI has positive correlation and the relationship between the variables is significant.

Trend analysis

- The trend line of net profit of NBBL and NSBI is upward slopping. The trend line of NBBL is increasing aggressively whereas of NSBI is increasing in smooth way. The position of NBBL is better in generating profit than NSBI.
- The trend line of loan and advance of NBBL and NSBI is also upward slopping.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter consists of three parts, summary, conclusion and recommendation. In summary revision of all four chapters is done, in conclusion the result obtained from research is summed up and in recommendation suggestions are given for improving the financial performance of NBBL and NSBI.

5.1 Summary

Economic development is essential for the development of the country. Economic development is supported by the financial infrastructure of the country .Financial infrastructures of an economy consist of financial intermediation, financial institution and financial markets. Financial institutions facilitate development of Nepalese trade, industry and commerce. The basic task of financial institution is to mobilize the saving of the community and ensure efficient allocation of savings of the community to high yielding investment projects and offer attractive and secured returns to different sectors of the economy.

The present structure of the financial institution is based on commercial banks. The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy. The role of commercial banks in the economic growth of nation can be estimated to be prominent. The challenging job of commercial is to collect the scattered idle resources from the small savers. Banks provides an effective payment and credit system, which facilitate the channeling of funds from the surplus (savers) units to deficit units (investors) in the economy. Commercial banks invest the idle resources in productive sectors. Commercial banks have to pay due attention while formulating investment policy. A good investment policy attracts both the borrowers and the lenders which help to increase the volume of quality deposit and investment.

The survival of commercial bank depends on how much profit they earn. Profit is the excess of income over expenses. The major source of income of bank is interest income from loan and advances, investment etc. earnings from loan and advance occupy a major source of income. Most of the bank failures in the world are due to shrinkage in value of loan and advance. Loan is known as risky assets. In developing countries like Nepal, commercial banks have greater responsibility towards the economic development of country. The main aim of bank as commercial organization is to maximize the surplus by efficient use of its funds and resources. In spite being commercial institution, it has a responsibility to provide social service and contribution for the social and economic upliftment of the country by providing loan and advance to privileged sectors.

The first chapter of the study explains the background and statement of the problem and objective of the study and limitation. The second chapter is review of issues related with the financial performance. During research work, review of various literature books, past thesis, journals have been studies and consulted. These works are complied in second chapter titled 'Review of Literature'. Financial tools like ratio analysis to calculate various ratios and statistical tools like mean, standard deviation, coefficient of correlation, probable error, trend analysis etc are used for research work. These works are complied in third chapter titled 'Research Methodology'. Data from annual reports published by joint venture banks have been collected and presented in figures and tabular form by applying financial and statistical tools and have been listed in systematic manner and complied in fourth chapter titles 'Data Presentation and Analysis'. Finally summary, conclusion and recommendations made by the research are presented in current chapter titled, "Summary, Conclusion and Recommendations."

5.2 Conclusion

As per objectives and analysis of the study following conclusion has been drawn;

a) This study reveals that liquidity position of NSBI is better than NBBL. The mean current ratio of NBBL is less than 1 whereas of NSBI is greater than 1, this indicates the NSBI banks solvency position is better than NBBL. Similarly mean ratio of cash and bank balance to total deposit and current ratio of NBBL is higher than NSBI. This implies that NBBL has better ability to make immediate payments to its depositors and also have been successful to meet daily cash requirements of their customers. This helps to reveal that the liquidity position of NBBL is better than NSBI.

b) This study reveals that the leverage position of NSBI is better than NBBL. The mean ratio of total debt to total equity ratio of NSBI is higher than NBBL.This reveals that debt financing capacity of NSBI is higher than NBBL.Similarly NBBL has high debt to total assets ratio which represents greater risk to creditors and shareholders' than NSBI. Debt amount is high for assets financing in NBBL bank. Interest coverage ratio also known as times earned ratio of NSBI is higher than NBBL. This implies that interest paying ability of NSBI is better.

c) Assets management ratio of NSBI is better than NBBL which is justified by the findings. Mean ratio of total investment to total deposit ratio of NSBI is higher than NBBL.This signifies that NSBI has successfully allocated its deposit in investment portfolio to get higher investment return. In terms of loan and advance against total deposit, NSBI has used more percentage of total deposit in form of loan and advance. In terms of loan and advance against total assets ratio, both banks have been able to use more amounts of assets in form of loan and advance. It can also be said that both banks have been able to utilize total assets efficiently in loan and advance.

d) Overall findings of profitability ratio reveal that NSBI has been able to earn higher profit in every aspect than NBBL. Return on total assets ratio of NSBI is higher which shows that, this bank has been able to earn more profit by utilizing its assets efficiently. NBBL has to be alert in future to utilize its resources efficiently in profitable sectors. Return on equity of NSBI is higher which reveals that NSBI has been successful in providing more rate of return to its shareholders through efficient utilization of equity capital. Return on total deposit of NSBI is higher which indicates better mobilization of deposit. Return on loan and advance of NSBI is higher which shows that this bank has good earning capacity. NSBI has been able to mobilize loan in efficient way for better returns. Total interest earned to total assets ratio of NSBI is higher which reveals that NSBI has efficiently used its total assets in order to earn higher interest.

e) Earning per share of NSBI is higher than NBBL. Similarly dividend payout ratio is also higher than NBBL, which reveals that the bank provides maximum amount of dividend to its shareholders. NSBI has higher price earning ratio. This reveals that investors of NSBI are selling their shares at higher price. From trend analysis loan and advance and net profit of both banks have an increased trend.

5.3 Recommendations

Based on the analysis and findings of the study, the following recommendations are made:

i. The current ratio of both banks has not met the normal standard of 2:1. Liquidity position affects both internal and external factors such as central bank requirement; prevalent investment situations etc.Delay in payment of liabilities banks may lose their goodwill and confidence of current depositors and short term lenders. So it is recommended to maintain sound liquidity position.

ii. Deposits must be utilized properly as loan and advance. It is found that NBBL has not properly used their existing fund as loan and advance. So this bank should follow liberal lending policy and emphasis in issuing loan and advance.

iii. Increasing bottleneck competition and worsening economic condition has made the environment very risky and sensitive. Therefore, it is suggested both banks to make investment in non risky assets i.e. government securities like treasury bills, development bonds, saving certificates etc which can be easily sold in market.

iv. NBBL should formulate and implement sound and effective investment portfolio to increase volume of investment and loan and advance which will help to meet required level of profitability. It should also consider rural areas in making investment policy.

v. It is found that NBBL has excessively used debt financing to total assets. Extensive use of debt capital with failure in advancing good loans can jeopardize the solvency position of banks. Therefore it is suggested to assess risk assets portfolio cautiously before accepting higher volume of deposit.

vi. Earning per share and dividend per share play a vital role to determine market price of share and also indicate the financial performance of banks. Nepalese shareholders are very much concerned about the payment of cash dividend than financial statement. So, banks are suggested to pay cash dividend consistently. NBBL should pay attention on paying dividends to attract more investors.

vii. Low market price per share and less earning per share of commercial banks indicates poor performance in market. Therefore it is suggested to the management team of NBBL to improve their performance.

viii. To maintain the confidence of shareholders, depositors and all customers' banks should be able to increase its profit by properly utilizing its funds. NBBL should increase it profitability. It should reduce its operating costs to achieve operational efficiency and must search for loopholes and eliminate all unnecessary costs.

ix. Shareholders are the real owners of organization. But the rate of return on equity provided by NBBL is not satisfactory. It is recommended that the management team should put emphasis on maximizing the wealth of shareholders.

x. It is recommended to both banks to expand its services and branches covering rural areas. The savings from rural communities are neglected. This will help the people of rural areas to enjoy the benefits of banks and on the other hand saving from them will be beneficial to banks.

xi. The banks should give continuity in providing both conceptual and practical training to the staff to enhance their knowledge, skill and competency level. The bank has to enhance effectiveness, efficiency and proper coordination of its departmental tasks by revising its structural design in accordance with the need of changing time and situation.

xii. NRB has given directives to financial institution to invest their certain percentage of investment to deprive and priority sectors. So, both banks are recommended to strictly follow the directives issued by NRB and should make investments on public utilities sector like health, sanitation, education etc.

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Appendix- 1

Calculation on Mean, S.D and C.V of Current Ratio

Fiscal Year	NBBL		NSBI	
	X	$(\mathbf{X}-\overline{X})^{\mathbf{2}}$	**X**	$(\mathbf{X}-\overline{X})^{\mathbf{2}}$
2005/06	0.61	0.5745	1.07	0.0001
2006/07	2.23	0.74	1.08	0.0004
2007/08	1.62	0.063	1.08	0.0004
2008/09	1.26	0.012	1.05	0.0001
2009/10	1.12	0.061	1.06	0
Total	6.84	1.4505	5.34	0.001

Where, N = 5 years

NBBL

$$Mean(\overline{X}) = \frac{\sum X}{N}$$

$$= \frac{6.84}{5}$$

$$= 1.368$$

$$S.D = \sqrt{\frac{1}{N}\sum(X-\overline{X})^{2}}$$

$$= \sqrt{\frac{1}{5}\times 1.4505}$$

$$= 0.5386$$

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

$$= \frac{0.5386}{1.4505} \times 100 = 39.37$$

NSBI

$$Mean(\overline{X}) = \frac{\sum X}{N}$$

$$= \frac{5.34}{5}$$

$$= 1.06$$

$$S.D = \sqrt{\frac{1}{N}\sum(X-\overline{X})^{2}}$$

$$= \sqrt{\frac{1}{5}\times 0.001}$$

$$= 0.014$$

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

$$= \frac{0.014}{5.34}\times 100 = 1.32$$

Appendix- 2

Calculation of Net Profit Trend line of Nepal Bangladesh Bank

(Rs. in millions)

Fiscal Year	**X**	**Y**	X^2	Y^2	**XY**
2005/06	1	(1797.15)	1	322978047.1	(1797.15)
2006/07	2	(1061.57)	4	112694997.3	(2123.14)
2007/08	3	596.48	9	35579674.12	1789.44
2008/09	4	2158.10	16	465741287.5	8632.4
2009/10	5	1021.38	25	1043217.10	5106.9
Total	15	917.24	55	10413080.09	11608.45

Where, N = 5 years

$\sum X = 15$ $\qquad \sum Y = 917.24$ $\qquad \sum XY = 11608.45$

$\sum X^2 = 55$ $\qquad \sum Y^2 = 10413080.09$

Here, $b = \frac{N\sum XY - \sum X.\sum Y}{N\sum X^2 - (\sum X)^2}$ $\qquad b = \frac{5\times 11608.45 - 15\times 917.24}{5\times 55 - (15)^2}$

$b = \frac{58042.25 - 13758.6}{275 - 225}$ $\qquad b = \frac{44283.65}{50}$

b= 885.673

Here, $a = \frac{\sum Y - b\sum X}{N}$ $\qquad a = \frac{91\times 15}{5}$

$a = \frac{1862.42 - 106120.65}{5}$ $\qquad a = \frac{-14258.23}{5}$ $\qquad$ a= -2851.6

Appendix- 3

Calculation of Net Profit Trend line of Nepal SBI Bank

(Rs. in millions)

Fiscal Year	**X**	**Y**	X^2	Y^2	**XY**
2005/06	1	1170.02	1	1368946.8	1170.02
2006/07	2	2549.09	4	6497859.83	5098.18
2007/08	3	2477.71	9	6139046.84	7433.13
2008/09	4	3163.73	16	10009187.51	12654.92
2009/10	5	3917.42	25	15346179.46	19587.1
Total	15	13277.97	55	39361220.44	45943.35

Where, N = 5 years

$\sum X = 15$ $\sum Y = 13277.97$ $\sum XY = 45943.35$

$\sum X^2 = 55$ $\sum Y^2 = 39361220.44$

Here, $b = \frac{N\sum XY - \sum X.\sum Y}{N\sum X^2 - (\sum X)^2}$ $b = \frac{5\times45943.35 - 15\times13277.97}{5\times55 - (15)^2}$

$b = \frac{229716.75 - 199169.55}{275 - 225}$ $b = \frac{30547.2}{50}$

$b = 610.94$

Here, $a = \frac{\sum Y - b\sum X}{N}$ $a = \frac{13277.97 - 610.94\times15}{5}$

$a = \frac{13277.97 - 9164.1}{5}$ $a = \frac{4113.87}{5}$ $a = 822.77$

Appendix- 4

Calculation of Loan and Advance Trend line of Nepal Bangladesh Bank

(Rs. in millions)

Fiscal Year	**X**	**Y**	X^2	Y^2	**XY**
2005/06	1	6460.25	1	41734830.06	6460.25
2006/07	2	4409.01	4	19439369.18	8818.02
2007/08	3	5457.80	9	29787580.84	16373.4
2008/09	4	6704.94	16	445962200.4	26819.76
2009/10	5	7809.54	25	60988915.01	39047.7
Total	15	30841.54	55	196906915.5	97519.13

Where, N = 5 years

$\sum X = 15$ $\sum Y = 30841.54$ $\sum XY = 97519.13$

$\sum X^2 = 55$ $\sum Y^2 = 196906915.5$

Here, $b = \frac{N\sum XY - \sum X.\sum Y}{N\sum X^2 - (\sum X)^2}$ $b = \frac{5\times97519.13 - 15\times30841.54}{5\times55-(15)^2}$

$b = \frac{487595.65-462622.65}{275-225}$

b= 499.45

Here, $a = \frac{\sum Y - b\sum X}{N}$ $a = \frac{30841-499.45x\ 15}{5}$

$a = \frac{23349.25}{5}$

a= 4669.85

Appendix- 5

Calculation of Loan and Advance Trend line of Nepal SBI Bank

(Rs. in millions)

Fiscal Year	X	Y	X^2	Y^2	XY
2005/06	1	7626.73	1	58167010.49	7626.73
2006/07	2	9460.45	4	89500114.2	18920.9
2007/08	3	12113.69	9	146741485.4	36341.07
2008/09	4	15131.75	16	228969858.1	60527
2009/10	5	17480.55	25	305569628.3	87402.75
Total	15	61813.17	55	828948096.5	210818.45

Where, N = 5 years

$\sum X = 15$ $\quad\sum Y = 61813.17$ $\quad\sum XY = 210818.45$

$\sum X^2 = 55$ $\quad\sum Y^2 = 828948096.5$

Here, $b = \frac{N\sum XY - \sum X.\sum Y}{N\sum X^2 - (\sum X)^2}$ $\quad b = \frac{5\times210818.45 - 15\times61813.17}{5\times55-(15)^2}$

$b = \frac{1054092.25-927197.55}{275-225}$ $\quad b = \frac{126894.7}{50}$

b= 2537.89

Here, $a = \frac{\sum Y - b\sum X}{N}$ $\quad a = \frac{61813.17-2537.89\times15}{5}$

$a = \frac{23744.6}{5}$ $\quad$ a= 4748.95

Nepal Bangladesh Bank Ltd.

Five Years Financial Summary

(Balance Sheet) NRP in Thousand

Fiscal Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Cash balance	354456	391686	612024	459402	422008
Bal. with NRB	1157837	614431	1005830	1869815	1423257
Bal.withBanks/ Financial Institutions	182390	157935	304993	242199	213033
Money at call	30028	50000	10000	1000	-
Investment	2661833	1034560	1389901	2222431	2112751
Loans, Advances and Bills Purchase	6460246	4409013	5457808	6704943	7809544
Fixed Assets	172325	140807	147747	139198	155327
Nonbanking Assets	205465	111924	37086	-	-
Other Assets	484697	344190	434633	325561	395120
Total Assets	**11709281**	**7254548**	**9391026**	**11964552**	**12531042**
Share Capital	719852	719852	744126	1860315	1860315
Reserves and Funds	(2282435)	(3344015)	(2935574)	(748072)	273275
Debentures and Bonds	-	-	-	-	-
Borrowings	71000	230000	30000	-	-
Deposits	13015136	9385949	10883652	9997697	10052182
Bills Payable	44108	39410	30011	12628	15401
Proposed Dividend	1352	1299	1301	1397	-
Income Tax Liabilities	-	30331	-	6728	-
Other Liabilities	140267	197720	637509	833857	329885
Total Capital and Liabilities	**11709281**	**7254548**	**9391026**	**11964552**	**12531042**

Nepal Bangladesh Bank Ltd.

Five Years Financial Summary

(Profit and Loss Account)

NRP in Thousand

Fiscal Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Interest Income	758131	982196	828275	1337112	1167627
Interest Expenses	518093	432218	397996	409775	476787
Net Interest Income	**240037**	**549977**	**430279**	**927336**	**690840**
Commission& Discount	85298	85219	105300	122393	145796
Other Operating Income	47845	117653	190767	125074	50496
Exchange Fluctuation Income	63957	40962	90111	80547	49839
Total Operating Income	437139	793812	816458	1255351	936972
Staff Expenses	140662	112547	140837	138423	146641
Other Operating Expenses	119904	114325	121863	123306	128735
Exchange Fluctuation Loss	-	-	-	-	-
Operating profit before provision for possible loss	176572	566939	553757	993620	661565
Provision for Possible Losses	1882278	1502798	379304	283319	148389
Operating Profit	**(1705706)**	**(935858)**	**174453**	**710301**	**513175**
Non Operating Income / Loss	(11105)	24200	18238	22933	18384
Provision for Possible Loss Written Back	271574	34277	1343374	1905860	1318048
Profit from Regular Operations	(1445236)	(877381)	1536066	2639095	1849609
Profit/ Loss from extra ordinary activities	(271574)	-	(697886)	(14989)	(523481)
Net provision after considering all activities	(1716811)	(877381)	838179	2624105	1326127
Provision for Staff Bonus	-	-	763198	238555	120557
Provision for Income Tax	80347	184198	165494	227446	184190
Current Year’s	71290	184198	156493	235262	167800
Previous Year’s	9057	-	11991	(10857)	13396
Deferred Tax	-	-	(3091)	3041	2994
Net Profit/ Loss	**(1797159)**	**(1061579)**	**596487**	**2158104**	**1021380**

Nepal SBI Bank Ltd.

Five Years Financial Summary

(Balance Sheet)

NRP in Thousand

Fiscal Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Cash balance	244187	291762	308101	652027	815679
Bal. with NRB	626123	559876	403810	444138	1842802
Bal.withBanks/ Financial Institutions	247847	292889	631048	807740	782779
Money at call	363200	-	304012	-	-
Investment	3610775	265453	3088886	1386181	16305632
Loans, Advances and Bills Purchase	7626736	9460451	12113698	15131747	17480548
Fixed Assets	66711	97219	120222	253580	418244
Nonbanking Assets	24555	-	-	-	-
Other Assets	225701	211388	217665	341265	401992
Total Assets	**13035839**	**13901201**	**17187446**	**30916681**	**38047679**
Share Capital	640236	647798	874527	874527	1861324
Reserves and Funds	342137	515492	540116	838079	589229
Debentures and Bonds	200000	200000	200000	200000	200000
Borrowings	612428	812429	1827480	727466	-
Deposits	11002040	11445286	13715394	27957220	34896424
Bills Payable	46238	48856	75115	62947	72368229
Proposed Dividend	35469	40208	12228	24909	83080145
Income Tax Liabilities		-	-	-	-
Other Liabilities	157287	228403	142581	231535	345252
Total Capital and Liabilities	**13035839**	**13901201**	**17187446**	**30916681**	**38047679**

Nepal SBI Bank Ltd.

Five Years Financial Summary

(Profit and Loss Account)

NRP in Thousand

Fiscal Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Interest Income	708718	831117	970512	1460445	2269704
Interest Expenses	334770	412262	454917	824700	1443693
Net Interest Income	**373948**	**418855**	**515594**	**635745**	**826010**
Commission& Discount	40753	49360	50917	78836	131692
Other Operating Income	7136	12575	19557	52790	78796
Exchange Fluctuation Income	43060	40120	51989	61294	70328
Total Operating Income	464899	1345434	638059	828666	1106827
Staff Expenses	50539	627145	74890	121989	130336
Other Operating Expenses	99214	300252	152379	223965	343850
Exchange Fluctuation Loss	-	-	-	-	-
Operating profit before provision for possible loss	315145	362967	410789	482711	632640
Provision for Possible Losses	146656		57463	40345	62350
Operating Profit	**168488**	**300790**	**353325**	**442366**	**570290**
Non Operating Income / Loss	(2926)	(1821)	(271)	2516	2552
Provision for Possible Loss Written Back	54177	41979	29782	198672	56621
Profit from Regular Operations	219740	344590	382836	643555	629464
Profit/ Loss from extra ordinary activities	-	-	-	(156220)	(37266)
Net provision after considering all activities	219740	344590	382836	487334	592198
Provision for Staff Bonus	19976	2169	34803	44303	53836
Provision for Income Tax	82762	82542	100262	126658	146620
Current Year’s	66120	72375	105745	133123	183015
Previous Year’s	16641	15167	870	2582	(28395)
Deferred Tax	-	-	(63536)	(9048)	(7999)
Net Profit/ Loss	**117001**	**254909**	**247770**	**316373**	**391742**