CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Finance, the art and science of managing money, affects the lives of every person and every organization. Finance is concerned with the process, institutions, markets, and instructions involved in the transfer of money among and between individuals, businesses, and governments. Managerial Finance (Which is concerned with the duties of the financial manager in the business firm) is important in all types of businesses including banks and other financial institutions, as well as industrial and retail firms. It is important in government operations, schools, and hospital and highway departments.

While the specifics vary among organizations, the key finance functions are the investment, financing, and dividend decisions for an organization. Funds are raised from external financial sources and allocated for different uses. The flow of funds within the enterprise is monitored. Benefits to financing sources take the form of returns, repayments, products, and services. These functions must be performed in business firm, governments, banks, agencies, and non-profit organizations alike.

Banks are essential financial institutions. They are the principal source of credit that provides short term working capital finance. They contribute to the economy in different manner. They collect money from savers and invest in lucrative sectors. They make profit by paying less for savings than what they charge to the borrowers. Therefore, banks could play a key role in reducing poverty through income distribution and by producing income opportunities.

Financial Analysis as a part of finance is also one of the major parts in every type of organization, which is very useful to understand the firm's performance. As the financial services industry becomes more complex, the financial information provided to public becomes more difficult to understand. Quality governance is impossible without effective analysis and evaluation of financial information.

Commercial banks means a bank which operates currency exchanges transactions, accept deposits, provides loan performs dealing relating to commerce except the banks which have been specified for the cooperative, agriculture, industry or other similar specific objectives.

Commercial banks are Business Corporations regulated and controlled by the central bank. They need to be studied constantly in comparison to other firms as they hold more importance than others. They hold saving of the regulators and the common people which determine the health of the economy, maximizing the value of shareholder's wealth at an accepted level of risk.

A financial institution is the lifeblood of economic development of the country. Financial institution acts as catalyst in the process of economic growth of the country. Bank plays a vital role to encourage thrift. They pursue economic growth rapidly, developing the banking habit among the people by collecting the small-scattered resources in one bulk, using them in the further productive purposes, and rendering other valuable service to the country. Thus, this gives the individual an opportunity to borrow funds against future income, which may improve the economic well being of the borrower. Bank deals with the offer of collected deposits and provides the loan for commercial purpose.

1.2 Profile of the Banks

There are two dominant forms of banking, central and commercial (A treatment of central banking follows this paragraph). Commercial banks, of which we have records dating from the 13th century, were originally agents to exchange and validate coins and bullion. Banks began taking deposits because their customers, international traders, held assets in many ports along their trade routes. These early banks could also pay clients of their customers through signed chits: medieval checks. Eventually, the convenience of checking systems drew customers to use checks to cover increasingly large expenses, and this extensive checking eventually became borrowing. Bankers would allow customers to overdraw checks to a certain point, which would then be repaid, with interest.

An organization, usually a corporation, chartered by a state or federal government, which does most or all of the following: receives demand deposits and time deposits, honors instruments drawn on them, and pays interest on them; discounts notes, makes loans, and invests insecurities; collects checks, drafts, and notes; certifies depositor's checks; and issues drafts and cashier's checks.

Banking activities were sufficiently important in Babylonia in the second millennium b. c. that written standards of practice were considered necessary. These standards were part of the Code of Hammurabi the earliest known formal laws. Obviously, these primitive banking transactions were very different in many ways to their modern-day counterparts. Deposits were not of money but of cattle, grain or other crops and eventually precious metals. Nevertheless, some of the basic concepts underlying today's banking system were present in these ancient arrangements, however. A wide range of deposits was accepted, loans were made, and borrowers paid interest to lenders.

Similar banking type arrangements could also be found in ancient Egypt. These arrangements stemmed from the requirement that grain harvests be stored in centralized state warehouses. Depositors could use written orders for the withdrawal of a certain quantity of grain as a means of payment. This system worked so well that it continued to exist even after private banks dealing in coinage and precious metals were established.

During the 17th and 18th centuries the Dutch and British improved upon Italian banking techniques. A key development often credited to the London goldsmiths around this time was the adoption of fractional reserve banking. By the middle of the 17th century, the civil war had resulted in the end of the goldsmiths traditional business of making objects of gold and silver. Forced to find a way to make a living, and have the means to safely store precious metal, they turned to accepting deposits of precious metals for safekeeping. The goldsmith would then issue a receipt for the deposit. At first, these receipts circulated as form of money. But eventually, the goldsmiths realized that, since not all of the depositors would demand their gold and silver simultaneously, they could issue more receipts than they had metal in their vault.

A non-profit group that addresses banking standards and policies in operations and auditing practices. and The Institute conducts research, hosts seminars, and provides education and resources to members.

Nepal Bank Limited was the first and the only bank to be established in Nepal in 1944 B.S. After that Nepal Rastra Bank was established in 2013 as the central bank of Nepal. Rastriya Banijya Bank was established in 2022 B.S. under full government ownership. In 2031 B.S. government issued a commercial bank act 2031. After the eighties decade, the government of Nepal adopted literal economic policy under which it initiated foreigners to make investment in Nepal.

1.2.1 Nepal SBI bank

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India(SBI), Employees Provident Fund(EPF)and Agricultural Development Bank Ltd.(ADBL)through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/l.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 511. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized, Issued and Paid-Up Capitals have been increased to Rs. 200 Crores, Rs. 186.93 Crores and Rs. 186.93 Crores, respectively. In terms of the Technical Services Agreement concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team viz. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Assistant General Manager(Credit) oversees the overall banking operations in the Bank. ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently ,the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public.

Share Capital of Nepal SBI bank ltd

a. Authorized capital

20,000,000 ordinary shares @ Rs.100 per share = Rs. 20,00,000,000.

b. Issued capital

16,616,028.96 ordinary shares @ Rs. 100 per share = Rs. 16,61,602,896

c. Paid up capital

16,536,238.77 ordinary share @ Rs. 100 per share = Rs16,53,623,877

Share Holder Pattern:	**Percent**
1. SBI	55%
2. EPF	15%
3. General Public	30%

Nepal SBI Bank Limited has provided various modern facilities for its customers. They are well- equipped with latest technologies as well. Some of them have been listed below.

- Tele banking
- Credit Card Facilities
- ATM
- Personal &Corporate Financial Services
- Any branch banking system
- Net banking
- Cheque clearing policy
- Compensation policy

1.2.2 Nepal NIC Bank Ltd

Nepal Industrial & Commercial Bank Limited (NIC Bank) commenced its operation on 21 July 1998 from Biratnagar. The Bank was promoted by some of the prominent business houses of the country. The current shareholding pattern of the Bank constitutes of promoters holding 51% of the shares while 49% is held by the general public.NIC Bank has over 34,000 shareholders. The shares of the Bank are actively traded in Nepal Stock Exchange with current market capitalization of about NPR 10,493 million. The Bank has grown rapidly with 34 branches throughout the country while several branches are planned to be opened this year. All branches are inter-connected through optical fiber as well as V-Sat and are capable of providing real time on-line transactions.

The promoters and their shares holding patterns of NIC Bank Ltd are as follows:

Nepali Promoters	-	51.00%
General Public	-	49.00%

Share Capital of NIC Bank Ltd.

a. Authorized capital

16,000,000 ordinary shares @ Rs.100 per share = Rs. 16,00,000,000.

b. Issued capital

13,115,520 ordinary shares @ Rs. 100 per share = Rs. 13,11,552,000

c. Paid up capital

13,115,520 ordinary share @ Rs. 100 per share = Rs. 13,11,552,000

Besides banking facilities it provides other facilities too, they are given as:

- debit Card Facilities
- NIC SMS banking
- Safe deposit locker
- Any branch banking system
- Extended Counter Services
- Fund transfer
- ATM (Automatic Teller machine)

1.3 Statement of the Problem

Joint venture banks with the help of their quality and prompt services are becoming an indispensable part of the economy of Nepal. Performance of a company can be measured using financial ratios. These ratios are used for comparison which is better performer. Ratios can be developed with the help of past balance sheet and profit and loss account. The developments must be in according to the change the market price of the share. A financially sound and better performing firm should have adequate liquidity, and the firm should lead the price and trade volume in stock market. Another thing of consideration in case of Nepal is industry wise, firms differ in performance, there is too much of difference in profit between firms in same industry. The market value per share determines the rate of return to investors representing the profit of the company.

The banks like NSBL & NIC that are achieving great success in terms of profitability and market share but the management of these banks should always be careful to continue their success in future also .So financial analysis helps them to arrange for future plan and position. Financial analysis is useful to the common stock shareholders, equity investors, creditor and other common people also. The most efficient and common method of financial analysis is ratio analysis.

Especially the study tries to solve the following problems related to the subject matter:

- What are the Strengths and weakness of the banks in terms of liquidity, profitability, leverage and other ratios?
- To what extent the depositors, investors, shareholders are satisfied with the efficiency of banks?
- Is there any Correlation between total deposits and loans & advances of both banks and Correlation between total outside assets and net profit?

1.4 Objective of the Study

The main objective of the study is to generalize the financial performance of the -selected commercial banks. The main specific objectives are as follows.

- To analyze the financial strengths and weakness of the selected banks in term of liquidity ratios, assets management ratios, profitability ratios.
- To analyze the banks deposit mobilization and investment procedures.
- To analysis the growth rate of both banks.
- To make relevant suggestions and recommendation for their effective and efficient future performance.

1.5 Focus of the Study

This study is focused on the comparative analysis of the financial performance of Nepal SBI Bank Limited and NIC Bank Limited. Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statement. “Financial ratio analysis is a widely used tool of financial analysis and its performance. The goal of such analysis is to determine the efficiency and the performance of the firm’s management as reflected in the financial record and report.

The financial analysis tries to analysis profitability, income and expenditure, source and use of funds of these institutions. Financial ratios are evaluated with the help accounting data and financial statements like balance sheets and profit and loss accounts. With the help of these tools we can measure the liquidity, leverage, activity and profitability in rational way.

1.6 Significance of the Study

Analysis of financial performance of any company is very important. The organizations selected for the study hold a strong position in contributing to the uplifting of the economy. Therefore, their financial position is the matter of concern. This study will be beneficial to overview their finical performance. Not only can the sampled organizations benefit from the study but also the other firms and the new researchers for the review of literature in the near future. Hence, I have chosen a comparative analysis of financial performance of Nepal SBI bank ltd. and NIC bank Ltd. and also in the present context it seems relevant. Actually, on the basis of the financial analysis we can say that the concerned company is strong or not. The financials published by the banks gives the meaningful picture to the general public regarding the financial position of the banks. Thus, the analysis of these statements is necessary in order to give the full and clear-cut position and performance of the banks. This study is mainly compare the financial performance of NSBL and NIC which compare the position of selected bank under the study, which encourage to improve the different position and performance of the selected banks. From data presentation and analysis researcher finds different strength and weakness of the selective banks which is recommended to the banks for their further improvement. The analysis of financial performance of the joint venture commercial banks is significant managerial decision from the viewpoint of investors. It influences the shareholders to gain full information on the performance of the company, make sound judgment and helps in significant forecasts of investment decisions. Consequently, financial analysis enables investors to select the right kind of security for investment depending upon the comparative analysis of which company doing the best. Investors can form a correct opinion on predicting the riskiness of securities. Thus this study tries to find the financial performance of the selected banks.

1.7 Limitation of the Study

The study has some limitations; basically the study is done for the partial fulfillment of Masters of Business Studies. Time constraints, financial problem and lack of research experience are the primary limitation and other limitations are as follows;

- The whole study is confined to only two joint venture banks namely NSBL and NIC. The finding drawn may or may not be applicable to other various JVBs of Nepal.
- The time frame is limited of the study.
- This study covers only a period of 5 years (i.e. FY 2005/06-FY2009/10).
- Being almost impossible to draw the final product error is also a major limitation of the study.
- The study will be particularly based on secondary data. Therefore the accuracy of the calculation is fully depended on the accuracy of data provided by the concerned bank.

1.8 Scheme of the Study

This study has been organized over altogether five chapters. Starting from Introduction, Review of Literature, Research Methodology, Presentation & Analysis of Data and Summary, to Conclusion & Recommendation as get of the entire study. A brief outline of this chapter has been outlined as under.

The first chapter entitled **"Introduction"** introduces the subject. It consist of general background, statement of problems, objectives of the study, focus of study, significance of the study, limitation of study and scheme of the study.

The second chapter entitled **"Review of Literature"** concerned with the study of financial performance have been reviews & presented.

The third chapter discussed the **"Research Methodology"** used in the study. It comprises research design, nature & source of data, data gathering method and analytical tools used.

The fourth chapter deals with the **"Presentation & Analysis"** of data & scoring the empirical finding out the study through definite course of research methodology.

The last chapter i.e. **"Summary, major finding, conclusion and recommendation"** of the study, which is followed by the basic conclusion of the study based in the fourth chapter on the basic of these major finding conclusion and recommendation has also been presented for consideration.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature is an essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. Scientific research must be based on past knowledge. The previous studies can not 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.

2.1 Conceptual Review

Banking has a long history. The origin of bank is not a new phenomenon. There was a crude form of banking even in ancient VEDIC era. The terms in banking such as pledges, deposits, rate of interest, loans etc can be found in the ancient Hindu Epic ManuSmriti. Even in 300 B.C. it was in existence in India, China, Arabia, Greece, Persia and Egypt even though the procedures of banking were not organized. On the span of time, it has been expanding. In accordance with the practical testable origin and development banking institution of the world, "The Bank of Venice of Italy" was established in 1157 A.D. as the first banking institution. The second banking institution namely "The Bank of Barcelona of Spain" was established in 1411 A.D. whereas The Bank of England of United Kingdom was established in1694 A.D. as a joint stock bank and later on in 1844 A.D. The Bank Of England became the first central bank in the world.

Nevertheless, some of the basic concepts underlying today's banking system were present in these ancient arrangements, however. A wide range of deposits was accepted, loans were made, and borrowers paid interest to lenders.

Nepal Bank Limited was the first and the only bank to be established in Nepal in 1944 B.S. After that Nepal Rastra Bank was established in 2013 as the central bank of Nepal. Rastriya Banijya Bank was established in 2022 B.S. under full government ownership. In 2031 B.S. government issued a commercial bank act 2031. After the eighties decade, the government of Nepal adopted literal economic policy under which it initiated foreigners to make investment in Nepal.

Various books relating to theoretical aspects of risk and return are taken into consideration.

2.1.1 Investment

Everybody in the world is interested in investment so the world investment sounds very good and attractive. In Layman's sense, there is always a return if there is investment.

"If a bank has certain amount of funds which can be left undisturbed for a number of years, investment in long term government securities becomes profitable proposition". (Radhaswamy; 1979:549)

According to Reilly " Investment is the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for uncertainty involved in the future flow of the funds."(Frank & Reilly; 1992:1)

According to Gitman and Joehnk, "Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generated positive returns."(Gitman & Joehnk; 2000:256)

Shrestha (2002) write investment as utilization of saving for something that is expected to produce profit or benefits.

In general sense; investment means to pay out money to get more. The reward comes later, if at all, and the magnitude is generally uncertain (Sharpe, Alexander & Baily; 2003:1).

F. Amling "Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period."

Dr. Preeti Singh defined investment as "Investment is the employment of funds with the aim of achieving additional income or growth in value."

2.1.2 Financial Performance

Profit is one of the indicators of sound performance. "Profit earned by the firm is the main financial performance indicators of a business enterprise". (Ronald; 1985: 21-22). Business organization wants to generate profit. Profit is the major indicators of a good-financial performance of the company.

"If management is to maximize the value of the firm's stock price, is must analysis the weakness and strength of the firm which is possible from the ratio analysis which help to assess the financial performance in comparing with the firm and other firm. Financial statement analysis involves a comparison of firm's performance with that of other firm in the same line of business. The analysis is used to determine the firm's financial position in order to find out current strengths and weakness and to suggest action that might useful to firm to take advantages to its strength and correction to its weakness" (Weston and Brigham; 1987:44).

"Financial management in broad sense and provides a conceptual and analytical framework for decision making they also covers both acquisitions of funds as well as their allocation of funds to various uses. Their major decision, are investment decisions, financial decisions and the dividend policy decision" (Khan and Jain; 1999:1.16).

"The major functions of financial management are raising funds, investing them in assets and distributing return earned from assets to shareholders, which are respectively known as financing investing and dividend decision. While performing these functions a firm should balance cash outflow and inflow, which is known as liquidity decision" (Pandey; 1999:5).

A powerful and the most tested tool of financial analysis is the ratio analysis. "It is defined as the systematic use of ratio to interpret the financial statement. 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; 1999: 5.13)

"Financial ratios can divide into four type's liquidity ratio, debt ratio, profitability ratio and coverage ratio. These ratios are helpful for managerial control and for a better understanding of what outside suppliers of capital expect in financial condition and performance" (Van Horne; 2002:343).

Ratio analysis is designed to determine the relative strengths and weakness of business operations. Financial planning and control are also provided by ratio analysis. By the help information which is provided by ratio analysis financial managers evaluate the firm's past performance and to map future plans.

A study of financial performance is a basic process by which we get information, liquidity position, earning capacity, efficiency in operation, profitability, sources and uses of capital, financial achievement and company's status. This study mainly focused on financial performance of commercial bank.

2.1.3 Market Efficiency

Market efficiency means that the market price of a security represents the market consensus estimate of the value of the security. If the market is efficient, it uses all information available to it in setting a price.

2.1.4 Investment Environment

Existence of a favorable environment is the pool of take saving into the productive sector. It involves all type of securities.

2.1.5 Investment Decision

Decision is made after the completion of analysis. The general model of decision making is to compare the estimate expected return and estimate requires holding period return. The formula find out the return is as follows.

Expected return $E\,(HPR)_1 = \dfrac{V_1 - P_0 + D_1}{P_6}$

Where, $E\,(HPR)_1$ = Expected holding period return

V_1 = Value at the end over one year

P_0 = Price at the beginning of the year

D_1 = Dividend paid at the end of the year

And, the estimated required rate of return as suggested by CAPM.

$E(r_j) = r_f + b_i[E(r_m) - r_f]$

Where,

$E(r_j)$ = Expected required period return

r_f = Risk free return

b_i = Beta for the stock

$E(r_m)$ = Expected market return

2.2 Reviews from Previous Studies

Reviews of previous studies is essential helpful tools for new research, it helps to find the way of research.

2.2.1 Review of Article

Fama's study (**1965**) on the random walk model was one of the best definitive and comprehensive every study conducted. He observed the daily proportionate prices of 30 individual stocks of the Dow Jones Industrial Average Index (DJIAI) for the period of 1957 to 1962. He employed the statically tools such as serial correlation and runs test to draw inference about depended of the price series. He calculated auto-correlation coefficient for daily changes in log prices for lag from 1 to 30 and found that the coefficient were almost close to zero in overall. The correlation coefficient for daily changes in average was +0.03, which is near to zero. But on the daily price changes, 11 out of 30 stocks had correlation coefficient more than twice their computed standard errors. The coefficient ranged from smallest 0.06 to largest 0.123. However Fama concluded, "Dependence as such a small order of magnitude is, from a practical point of view, probably unimportant for both the statistician and the investor." Fama also calculated serial correlation for lag from 1 to 10 for no-overlapping differencing intervals of four, nine and sixteen days to examine the possibility if price change across longer interval shows dependence. All the results are again not significantly different from zero.

In 1997 International Monetary Fund [IMF], Policy Development and Review Development Division published a working paper entitled "Determinants of Stock Prices: The case of Zimbabwe". The working paper examined the general relationship between stock price and macroeconomic variables in Zimbabwe, using the revised DDM, error-correction model, and multi factor return generating model. Despite the large fluctuation in stock prices since 1991, the analysts indicated that the Zimbabwe Stock Exchange functioned quite constituently during the period. Whereas, sharp increases in the share prices in stock prices during 1993-94 were mainly due to the shift of the risk premium that was caused by partial capital account liberalization, the monetary.

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

Today stock exchange has gained as experience of over a decade. It is now a place where the financial products of 115 companies are traded. These listed companies make a market capitalization in the tune of 45 billions rupees 8.5% of GDP. During this period, a cumulative total of seven hundred thousand shareholders have acquired stock ownership in the listed companies. A broad based initial offer market where more than seven billion rupees were raise contributes the proliferation in the share ownership.

Stock market has grown in the past decade but not to an extent desired. It is still in an early stage and has to grow significantly to play a more meaningful role in the banking dominated financial system. There should be concerted efforts to improve market size, liquidity, concentration and volatility in order to gain the status of a credible market. It has become more relevant to focus on developing a credible market when banking sector is under its way of meaningful reform and pressure for integration to the world and regional markets are mounting. We probably do not have any other better choice than keeping in rhythm with regional prosperity through more investment and service linkages.

There are sufficient reasons to be enthusiastic for the growth of the private sector and subsequently argue in favor of vast potential of the growth of the stock market in Nepal. However, realizing such potentials is possible only when supported by requisite changes in the legal and institutional infrastructure telecom and aviation sector, new mega investment hydro and physical infrastructure projects are likely to come up and absorb huge investment resources. Furthermore, some well performing closely held companies are also showing interest to come to the capital market. These potential investment sectors can play a catalytic role to trigger further market growth.

We believe that the limited fund deployment needs in the domestic market and limited investment avenues are temporary phenomena that will get rectified as the economy becomes confident to come out from the prevailing conflict situation.

Some basic reforms in the capital markets are already taking shape in Nepal. Effective regulation of products and intermediaries, appropriate regulation with effective enforcement, market operations and transparent standards are some of the key reform agendas. Further the infrastructural developments including information dissemination and order routing mechanism, trading by stem linkages and settlement and clearing arrangement fundamental to a well functioning market have been visualized.

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

The capital market in Nepal. "A number of studies have been conducted on the stock market behavior in developed and big capital markets but their relevance is yet to be seen in the context of smaller and underdeveloped capital markets."**(Dr. R.S. Pradhan)**

As per the book, the stock market behavior in smaller and underdeveloped capital markets is thus one of the important areas of the study in finance.

In Nepal, the listing of shares in stock exchange center (SEC) and their trading in the stock market is a recent phenomenon. Low trading volume, absence of professional brokers, early stage of growth, limited movement of share prices, and limited information available to investors characterize the Nepalese stock market. A number of researchers are available on government owned public enterprises but researches on enterprises whose stocks are listed in SEC and traded in stock market are yet to come up in Nepal. Viewed in this way, this chapter is expected to provide at least some insights info stock price behavior in Nepal.

Poudel, N. P. (1996) in his article "*Financial Statement Analysis: An Approach to Evaluate Bank's Performance*" published in NRB Samachar said that the balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss 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 accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans/advances and investments and paid on deposits are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial 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 decisions. The disclosure requirement of the bank's financial statement has been expressly laid down in the concerned act. Commercial Bank Act 2031 B.S. requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

The article "Joint Venture Banks in Nepal Co-Existing and Crowding Out" Mr. (**Sharma** ,**1998**). published in PRASHAN yearly on 1998 volume 35 said that, it would be definitely be unwise for Nepal not to let the JVBs to operate in the country and not to take advantages of them as additional means of resources mobilization as well as harbinger of new era in banking. But it will certainly be unfortunate for the country to develop the JVB s. And the most of the cost of the domestic banks .so far, one should admit frankly, no different treatment has been extended to the domestic and JVB s; at least from the government side, which is commendable. If HMG keeps on the stance of treating the domestic and JVB s; equally deposit the leathers bargaining strength and the JVBs also show their alacrity to come forward to share the trials and the tribulations of this poor country. Both type of banks will coalesce and co-exists, complimenting each other and contributing for the nations accelerate developments.

Another article "Psychological Pressure for Willful Defaulters" published in "Business Age International" of January 2005 said that maintaining the health of the financial sector is the first priority of the government, as crisis in the sector will push the country decades back and increase poverty. It has been said that the central bank would stand strong, against willful defaulters who cite circumstantial reasons for their failure in settling loans, but does not compromise on other aspects of business and livelihood. The bad practice of top Nepali business firms for not repaying loans to the banks has created hurdles in the healthy and free growth of the financial sector. It is the responsibility of the government to strictly discourage such unhealthy practices to safeguard the entire financial sector from any mishaps.

In order to check the growing non-performing asset problems of commercial banks and financial institutions and to maintain the financial health of these institutions by preventing risky investments, RBB on September 18, 2003 issued several directives tightening its earlier blacklisting procedures. As per the new provisions: All financial institutions are required to disclose the name of the loan defaulters every six months; financial institutions have been barred from lending any amount to the blacklisted defaulter or any of his family members. Credit Information Bureau (CIB) can blacklist the firm, company, or an individual who fails to clear the debt within the stipulated period. If they fail to clear the debt amount in time, or is found misusing the loans, among others, the creditor can be blacklisted. The proprietor along with the proprietorship firms, and partners would also be blacklisted. Furthermore, the shareholders holding 10% or more shares would also be blacklisted, if the public limited company fails to clear the dues.

During the recently held meeting of the World Bank and the International Monetary Fund, the donor community has strongly raised the issue of slow pace of loan recovery by the defaulters of the bank. Consequently, the government has vowed to take harsh measures, which includes seizing the passports of willful defaulters, if the concerned line institutions make formal request through the NRB essential to recover loans from defaulters to ensure the success of financial sector reforms. Due to the tendency of non-repayment for loans, the risk of taking the provision has increased thereby lessening the possibility of reducing the interest rate between deposit and lending. Taking into consideration these adversities, Debt Recovery Act, Debt Recovery Tribunal and the Umbrella Act related with banking have been in operation.

2.2.2 Review from Thesis

It has found that there are no more studies performed in this topic. However, there are some which is related to this conducted for the partial fulfillment of Master's Degree in Tribhuvan University.

"The General Behavior of stock market prices", the main objectives of this study were to the movement of stock market prices and develop the empirical probability distribution of successive price change of an individual common stock and a stock market as a whole. This study is based on secondary information obtained from Nepal Stock Exchange. Has applied run test as statically tools to analyze the data and get results. The study conducted that the assumption of independence, as predicted by random walk model of security price behavior, has been refuted at least for Nepalese context as the first approximation even in the rough way for curly days of stock market operation. This rejection of hypothesis made clear that the knowledge of past and now become useful in predicting the future movements of stock market prices. The investors, on the floor of stock exchanges for security, can make higher expected price in the future based on these historical price series. In other words, the dependence nature of price series produced by general market fluctuation statistically implied, today's price change is positively depending upon yesterday price change. This implied that there is a sufficient lack of financial and market analysis who are sophisticate and superior in analyzing the general market fluctuations, predicting the occurrence of future potential and economic events that their eventual affects on price series."(**Aryal M. (1995))**

A research on **"Financial Performance and Common Stock Pricing".** The main objectives of this research were;

- To study and examine the difference of financial performance and stock prices.
- To examine the relationship of dividends and stock price.
- To explore the signaling effects in stock price.

Nepalese stock market is in infancy stage; in general it is very new and just started to develop. Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging. Corporate firm with long history have a relatively stable profitability parameters that the firm established after the economic liberalization of 1990. Older firms have been issuing bonus share more times than the new one. Dividend per share is relatively more stable than the dividend payout ratio. That's why payout ratio and dividend yields have been highly fluctuating. Due to lack of proper investment opportunity most of the investors have directed their saving towards the secondary stock market. There is significant positive correlation between the dividends paid and stocks prices of banking and manufacturing industries. All other industries have not a perfect correlation between the dividends paid and stock prices. There is a positive correlation between the net worth per share and stock prices of banking, airline and hotel industries, there is no perfect correlation between the net worth per share and common stock price."**(Ojha K.P. (2000))**

A study on **"A Comparative Study on Financial Performance of Nepal SBI bank ltd & Nepal Bangladesh bank Ltd."** with the following objectives.

- to highlight various aspects of relating to financial performance of Nepal Bangladesh bank and Nepal SBI bank ltd for a period of 1996/97 to 2000/01
- to analyze financial performance through the use of appropriate financial tools
- to show the cause of change in cash position of the two banks

Through her research she has presented the following findings of the study:

The analysis of liquidity position of these commercial banks shows different position here, the average current ratio of NSBI is great than that of NBB. Therefore, the liquidity position of SBI is in normal position.

The turnover of the commercial banks is the main indication of income generating activities. These ratios are used to judge how efficiently the firm is using its resources. From the analysis of turnover of these two banks, NBB has better turnover than SBI in terms of loans and advances to total deposit ratio. Thus NBB has better utilization of resources income generating activities than SBI bank; which definitely lead the bank to increase in income and thus making an increment profit for the organization. Despite the fluctuating trend in the ratio of cash and bank balance to total deposit SBI bank is more efficient than NBB in cash management i.e. it is more able to keep more cash balance against its various deposits.

The analysis of profitability of these two commercial banks is also different. The overall calculation seems to be better for NBB. Though certain ratios like dividend per share, dividend pay out ratio etc are better for SBI bank. From the calculation, NBB seems to tackle their investors more efficiently.

Going through net profit to total deposit ratio, it can be said that NBB seems to be more successful in mobilizing its customers saving in much more productive sectors. NBB has slightly riskier debt financing position in comparison to SBI bank. **(Joshi A. (2002))**

A research on **"Risk and Return on common stock investment of commercial bank in Nepal".** In this research paper he would apply the five-year data from 1997 to 2002. Upadhaya focused on; In general, most people see stock market investment as a black art that they know little about. Many people have unrealistically optimistic a pessimistic expectations. As overall economy Nepalese stock market is in emerging state. Its development is accelerating since the political charge in 1990 in effect of openness and other part if the stock market is influence due to the Mousiest problem faced by the county. And other But due to the lack of information and poor knowledge, Nepalese individual investor cannot analyze the securities as well as market properly." Upadhaya, Sudeep, risk return on common stock investment of commercial bank in Nepal. **(Upadhaya S.(2002)** *)*

In the research, **"A Study on Financial Performance Analysis of Nepal Bank Limited"** that, the NBL has not maintained a balanced ratio among its deposit liabilities during the second period of the study. As compared the second period with the first period, the bank is seemed to be unable to utilize its high cost resources in high yielding investment portfolio. During both the periods there are negative operating profit for two years. But both the years of the first period enjoyed positive net profits due to the non-operating incomes. Hence, there is a demarcation between operational and non – operational activities of the bank and performance and result of the first period shows that the bank is more inclined towards non-operating activities. Furthermore, the liquidity position of the bank is also not satisfactory during both periods. It is even worse during the second period. Various current ratios have fluctuated during both the periods .it shows lack of specific policy of holding various types of current assets. Thus it can be said that the financial position of the NBL is worse during the second period due to its inefficiency in risk management .the overall financial position on the bank is unsatisfactory during the both periods. (**Luintel N.K. (2003))**

A study on; **"A Comparative Analysis of Financial Performance of the Selected Joint Venture Banks"** had set the following objectives.

- To examine the comparative financial strengths and weakness of the selected JVBs.

- To highlight various aspects relating to financial performance of these JVBs for last five years.

The major findings of the study were as follows:

Analysis of liquidity ratio indicates better liquidity position of the NB bank. Although liquidity position of NBL and NABIL are lower, they are still able to meet their current obligation.

Analysis of leverage or capital structure ratio indicates that long-term debt to net worth ratio of NB bank is the highest and NABIL is the lowest. JVBs are extremely leveraged. Total debt to net worth and total asset ratio of HBL is the highest and that of NABIL has relatively lower leverage.

Return on investment, interest earned to total assets ratio and commission and discount earned to personnel expenses ratio of NB bank is higher than NABIL bank and HBL, while return on shareholder's equity is higher in HBL and interest income to interest expense ratio is higher in NABIL bank.

The valuation ratios used for analysis showed the following results .the PE ratio and DPR of NABIL bank is the highest and HBL is the second highest, while the MVPS to BVPS ratio of HBL is the highest and NB is the lowest. Operating profit of NABIL is higher than that of HBL and NB bank. NABIL's operating profit is 42.62% of its operating income, HBL is 33.51% and NB bank is 33.86% only. **(Shrestha B.(2003))**

CHAPTER – III

RESEARCH METHODOLOGY

This is the most sensitive part of the research and the base on which our conclusion was drawn is included. The first part of this chapter relates to the research design, where as in the second part describes the population and sample. The sources and types of data and technique applied for the collection of data are placed on third and fourth part of the chapter. The most significant aspect of the chapter, which in depth has analyzed the data analysis tool used in the research, has been included in the fifth part. Limitation of the methodology has been revealed at the end of this chapter.

3.1 Research Design

Research design in the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, the paradigm of the operation of the variables. When we draw diagrams that outline the variable and their relation and just a position, we build structural schemes for accomplishing operational research purposes. Strategy, as used here, is also more specific than plan. In other words, strategy implies how the research objectives will be reach and how the problems encountered in the research will be tackled.

The method and definite technique, which guides to study and give ways to perform research wok is known as research design. It is most necessary to complete the research and fulfill the objective of the research.

By research design we mean an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically speaking, research design describes the general plan for collecting, analyzing and evaluating data after identifying what the researcher wants to know and what has to be dealt with in order to obtain the required information. The research design is an organized approach and not a collection of loose, unrelated parts.

First of all information and data are collected. The important information and data are selected. Then data is arranged in useful manner. After that, data are analyzed by using appropriate financial and statistical tools. In analysis part, interpretation and comments are also made wherever necessary. Result and conclusion are given after analysis of data, recommendation and suggestion is also given. The main objective of research work is to evaluate the financial performance of the selected banks.

3.2 Population and Sample

This study has been limited to the commercial banking sector, Population of this study includes all listed commercial banks in NEPSE. At present, Total no. of financial institution listed in the stock exchange is 98 and 25 of them are banks. They (financial institution) have only been considered as population for the study, On the basis of establishment period and performances, samples are taken. The sampled commercial banks included in the study are:

1. Nepal SBI Bank Ltd.
2. NIC Bank Ltd.

3.3 Nature and Sources of Data

This study mainly based on secondary data of the concerned banks, Nepal Rastra Bank and SEBO are the providers of the data. The review of literature of the proposed study was based on the text books, official publications, journals, unpublished thesis, web site etc. The necessary data and information at macro level have been collected from relevant institutions and authorities such as NRB Ministry of Finance, NEPSE, SEBO and their respective publications similarly the required micro level data derived from annual reports of selected banks, SEBO and NEPSE. The major sources of data and information for the financial and statistical calculation are as follows;

Annual Reports of Concern Commercial Banks (from 2005/06 to 2009/10)

Annual Report of SEBO Nepal

Journal of Finance

Previous research studies and articles on the subjects

Different Library

Different Website Related to study

3.4 Methods of Analysis

To achieve the objective of the study, various financial and statistical tools have been used. The financial tools are as: liquidity ratio, profitability ratio, assets management, growth ratio and trend analysis analytical similarly statistical tools are as: Mean, Standard deviation, coefficient of variance, percentage, Karl Pearson's coefficient of correlation and regression analysis.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

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

4.1 Analysis of financial performance using Financial Tools

Financial analysis is the process of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used any with the help of it, data can be analyzed.

Various financial ratios related to the financial management and the fund mobilization are presented and discussed to evaluate and analyze the performance of two banks NSBI and NIC. Some important financial ratios are only calculated from the point of view of the fund mobilization and financial analysis. The ratio's are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. All these calculations are based on financial statements of concerned Banks. The important and needed financial ratios, which are to be calculated for the purpose of these studies, are mentioned below.

- Liquidity Ratio
- Asset Management Ratio
- Profitability Ratio
- Risk Ratio
- Growth Ratio

4.1.1 Liquidity Ratio

Raito analysis express quantitative relation of two mathematical variables as it is a financial tool. Ratio is taken to judge an accounting figure in relation to the other accounting balances. There are different types of ratios used to measure a firm's financial position. Liquidity ratio presents liquidity position of a firm. Liquidity position is calculated taking relation to the different portfolios of the firm. It may vary based on nature of business. In this study following ratios are mentioned of the concerned financial institutions.

i) Current Ratio

Current ratio measures short term liabilities maturing before one year. This is a broad measurement tool to analyze liquidity position of a financial institution. It indicates Bank’s ability to discharge current obligation. The ratio is obtained by dividing current assets by current liabilities.

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

Table No. 4.1

Current Ratio (Times)

Fiscal Years	NSBL	NIC
2005/06	1.075	1.087
2006/07	1.084	1.070
2007/08	1.081	1.066
2008/09	1.047	1.075
2009/10	1.051	1.082
Mean	**1.0676**	**1.08037**
S.D.	**.01734**	**.00732**
C.V.	**16.24%**	**.677%**

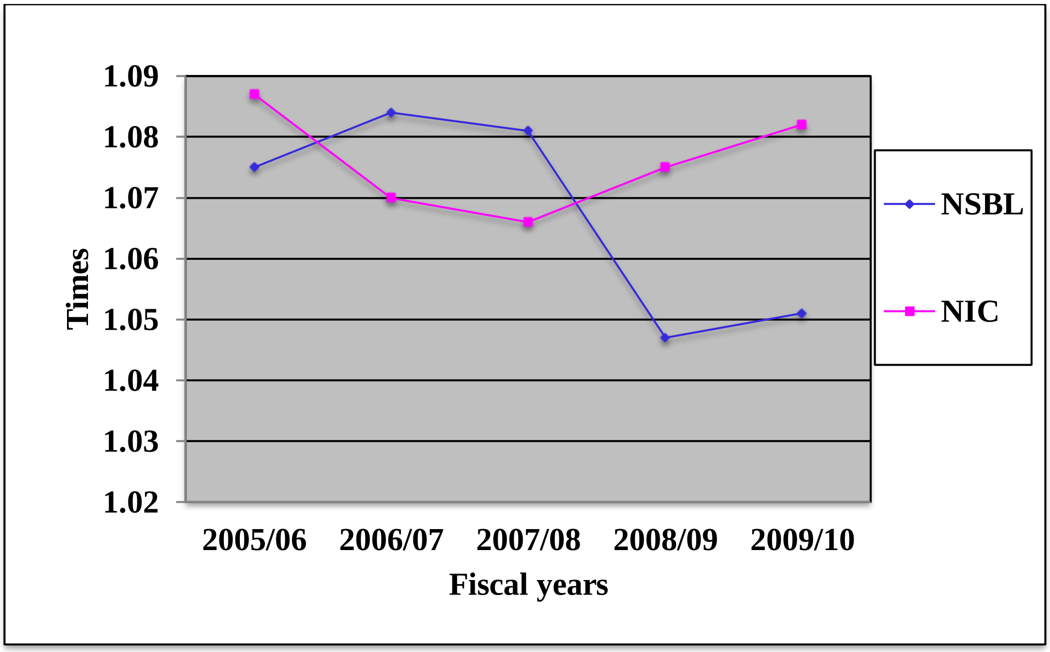
Sources: Appendix No. 1 (i)

It is clear from the above table that NIC have more current ratio then that of NSBL. So it is conclude that NIC is better capable enough to pay their current obligations. NIC has the highest current ratio in F/Y 2005/6 i.e., 1.087 and the lowest in F/Y 2007/2008 i.e., 1.066.

Similarly NSBL has a high current ratio of 1.084 in F/Y 2006/2007 and a low of1.047 in F/Y 2008/2009. The averages mean ratio of NIC is slightly higher than NSBL; i.e. 1.08037 >1.0676. This shows that NIC liquidity position is better than that of NSBL. The lower degree of standard deviation and coefficient of variation suggest that both the banks have maintained consistency in their ratios. Though as per the conventional rule current ratio should be 2:1 but for banks any current ratio above 1 also considered healthy and sound.

Figure No. 4.1

Current Ratio



From 4.1 shows the trend line of NSBL which is in increasing trend 2005/06-2006/07 after that the trend line of NSBL is in decreasing trend. In case of NIC the trend line of NIC is in decreasing trend line up to 2007/08 after that increasing trend line of NIC.

ii) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank balance consist of cash on hand, foreign currencies, cheques as well as other cash items and balance with domestic Banks. This ratio measures the availability of Banks highly liquid or immediate funds to meet it unanticipated calls on all types of deposits. This ratio is calculated as:

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

As higher ratio indicates the higher ability to meet their deposits and vice versa. The following table shows the cash and Bank balance to total deposit ratio of two banks.

Table No. 4.2

Cash and Bank Balance to Total Deposit Ratio

Fiscal Years	NSBL	NIC
2005/06	10.16	8.546
2006/07	9.81	5.35
2007/08	9.79	9.11
2008/09	4.21	9.2
2009/10	9.86	13.063
Mean	**8.77**	**9.18**
S.D.	**2.55**	**2.54**
C.V.	**29.31%**	**25.91%**

Sources: Appendix No. 1 (ii)

The above table shows that the cash and bank balance to total deposit of NIC is higher than NSBL i.e., 9.18%>8.77%. Both banks are is in fluctuating trend &NIC has Increasing trend from 2007/08 in study period. NSBL had a high ratio of 10.16% in F/Y 2005/2006 and a low ratio of 4.21% in F/Y 2008/2009. Similarly, NIC has a high of 13.063% in F/Y 2009/2010 and a low of 5.85% in F/Y 2006/2007. This shows, NIC readiness to meet customer requirement better than NSBL. The C.V. of NIC is lower than that of NSBL i.e., 25.91% < 29.31%. On its basis, it can be concluded that NIC ratios are more consistent than that of NSBL.

Figure No. 4.2

Cash and Bank Balance to Total Deposit

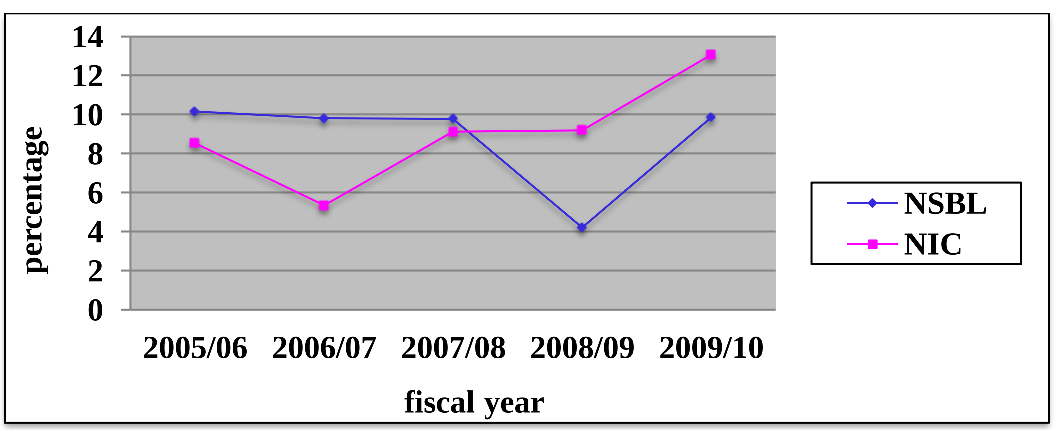


Figure 4.2 shows the graph line of NSBL is in decreasing up to 2008/09 after that increasing line. In case of NIC the graph line of NIC is in decreasing line up to 2006/07 after that increasing line upwards.

Although the above ratios implies a little better liquidity position of NIC, a high ratio of non-earning cash and bank balance indicates the banks unavailability to invest its fund in income generation areas that might have helped it to improve its profitability.

iii) Cash and Bank Balance to Current Assets Ratio

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

This ratio is calculated by dividing cash and bank balance to current assets:

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and bank balance}}{\text{Current assets}}$$

Table No. 4.3

Cash & Bank Balance to Current Assets Ratio (%)

Fiscal Years	NSBL	**NIC**
2005/06	8.79	7.316
2006/07	8.25	5.305
2007/08	7.79	7.987
2008/09	3.97	8.043
2009/10	9.24	10.50
Mean	**7.608**	**7.83**
S.D.	**2.106**	**1.86**
C.V.	**27.68%**	**23.76%**

Sources: Appendix No. 1 (iii)

The above table shows that the mean ratio of cash and bank balance to current assets of NIC is slightly higher than NSBL i.e., 7.83 %>7.608%. Both banks are in fluctuating trend during the study period. NSBL has maintained a high ratio of 9.24% in F/Y 2009/10, and a low ratio of 3.97% in 2008/2009. Similarly, NIC has a high of 10.50% in F/Y 2009/10 anticipating higher cash requirement depositors in this F/Y. It has a low ratio of 5.305% in F/Y2006/07.

The C.V. of NIC Bank is lower than that of NSBL i.e. 23.76 %< 27.68. It shows NIC ratios are more consistent than that of NSBL. Both have fared well in meeting their depositor's daily cash demand and investing the surplus fund in other productive areas.

Figure No. 4.3

Cash and Bank Balance to Current Assets Ratio

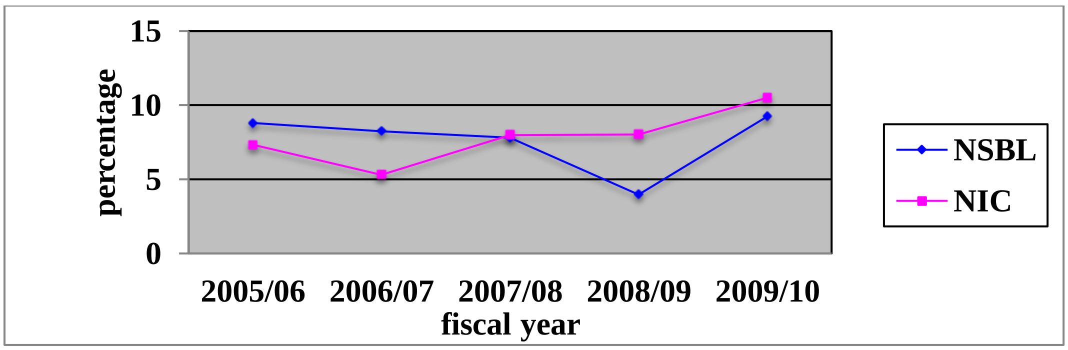


Figure 4.3 shows the graph line of NSBL is in decreasing up to 2008/09 after that increasing trend line. In case of NIC the graph line of NIC is in decreasing line up to 2006/07 after that increasing line upwards.

iv) Investment on Government Securities to Current Assets Ratio (%)

This ratio examines that portion of commercial banks current assets, which invested on different government securities. Each commercial bank is interested to invest their collected fund on different types of securities issued by government in different times to utilize their excess funds and for other purpose. Though government securities are not as liquid as cash balance of a commercial bank, which can be easily sold in the market or they can be converted into cash in other ways.

This ratio shows that out of total current assets, how much percentage of it has been occupied by the investment on government securities by total current assets.

$$\text{Investment on government securities} = \frac{\text{Investment on government securities}}{\text{Total current assets}}$$

Table No. 4.4

Investment on Government Securities to Current Assets Ratio

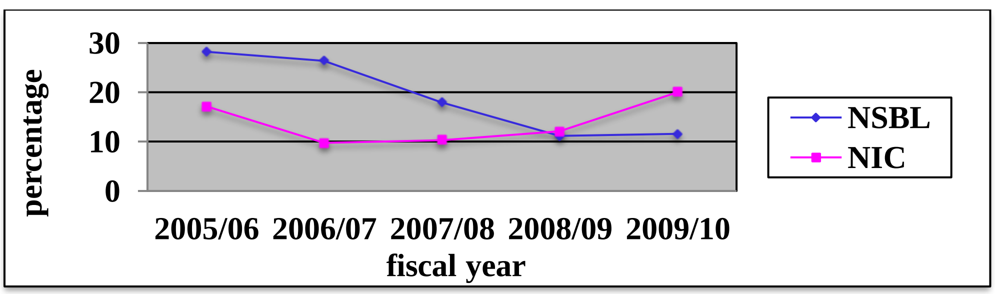
Fiscal Years	NSBL	**NIC**
2005/06	28.23	17.15
2006/07	26.42	9.76
2007/08	18.01	10.35
2008/09	11.17	12.08
2009/10	11.56	20.029
Mean	**19.08**	**13.87**
S.D.	**8.02**	**4.5**
C.V.	**42.03%**	**32.44%**

Sources: Appendix No. 1 (iv)

The above table clearly depicts that the mean ratio of investment on government securities to current assets of NSBL is higher than NIC i.e.19.08>13.87. From the point of view of C.V. NIC Bank ratios have been more consistent.

Figure No. 4.4

Investment on Government Securities to Current Assets Ratio



From the above five year Figure 4.4, the graph line of NSBL is in decreasing line & NIC is in fluctuating graph line. It is evident that NSBL is better than NIC. The reason behind NSBL higher ratio could be attributed to more deposit collection and unavailability of other secured and profitable investment sectors.

4.1.2 Asset Management Ratio

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

i) Loan and Advances to Total Deposit Ratio

This ratio helps us showing the relationship between loans and advances which are granted and the total deposited collected by the bank. A high ratio indicates better mobilization of collected deposit and vice-versa. But too high ratio may not be better from liquidity point of view. This ratio is calculated dividing loan and advances by total deposits.

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

Table No. 4.5

Loan & Advances to Total Deposit Ratio

Fiscal Years	NSBL	**NIC**
2005/06	69.32	75.92
2006/07	82.65	88.88
2007/08	88.31	86.09
2008/09	54.12	86.14
2009/10	50.09	79.72
Mean	**68.89**	**83.35**
S.D.	**16.86**	**5.34**
C.V.	**24.44%**	**6.40%**

Sources: Appendix No. 1 (v)

The above table shows that the mean ratio of loan and advances to total deposit of NIC is higher than NSBL i.e.83.35>68.89. C.V of NIC is less than NSBL so the loan & advance to total deposit of NSBL is more consistent than NIC. NSBL had a high ratio of 88.31% in F/Y 2007/08 and a low ratio of 50.09% in F/Y 2009/10. Accordingly, NIC had a high of 88.88% and a low of 75.92%. NIC seems to be strong in terms of mobilization of its total deposits as loan and advances than that of NSBL.

Figure No. 4.5

Loan and Advances to Total Deposit Ratio

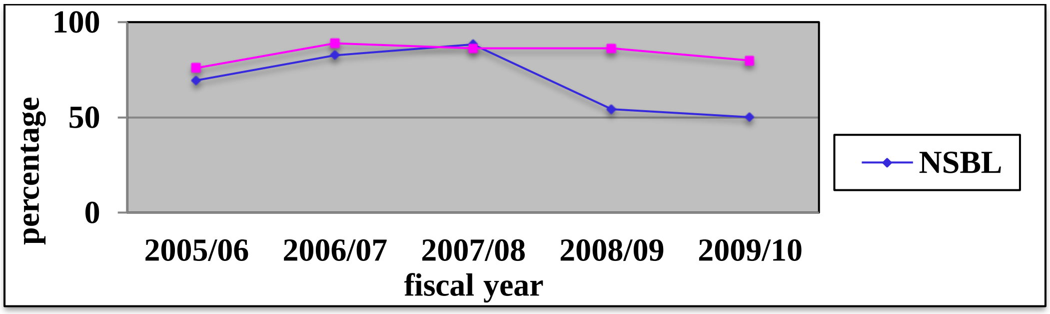


Figure 4.5 shows both the banks have a fluctuating graph line but NSBL seems to be more fluctuating trend than NIC.

ii) Total Investment to Total Deposit Ratio

A commercial bank may mobilize its deposit by investment its fund in different securities issued by government and other financial or non-financial companies. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice-versa. Total investment includes investment on government securities, priority deprive sector, loan to industries and business houses, personal loans etc.

This ratio is calculated dividing total investment by total deposits.

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

Table No. 4.6

Total Investment to Total Deposit Ratio

Fiscal Years	NSBL	**NIC**
2005/06	32.82	28.29
2006/07	23.23	15.88
2007/08	22.52	17.66
2008/09	47.52	19.05
2009/10	46.72	30.97
Mean	**34.56**	**22.37**
S.D.	**12.16**	**6.78**
C.V.	**35,18%**	**30.31%**

Sources: Appendix No. 1 (vi)

The above table shows the mean ratio of total investment to total deposit of NSBL is higher than NIC i.e.34.56>22.37. NSBL has a high ratio of 47.52% and a low ratio of 22.52% in F/Y 2008/09 and 2007/08 On the other hand NIC had a high ratio of 30.97% and a low ratio of 15.88% in F/Y2009/10 and 2006/07 respectively. From C.V. viewpoint, NIC is more consistent than NSBL. In conclusion, the above analysis reveals that NSBL has been more successful in mobilizing its resources on various forms of investment.

Figure No. 4.6

Total Investment to Total Deposit Ratio

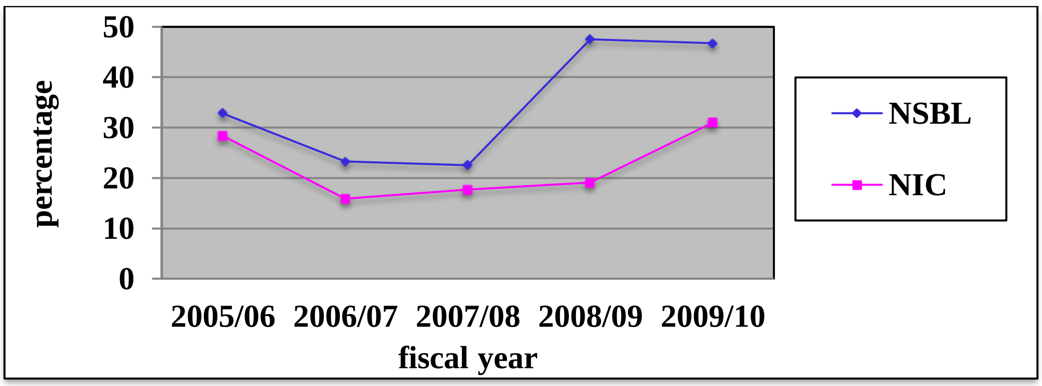


Figure 4.6 shows both banks have highly fluctuating trend in total Investment to total deposit. NSBL has been more successful in mobilization of deposits on various forms of investment.

iii) Loan and Advances to Fixed Deposit Ratio

A high ratio indicates a better mobilization of fund as loan & advances and vice-versa. To see the relationship between loan & advances to fixed deposit, this ratio is computed dividing loan and advances to fixed deposit and the formula is as follows;

$$\text{Loan and advance to Fixed Deposit ratio} = \frac{\text{Loan and advances}}{\text{Fixed Deposit}}$$

Table No. 4.7

Loan & Advances to Fixed Deposit Ratio

Fiscal Years	NSBL	**NIC**
2005/06	1.24	1.63
2006/07	1.71	2.19

2007/08	1.76	1.91
2008/09	.868	1.8
2009/10	.7892	1.68
Mean	**1.27**	**1.842**
S.D.	**.455**	**.223**
C.V.	**35.82%**	**12.10%**

Sources: Appendix No. 1 (vii)

The above table shows the mean ratio of NIC is higher than NSBL i.e.1.842>1.27. It reveals the strength of NIC Bank in mobilizing its total assets as loan and advances. In term of consistency NIC is more consistent than NSBL. NSBL has maintained highest ratio of 1,76% in F/Y 2007/08 and a low ratio of .7892% in F/Y 2009/10. Similarly, NIC has maintained a high ratio of 2.19% in F/Y 2006/07 and a low ratio of 1.63% in F/Y 2005/06.

Figure No. 4.7

Loan and Advances to Fixed Deposit Ratio

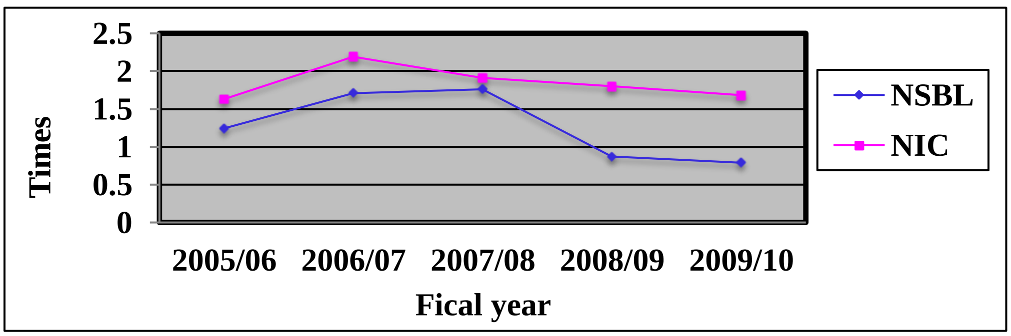


Figure 4.7 show both banks have fluctuating trend of loan and advances to fixed deposit.

iv) Loan and Advance to Saving Deposit Ratio

Loan and advances are also included in the current assets of commercial bank because generally they provide short-term loan, advance, overdraft, and cash credit. The ratio can be computed in following way;

$$\text{Loan and advance to Saving Deposit ratio} = \frac{\text{Loan and Advances}}{\text{Saving Deposit}}$$

If sufficient loan and advances cannot be granted, it should pay interest on those unutilized deposit funds and may lose some earning. But high loan and advances may also be harmful to keep the bank in most liquid position because they can only be collected at the time of maturity only.

Table No. 4.8

Loan and Advance to Saving Deposit Ratio

Fiscal Years	**NSBL**	**NIC**
2005/06	2.69	1.75
2006/07	2.88	2.68
2007/08	2.90	3.07
2008/09	2.59	3.42
2009/10	2.37	3.42
Mean	**2.478**	**2.86**
S.D.	**.156**	**.69**
C.V.	**6.29%**	**24,12%**

Sources: Appendix No. 1 (viii)

The above table clearly shows the average mean ratio of NIC is slightly higher than NSBL i.e. 2.86%>2.478%. NIC has experienced an increasing trend of loan and advances up to F/Y 2009/2010. NIC had a high ratio of 3.42% in 2008/09 & in 2009/2010 and a low ratio of 1.75% in F/Y 2005/2006. Similarly NSBL has experienced a high ratio of 2.88% in F/Y 2006/2007 and a low of 2.37% in F/Y 2009/2010.

Figure No. 4.8

Loan and Advance to Saving Deposit Ratio

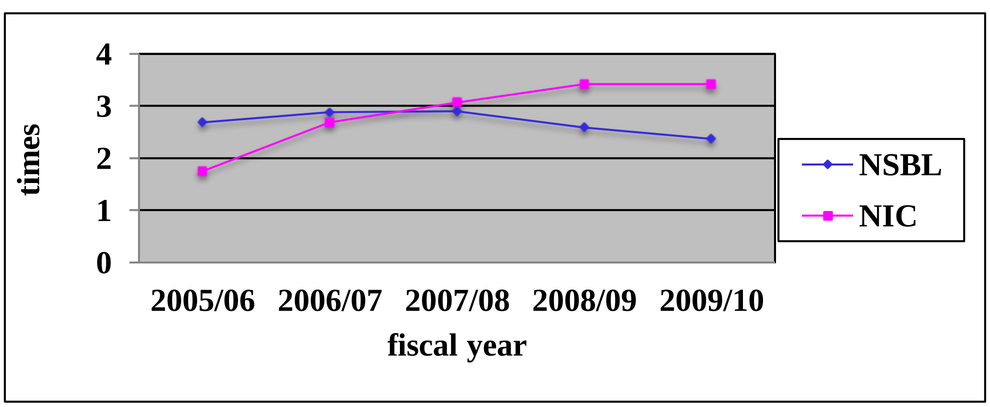


Figure 4.8 shows NSBL is in fluctuating trend and NIC has increasing trend during the study period. The above analysis reveals that NIC has been more successful in identifying profitable investment sectors and increasing its earning.

v) Fixed Deposit to Total Deposit Ratio

It is the ratio, which shows the percentage of fixed deposit on total deposit. This ratio shows the percentage of total deposit, which bears cost at a fixed rate and calculated by dividing fixed deposit by total deposit ratio for the entire period of the study.

$$\text{Fixed Deposit to Total Deposit Ratio} = \frac{\text{Fixed Deposit}}{\text{Total Deposit}}$$

Table No. 4.9

Fixed Deposit to Total Deposit Ratio

Fiscal Years	**NSBL**	**NIC**
2005/06	55.59	46.36
2006/07	48.20	40.46
2007/08	49.97	44.90
2008/09	62.37	47.93
2009/10	63.47	47.30
Mean	**55.92**	**45.35**
S.D.	**6.95**	**2.94**
C.V.	**12.42%**	**6.48%**

Sources: Appendix No. 1 (ix)

Above table shows that NSBL has a higher fixed deposit to total deposit ratio than NIC. The average fixed deposit to total deposit ratios of NIC and NSBL are 55.92 and 45.35. It clearly states that NSBL has the maximum fixed charge bearing deposit than NIC.

Figure No. 4.9

Fixed Deposit to Total Deposit Ratio

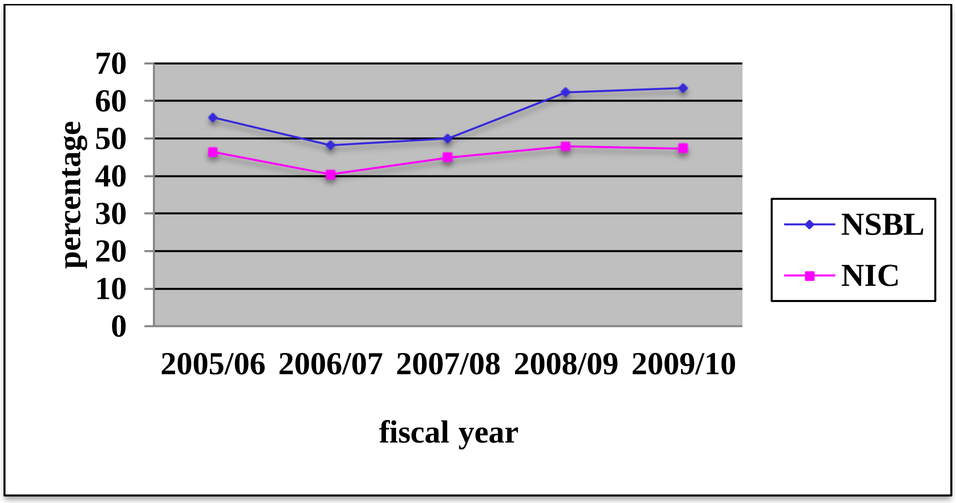


Figure 4.9 shows the graph line of fixed deposit to total deposit is in fluctuating trend.

vi) Saving Deposit to Total Deposit Ratio

It is the ratio which shows the proportion of saving deposit on total deposit. This ratio shows the proportion of total deposit which bears cost at a saving rate and calculated by dividing saving deposit by total deposit ratio for the entire period of the study.

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

Table No. 4.10

Saving Deposit to Total Deposit Ratio

Fiscal Years	NSBL	NIC
2005/06	25.746	43.32
2006/07	28.61	33.16
2007/08	30.41	28.13
2008/09	20.825	25.14
2009/10	21.059	23.26
Mean	**25.33**	**30.60**
S.D.	**4.34**	**8.033**
C.V.	**17.13%**	**26.25%**

Sources: Appendix No. 1 (x)

Above table shows the amount of saving deposit to total deposit and their ratios of NSBL and NIC along with their average standard deviation and C.V of ratios. NIC has a higher saving deposit to total deposit ratio than NSBL i.e.30.60>25.33. It clearly states that NIC has the maximum saving charge bearing deposit than NSBL. From viewpoint of cost minimizing more is not favorable other hand, from viewpoint of liquidity greater portion of saving deposit may be termed as favorable one.

Figure No. 4.10

Saving Deposit to Total Deposit Ratio

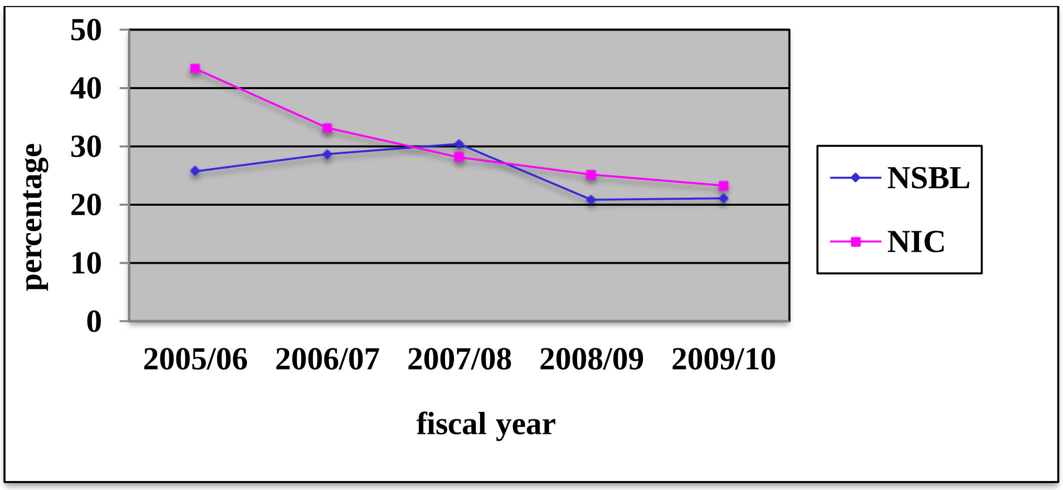


Figure 4.10 shows NSBL graph line is fluctuating and decreasing & NIC graph line is also decreasing trend.

4.1.3 Profitability Ratios

The main objective of commercial bank is to earn profit by providing different types of banking services to its customers. The profitability ratios are the best indicators of overall efficiency. Here, mainly those major ratios are presented and analyzed, through which the effort has been made to measure the profit earning capacity.

i) Return on Total Working Fund Ratio

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

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit}}{\text{Total working funds}}$$

Table No. 4.11

Return on Total Working Fund Ratio (%)

Fiscal Years	NSBL	NIC
2005/06	2.424	0.88
2006/07	2.27	1.02
2007/08	2.46	1.06
2008/09	2.55	1.5
2009/10	2.42	1.43
Mean	**2.42**	**1.18**
S.D.	**0.10**	**0.27**
C.V.	**4.17%**	**23.05%**

Sources: Appendix No. 1 (xi)

The above table reveals that the ratio of return on total working fund of NSBL has a high mean ratio than NIC i.e., 2.42>1.18. It reveals that NSBL has been able to earn high profit on total working fund in comparison to NIC. C.V of NSBL is lower than NIC. NSBL is more consistent then NIC. NSBL has had a high ratio 2.55% in F/Y 2008/09 and a low ratio of 2.27% in F/Y 2006/07. Similarly, NIC has had a high of 1.50% and a low of 0.88% in F/Y 2008/09 and 2005/06 respectively.

Figure No. 4.11

Return on Total Working Fund Ratio

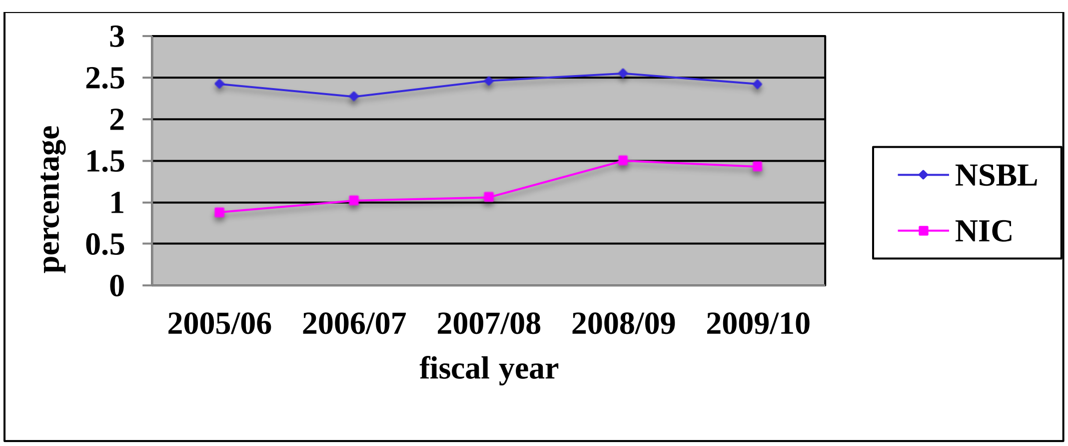


Figure 4.11 shows that both banks have been in fluctuating graph line.

ii) Total Interested Earned to Total outside Assets Ratio

This ratio shows the relationship between interests earned amount and total outside assets borrowed by the bank. This ratio is calculated as follows;

$$\text{Total Interest Earned to Total Outside Assets Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Outside Assets}}$$

Table No. 4.12

Total Interest Earned to Total outside Assets Ratio (%)

Fiscal Years	NSBL	NIC
2005/06	11.6	5.71
2006/07	6.4	5.61
2007/08	6.7	5.75
2008/09	15.9	6.1
2009/10	12.9	6.0
Mean	**10.7**	**5.85**
S.D.	**4.08**	**0.23**
C.V.	**53.69%**	**3.93%**

Sources: Appendix No. 1 (xii)

The above table shows that the of mean ratio of total interest earned to total outside assets of NSBL is higher ratio than NIC i.e. 10.07%>5.85%. The C.V. of NIC is too lower than NSBL i.e. 3.93 %< 53.69%. This indicates that NIC ratios are more stable than NSBL. NSBL has recorded a high ratio of 15.90% in F/Y 2008/09 and a low ratio of 6.4% in F/Y 2006/07. NIC has had a high ratio of 6.10% in FY 2008/09 and a low ratio of 5.61% in F/Y 2006/07.

Figure No. 4.12

Total Interest Earned to Total outside Assets Ratio

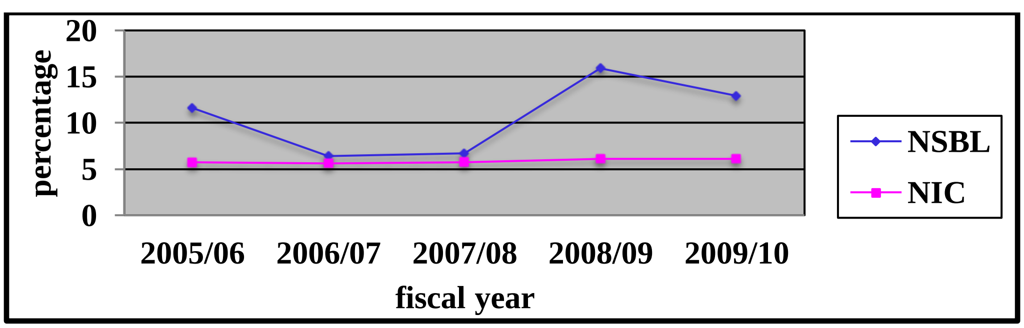


Figure 4.12 reflects a fluctuated trend in Interest earned to total outside assets in case of NSBL and NIC during the study period. It is clear that NSBL has earned higher amount of interest on its outside assets in comparison to NIC.

iii) Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiency of the banks has utilized their resources to earn good return from provided loan and advances. It can be mentioned as:

$$\text{Return on Loan \& Advances Ratio} = \frac{\text{Net profit}}{\text{Loan \& Advances}}$$

Table No. 4.13

Return on Loan and Advances Ratio (%)

Fiscal Years	NSBL	NIC
2005/06	1.53	1.45
2006/07	2.69	1.77
2007/08	2.65	2.15
2008/09	2.90	2.32
2009/10	2.24	3.53
Mean	**2.23**	**2.24**
S.D.	**.461**	**.7942**
C.V.	**21.74%**	**35.45%**

Sources: Appendix No. 1 (xiii)

The above table shows that the ratio of return on loan and advances of NIC is better than NSBL. The comparison of mean ratio reveals that NIC has higher ratio than NSBL i.e., 2.24%>2.23%. This shows that NIC has been successful in maintaining its higher return on loan and advances than NSBL. C.V. of NSBL is significantly lower than NIC i.e.21.74 %< 35.45%. It proves that NSBL has higher variability of ratio than NIC. NIC has recorded a high ratio of 3.53% in F/Y 2009/10, and a low ratio of 1.45% in F/Y 2005/06. Similarly, NSBL recorded a high of 2.90% in F/Y 2008/09 and a low of 1.53% in F/Y 2005/06.

Figure No. 4.13

Return on Loan and Advances Ratio (%)

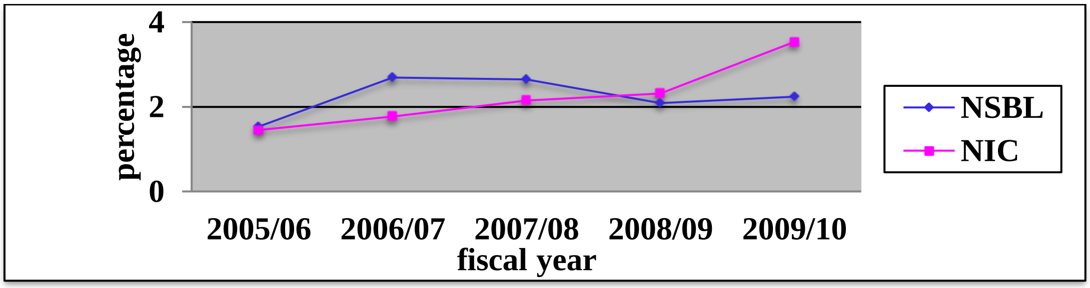


Figure 4.13 shows the graph line of return on loan and advances of NSBL is in fluctuating trend & NIC is in increasing trend.

iv) Total Interest Earned to Total Working Fund Ratio

To respect the earning capacity of a commercial bank in its total working fund (total assets), total interest earned to total working fund ratio is very helpful. This ratio is computed by dividing total interest earned by total working fund i.e. total assets.

$$\text{Total Interest Earned to Total Working Fund Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

Table No. 4.14

Total Interest Earned to Total Working Fund Ratio (%)

Fiscal Years	NSBL	NIC
2005/06	14.68	5.26
2006/07	7.4	4.68
2007/08	9.64	4.09
2008/09	11.46	6.048
2009/10	14.04	5.66
Mean	**11.44**	**5.15**
S.D.	**3.024**	**.778**
C.V.	**26.45%**	**15.07%**

Sources: Appendix No. 1 (xiv)

The above table reflects the average interest earning ratio of NSBL is 11.44% where as the same for NIC is 5.15%. This reflects that NSBL has been stronger in terms of interest earning power with respect to total working fund than NIC. It has been more successful in mobilizing its assets to generate high income. It has been more successful in mobilizing its assets to generate high income. NSBL has had a high ratio of14.04% in F/Y 2009/010 and a low ratio of 7.4% in F/Y 2006/07. Similarly, NIC has experienced a high of 6.048% in F/Y 2008/09 and a low of 4.09% in F/Y 2007/08.

Figure No. 4.14

Total Interest Earned to Total Working Fund Ratio

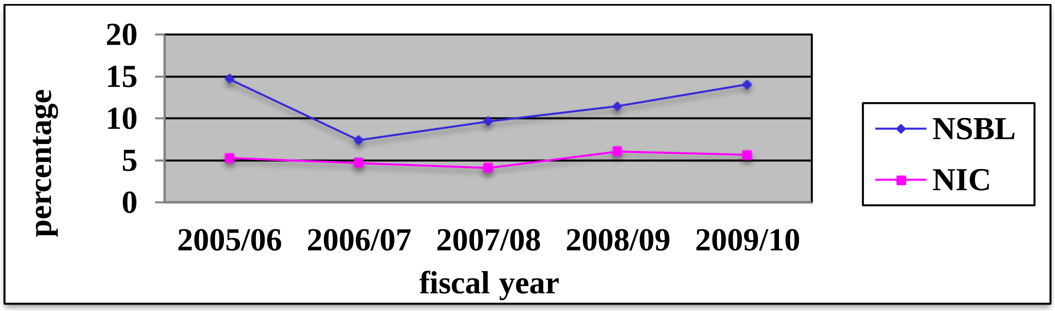


Figure 4.14 shows a fluctuated trend in interest earning ratio of NSBL and NIC.

v) Total Interest Paid to Total Working Fund Ratio

Total interest paid is that amount which is paid to the lenders as well as bond holders. Generally, this ratio is considering good as lower it is. This ratio reveals the relationship between total interests paid amount and total employed. The formula is as follows;

$$\text{Total Interest Earned to Total Working Fund Ratio} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

Table No. 4.15

Total Interest Paid to Total Working Fund Ratio (%)

Fiscal Years	**NSBI**	**NIC**
2005/06	6.93	3.087
2006/07	3.67	2.71
2007/08	4.52	2.22
2008/09	6.66	3.61
2009/10	8.91	3.286
Mean	**6.14**	**2.99**
S.D.	**2.079**	**.54**
C.V.	**33.86%**	**18.06%**

Sources: Appendix No. 1 (xv)

The above table shows average ratio of NSBL with regards to total interest paid to total working fund ratio is slightly higher than that of NIC i.e.6.14%<2.99%. In terms of C.V., NIC ratios are more stable than that of NSBL. NSBL is in a better position form interest payment point of view that NIC.

Figure No. 4.15

Total Interest Paid to Total Working Fund Ratio

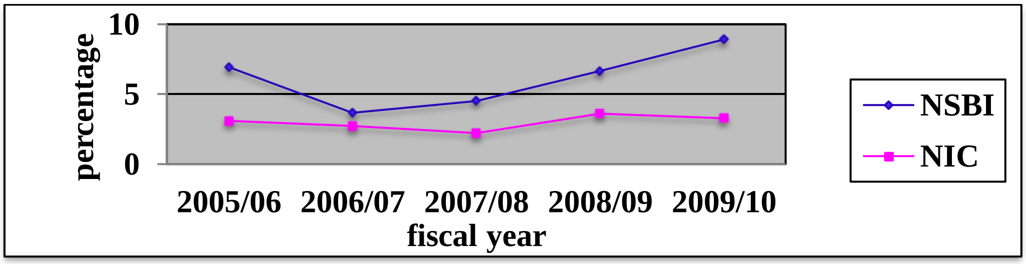


Figure 4.15 shows a fluctuated trend in total Interest paid to total working fund ratio of NSBI and NIC. The trend line of NSBL after 2006/07 is in increasing trend.

vi) Return on capital employed

A ratio between net profit to capital employed is known as return on capital employed. The return on capital employed can be computed in the following way.

$$\text{Return on capital employed} = \frac{\text{Net profit after tax}}{\text{Capital employed}}$$

Where capital employed=total assets – current liabilities

Table No 4.16

Return on Capital Employed

Fiscal Years	**NSBI**	**NIC**
2005/06	9.895	9.99
2006/07	18.69	14.17
2007/08	15.34	16.16
2008/09	11.88	17.06
2009/10	14.77	22.89
Mean	**14.12**	**16.054**
S.D.	**3.37**	**4.69**
C.V.	**23.86%**	**29.21%**

Sources: Appendix No. 1 (xvi)

The above table 4.16 shows the comparison of mean ratio revels that NIC has higher ratio than NSBL. This shows that NSBI has been more successful in maintaining the efficiency of the firm on the utilization of total capital. A higher ratio is an indication of the better utilization of capital employed.

Figure No. 4.16

Return on Capital Employed

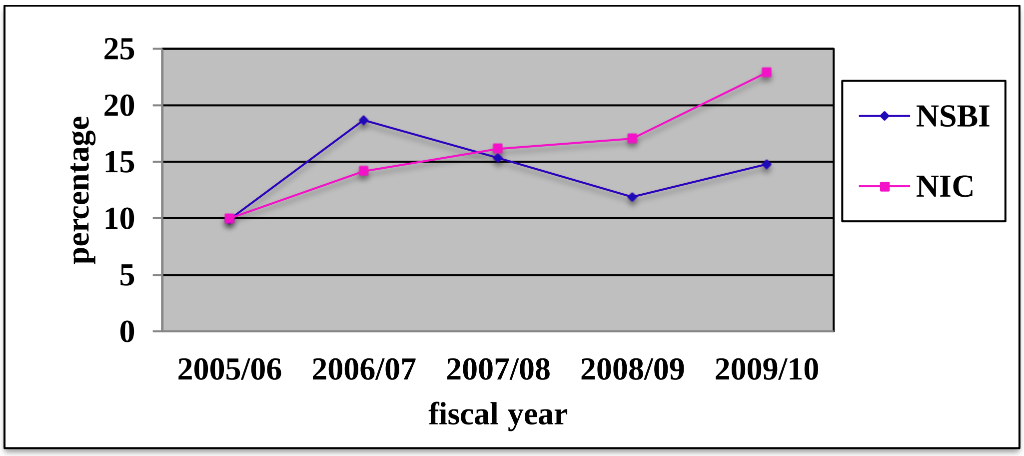


Figure 4.16 shows fluctuating trend line of NSBL & increasing trend of NIC.

4.1.4 Growth Ratios

Growth ratio measures the increment and decrement of present year's figure in comparison to previous year's figure. Growth rate analysis of the banks involves analysis of growth in deposits, loans, investments and net profit. The analysis also concerns which asset portfolio has significant increment corresponding to the increment in deposit liability and investment policy. The formula to calculate growth ratio and average ratio are as follows;

$$\text{Growth Ratio} = \frac{\text{Present Year's Figure}}{\text{Previous Year Figure}}$$

Table No. 4.17

Growth Ratio of Total Deposit (Rs.)

Fiscal Years	NSBI	NIC
2005/06	11002041000	8765950638
2006/07	11445286030	10068230869
2007/08	13715394960	13084688672

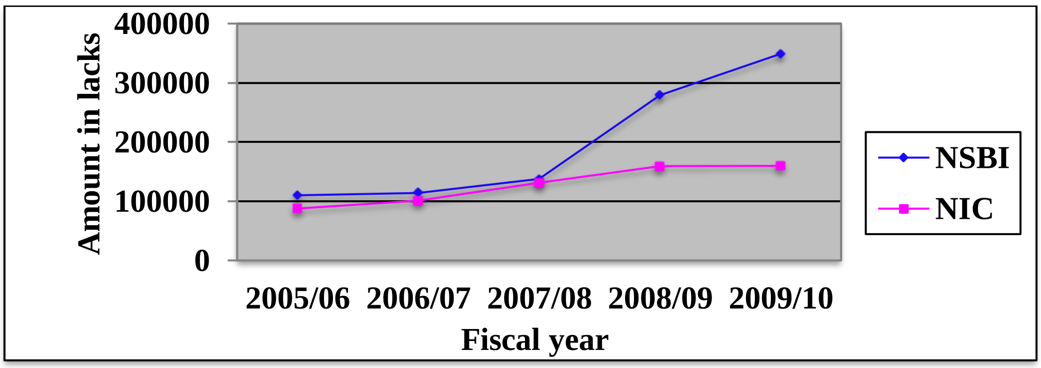
2008/09	27957220794	15879930904
2009/10	34896424201	15968911792
Growth Rates (%)	**33.45%**	**16.17%**

Sources: Appendix No. 1 (xvii)

The average growth rate of deposits of NSBL are higher than NIC Bank i.e. 33.45 **%**>16.17%. This indicates NIC Bank dismal performance in collecting more deposits.

Figure No. 4.17

Growth Ratio of Total Deposit



The growth rate of deposits of both the banks is in increasing trend. NSBL is in better increasing growth than NIC.IT shows that NSBL is better in collection process of deposits of its bank. But NIC has been successful in increasing its deposit year after year. NSBL ratios were highly variable than NIC.

Table No. 4.18

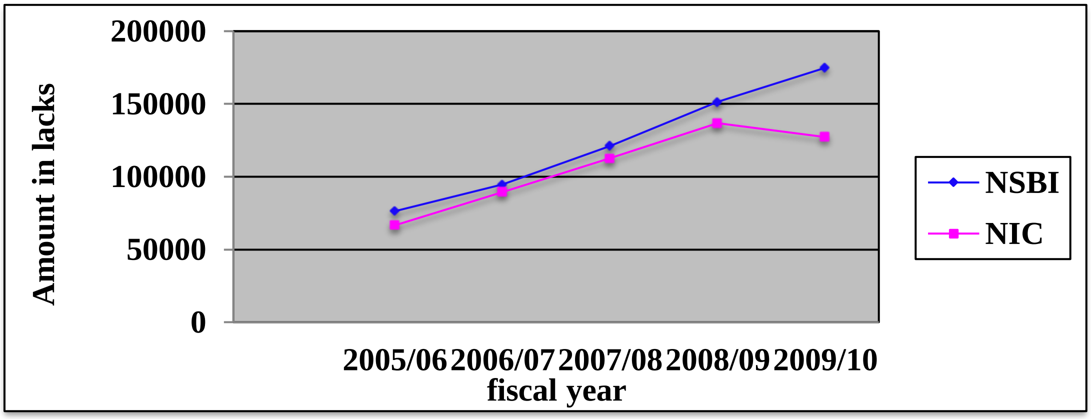
Growth Ratio of Loan and Advances (Rs.)

Fiscal Years	NSBI	NIC
2005/06	7626736137	6655954020
2006/07	9460450701	8941397651
2007/08	12113698428	11264678096
2008/09	15131747944	13679393779
2009/10	17480548194	12732014319
Growth Rates (%)	**23.04%**	**17.60%**

The average growth rate of total loan and advances of NSBL is better than NIC i.e. 23.04%>17.60%. This is a solid proof of its high quality service, security, and credibility in the mind of depositors.

Figure No. 4. 18

Growth Ratio of Loan and Advances



The growth rate of total loan and advances of both the banks are in increasing trend.

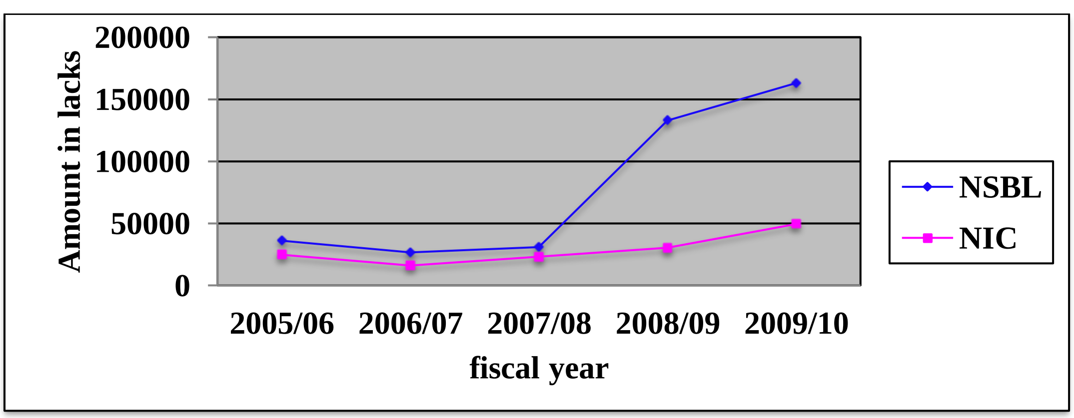
Table No. 4.19

Growth Ratio of Total Investment x(Rs.)

Fiscal Years	NSBL	NIC
2005/06	**3611312064**	2479912524
2006/07	**2659452919**	1599481050
2007/08	**3088886918**	2311468317
2008/09	**13286181660**	3026022185
2009/10	**16305632815**	4946777670
Growth Rates (%)	**45.77%**	**18.82%**

Figure No. 4.19

Growth Ratio of Total Investment



The growth rate of total investment of NSBL is higher than NIC. The growth rate of total investment of NSBL is in a fluctuating trend & it is highly increasing trend from year 2007/08 to upward. NSBL growth ate is comparatively too high than that of NIC. The average growth ratio of investment of NSBL seems to be higher than NIC i.e., 45.77%>18.82%.

This is due to a massive growth in NSBL investment. However, we must not discount the fact that NSBL investment to total working fund is far greater than NIC.

Table No. 4.20

Growth Ratio of Net Profit (Rs)

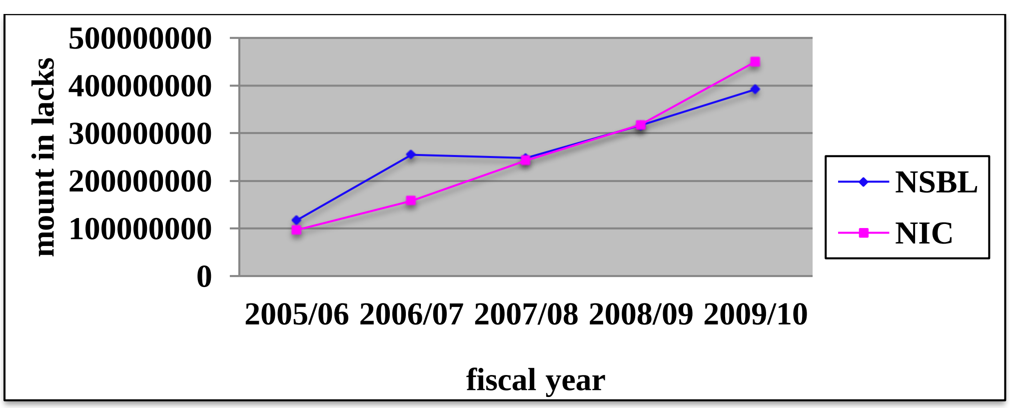
Fiscal Years	**NSBL**	**NIC**
2005/06	**117002000**	96587674
2006/07	**254909000**	158475051
2007/08	**247771000**	243058040
2008/09	**316373000**	317434138
2009/10	**391742000**	449843702
Growth Rates (%)	**35.27%**	**46.90%**

The mean growth rate of NIC is higher than NSBL i.e., 46.90% > 35.27%. The growth rate of net profit of both the banks has in increasing trend.

In the study period, NIC seems to be invested its fund in more income generating area than NSBL. But in total amount net profit of NSBL is higher than NIC, but growth rate of NIC is comparatively higher than that of NSBL.

Figure No. 4.20

Growth Ratio of Net Profit



In the study period, this ratio can be misleading in the sense that the ratio of loan and advance to current assets, total deposits, and total working fund of NIC is comparatively less than that of NSBL.

4. 2 Analysis of financial performance using Statistical Tools

Financial analysis is the process of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. The study statically analysis has been mainly used any with the help of it, data can be analyzed.

4.2.1 Coefficient of Correlation Analysis

In this chapter, correlation between deposit & total investment, deposit and loan & advances and outside assets & net profit have been calculated. Then results have analyzed and interpreted and then significance of correlation has been tested using Karl Pearson’s correlation of co-efficient.

4.2.1.1 Coefficient of Correlation Between Total Deposit and Total Investment

Coefficient of correlation between deposit and total investment measures the degree of relationship between these two variables. Here deposit is taken as independent variable (x) and investment is dependent variable and is denoted by (y).

The following table shows the value of 'r', r^2, P.E. & 6P.E. of NSBL and NIC during the study period.

Table No. 4.21

Statement Showing Coefficient of Correlation between Total Deposit and Total Investment

Evaluation Criterion

Banks	R	r^2	P.E.	6 P.E.
NSBL	0.9913	0.9826	0.00525	0.03149
NIC	0.7165	0.5134	0.1467	0.8806

Sources: Appendix No. 2 (i)

The coefficient of correlation 'r' between deposits and total investment in case of NSBL is 0.9913, which indicates a positive correlation between deposits and total investment. Coefficient of determination (r^2) is 0.9826. This means 98.26% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e.

0.9913 is also greater than six times P.E. This states that there exists a significant relationship between deposits and total investment.

The coefficient of correlation 'r' between deposits and total investment in case of NIC is 0.7165, which indicates a positive relationship between the two variables. The coefficient of determination (r^2) is 0.5134. This indicates that 51.34% of the variation of the dependent variable has been explained by independent variable. This further states that there is a significant relationship between deposits and total investment.

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

4.2.1.2 Coefficient of Correlation between Total Deposit and Loan & Advances

The coefficient of correlation between deposits and loan and advances measures the degree of relationship between them. In this study deposit as an independent variable denoted by (x) and loan and advance as dependent variable (y).

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

Table No. 4.22

Statement Showing Coefficient of Correlation between Total Deposit and Loan & Advances

Evaluation Criterion

Banks	**R**	**r^2**	**P.E.**	**6 P.E.**
NSBL	0.9499	0.9023	0.02947	0.1768
NIC	0.9009	0.8116	0.05683	0.3409

Sources: Appendix No. 2 (ii)

In the above table the coefficient of correlation between deposit and loan and advance in case of NSBL is 0.9499. This indicates that there is a positive relationship between deposit and loan and advances. The calculated value of (r^2) is 0.9023. This means 90.23% of variation of the dependent variable (loan and advances) has been explained by the independent variable (deposit). The 6P.E.is 0.1768, here r > 6P.E.i.e.0.9499>0.1768 so can say that there is significant relationship between deposits and loan advances. The coefficient of correlation 'r' between deposits and loan and advances incase of NIC is 0.9009, which gives us an indication of higher positive correlation between them.

Similarly, the value of coefficient of determination (r^2) is found to be 0.8116. This shows that 81.16% variation of dependent variable (loan and advances) has been explained by the independent variable (deposits). Here r> 6P.E. i.e.0.9009>0.8116. This shows that the value of ‘r’ is significant.

From the above analysis, we can conclude that both the banks show positive relationship between deposits and loan and advance. Both banks are highly significant.

4.2.1.3 Coefficient of Correlation between Total outside Assets and Net Profit

Coefficient of correlation 'r' between total outside asset and net profit measures the degree of relationship between these two variables.

The following shows the value of r, $r^{2,}$ P.E. & 6P.E. of NSBI and NIC during the study period.

Table No. 4.23

Statement Showing Coefficient of Correlation between Total outside Assets and Net Profit

Evaluation Criterion

Banks	R	r^2	P.E.	6 P.E.
NSBL	0.5709	0.3259	0.2033	1.22
NIC	.9933	.9866	.00404	.02425

Sources: Appendix No. 2 (iii)

The coefficient of correlation 'r' between total outside assets and net profit in case of NSBL is 0.5709, which indicates a positive correlation between outside assets and net profit. Coefficient of determination (r^2) is 0.3259. This means 32.59% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e. 0.5709 is also greater than six times P.E. This states that there exists a significant relationship between outside assets and net profit.

The coefficient of correlation 'r' between total outside assets and net profit in case of NIC is 0.9933, which indicates a positive relationship between the two variables. The coefficient of determination (r^2) is 0.9866 this indicates that 98.66% of the variation of the dependent variable has been explained by independent variable. Moreover 'r' is greater than six times P.E., which further states that there is significant relationship between outside assets and net profit.

In conclusion, there is significant relationship between total outside assets and net profit of both banks.

4.2.2 Trend Analysis

Trend analysis, present or future analysis, is utilized to see the movement of upward or downward by the help of given numerical values of some specified period of time. That time period may of five years, ten years etc.

Here, trend analysis of deposit, loan & advance, investment and net profit of the banks are done. The forecast is made for the next five years.

4.2.2.1Analysis of Trend Value on Total Deposit and Loan & Advances

Under this topic the trend values of total deposit and loan & advances of NSBL and NIC for five years from F/Y 2005/06 to 2009/10 and forecast for next five years till F/Y 2014/15.

This following table shows the trend values of 10 years from 2005/06 to 2014/15.

Table No. 4.24

Trend Values of Total Deposit and Loan & Advances of NSBL and NIC (Rs. in lack)

Years	Trend Value of Total Deposit NSBL	Trend Value of Total Deposit NIC	Trend Value of L & A NSBL	Trend Value of L & A NIC
2005/06	69431.3	87100.16	72868.48	72766.77
2006/07	133732.0	107317.78	98247.3	89656.8
2007/08	198032.7	127535.4	123626.3	106546.83
2008/09	262333.4	147753.02	149005.21	123436.86
2009/10	326634.1	167970.64	174384.1	140326.89
2010/11	390934.8	188188.26	199763.03	157216.92
2011/12	455235.5	208405.88	225141.94	174106.95
2012/13	519536.2	228623.5	250520.85	190996.98
2013/14	583836.9	248841.12	275899.76	207887.01
2014/15	648137.6	269058.74	301278.67	224777.04

Sources: Appendix No. 3 (i &iv)

From the above comparative table it is clear that a trend value of NSBL is in an increasing trend. If other things remain unchanged the total deposit of NSBL is predicted to be Rs. 648137.6 million and that of NIC to be less than deposit of NSBL by the end of F/Y 2014/15 i.e. Rs. 269058.74 million. The above table clearly shows that the loan and advance of both the banks are in an increasing trend. Assuming that other things will remain constant, the loan and advances of NSBL at the end of F/Y 2014/15 is predicted to be Rs301278.67million. Similarly, the projection for NIC at the end of F/Y 2014/15 is Rs 224777.04million.

From the above trend analysis, it is quite clear that NSBL loan and advances in relation to NIC is comparatively higher through out the trend projection period. The above trend values of loan and advances of NSBL and NIC.

Figure No. 4.21

Trend Values of Total Deposit and Loan and Advances of NSBL and NIC

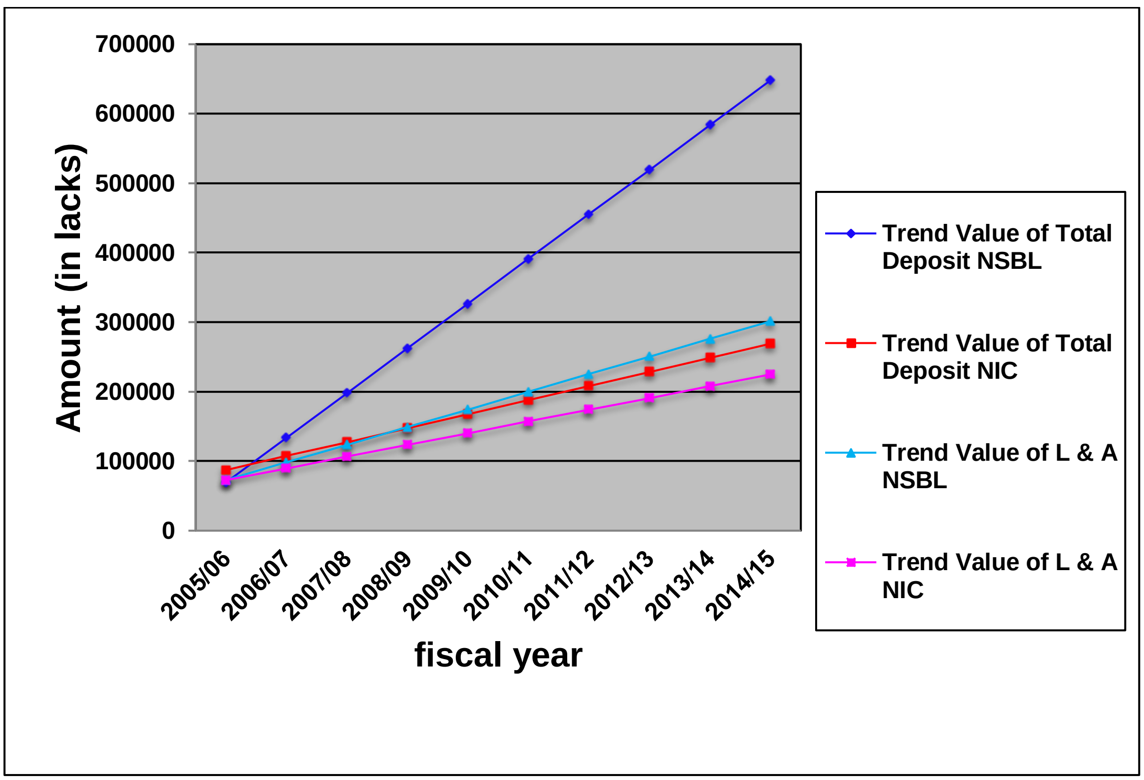


Figure 4.21 shows that the trend value of total deposit & loan & advances of NSBL & NIC are in increasing trend. From the above trend analysis, it is quite obvious that NSBL deposit collection is proportionately much better than NIC from F/Y 2005/2006 onwards.

4.2.2.2 Analysis of Trend Value of Total Investment and Net Profit

Under this topic, total investment and net profit of NSBL and NIC for five years and forecast is made for next five years till F/Y 2014/15.

Table No. 4.25

Trend Values of Total Investment & Net Profit of NSBL and NIC (Rs. in lack)

Years	Trend Value of Total Investment NSBL	Trend Value of Total Investment NIC	Trend Value of Net Profit NSBL	Trend Value of Net Profit NIC
2005/06	29672.3	16006.76	1433.52	799.78
2006/07	53787.6	22367.02	2044.47	1665.26
2007/08	77902.9	28727.28	2655.42	2530.74
2008/09	102018.2	35087.54	3266.37	3396.22
2009/10	126133.5	41447.80	3877.32	4261.7
2010/11	150248.8	47808.06	4488.27	5127.18
2011/12	174364.1	54168.32	5099.22	5992.66
2012/13	198479.4	60528.58	5710.17	6858.14
2013/14	222594.7	66888.84	6321.12	7732.62
2014/15	246710.0	73249.10	6932.07	8589.1

From the above table it is clear that the trend value of both the banks are in an increasing trend. If other things remain uncharged total investment of NSBL is predicted to be Rs. 246710.0 in F/Y 2014/15 and that of NIC to be Rs. 73249.10 million. These values are highest under the review period.

The above table reveals that NSBL total investment is higher than that of NIC through out the trend projection period. It can be said that both NSBL and NIC have followed the policy of maximizing their investment. The trend value of NSBL will be highest in F/Y 2014/15 i.e. Rs. 246710.0 million. In case of NIC's net profit will be Rs 8589.1million in F/Y 2014/15, which is the highest under the review period.

Figure No. 4.22

Trend Values of Total Investment & Net Profit of NSBL and NIC

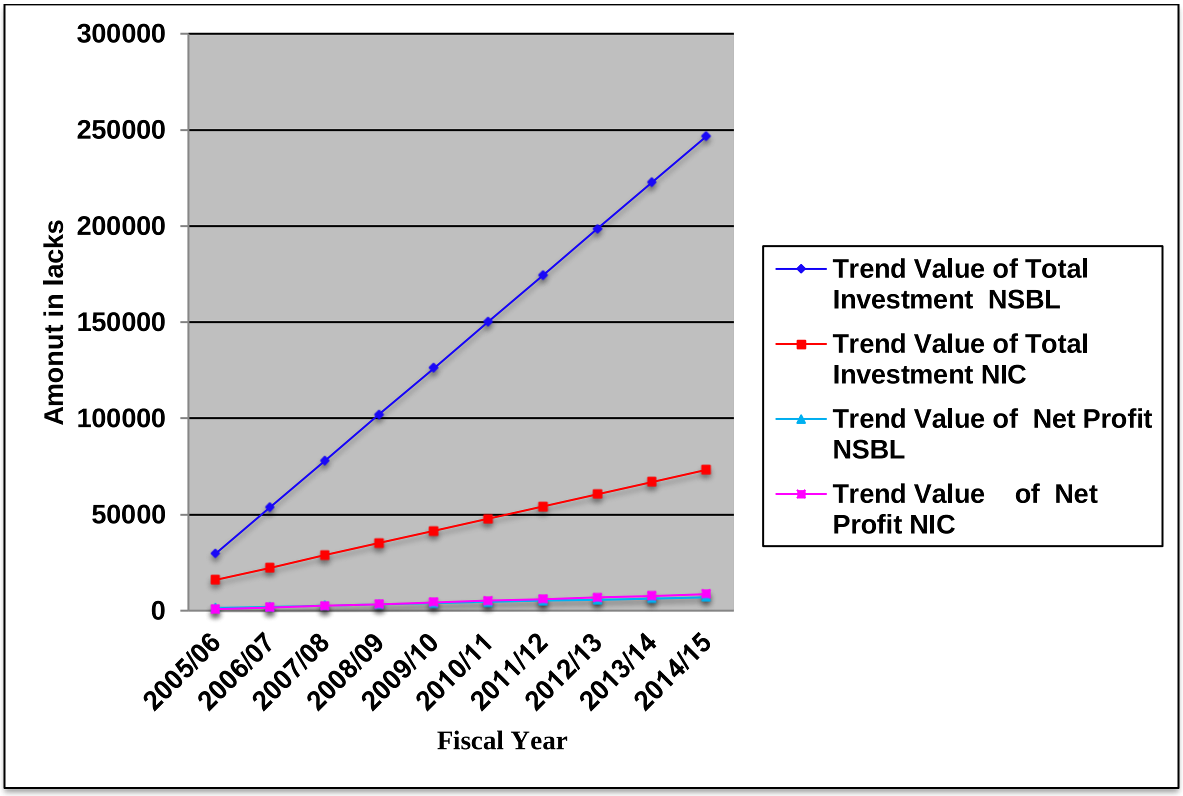


Figure 4.22 shows that the trend value of both the banks is in increasing trend. Other things remaining the same the trend value of both the banks are in increasing trend.

We conclude that NSBL has utilized its fund better than NIC Bank to earn higher amounts of profit.

4.2.3 Regression Analysis

Simple regression analysis is conducted under this sub title. The basis for this chapter is partially fulfilling the regression analysis. In analysis helps to establish the functional relationship between dependent and independent variables and there by provides a mechanism for estimation. The purpose of multiple regression analysis in this study is to analyze the combined effect of different variables of the sampled banks. Further more, how the selected variables influence, is also being tested using regression model. As stated earlier, multiple regression analysis is the best way to project or estimate the value of dependent variable on the basic of independent variables.

4.2.3.1 Regression Equation of Total Investment on Total Deposit

Table 4.26

Regression Equation of Total Investment on Total Deposit

S. No.	Name of Company	Regression Coefficient		
		Constant (a)	Slope (b)	r^2
1	NSBL	6791372460.8128	1.67027	0.9826
2	NIC	7403737553.99	1.86227	0.513

Source: Appendix 4

Table 4.25 deficits the major output of simple regression between total investment and total deposit of the two banks by using the method of least square . The regression coefficient (b) of NSBL and NIC are positive of 1.67027 and1.86227respectively. They indicate that there exists positive relationship between total investment and total deposit.

The prediction of total investment is strong only for NSBL and NIC because the respective coefficient of determination (r^2) are 0.9826and 0.513 which indicates that the change in total investment is due to change of total deposit are 0.9826 and 0.513 units respectively and the remaining variables is due to the effect of other factor.

4.2.3.1 Regression Equation of Loan & Advances on Total Deposit by Using least square method.

Table 4.27

Regression Equation of Loan & Advances on Total Deposit by using least square method

S. N.	Name of Company	Regression Coefficient		
		Constant (a)	Slope (b)	r^2
1	NSBL	-12122929934.899	2.58248	0.9023
2	NIC	758181823.91	1.1258	0.8116

Source: Appendix 4

Table 4.26 deficits the major output of simple regression between loan & advances and total deposit of the two banks by using the method of t-test. The regression coefficient (b) of NSBL positive of 2.52848 and 1.1258 respectively. They indicate that there exists positive relationship between loan & advances and total deposit. If loan and advances increases by 2.58248 then1 unit then heads to decrease total deposit by 1unit and if loan and advance of NIC Bank increases by1.1258 then 1 unit then heads to increase and vice versa.

The prediction of loan and advances is strong for NSBL and NIC because the respective coefficient of determination (r^2) are 0.9023and 0.8116 which indicates that the change in loan and advances is due to change of total deposit are 0.9023 and 0.8116 units respectively and the remaining variables is due to the effect of other factor.

CHAPTER-V

SUMMARY,MAJOR FINDING, CONCLUSIONS AND RECOMMENDATIONS

This is the final chapter that involves summary, conclusions and recommendations of the research work. The facts and findings from secondary data analysis are presented in this chapter. Besides summarizing and concluding research work, recommendations are made to concerned persons and organizations.

5.1 Summary

The development of any country depends upon its economic development. Economic development demands transformation of saving or invertible resources into actual formation in the prerequisite in setting the overall place of the development of a country. A financial institute is the lifeblood of economic development of the country. Financial institution acts as catalyst in the process of economic growth of the country. The development of any country depends upon its economic development. It is the financial institutions that transfer funds from surplus spending units to deficit units.

Nepal has a more recent history than in other countries of the world. In Nepalese content, the history of development of modern banks started from the establishment of Nepal bank limited in 1937 A.D. nowadays there are 78 financial institution & only 26 of them are CBs operating in Nepal financial market which is in increasing due to the country moved towards economic liberalization, financial scenario has changed, and foreign banks were invited to operate in Nepal. For the better performance of CBs, successful formulation & effective implementation of investment policy is the prime requisite. Nowadays there is a increasing trend of competition in the banking industries with too less opportunity to make investment. Because the opportunities are hidden, CBs should take initiative action in search of the new opportunities. So that, they can easily survive in this competitive banking business world & earn profit. A bank loans support the growth of new business & trade empowering the economic activities of the country.

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

The primary objectives of the study is to analyze the overall performance of NSBL and NIC, however other objectives are to examine the overall performance of NSBL and NIC in terms of liquidity, activity, profitability, leverage and capital adequacy ratio, to study the achievement of NSBL and NIC, to evaluate the effectiveness of collection of deposit and their utilization to examine the causes of gap existing between deposits and loan, investment etc, to provide suggestion and recommendation for the improvement of future performance and maximum utilization of deposit.

At last but not least we can conclude that financial analysis is done to determine the banks financial position in order to identify its current strength and weaknesses and to suggestion that might enable the firm to take advantage of its strengths and correct its weaknesses. The study is about the financial performance of the NSBL and NIC based on its financial data of five years. By using financial and statistical tools, the overall financial performance of the bank has tried to analyze. The various ratios have revealed the financial condition of the bank over the five years. Income and expenditure analysis has showed the percentage share of each income and expenses head. Correlation analysis helps to establish the relationship between two variables which can be useful to know how one variable affect the another variable. Likewise trend analysis is used to find out the trend of some very important elements like total deposit, loan and advance, net profit, net worth, NSBL and NIC can investment on the basis of the past data of the bank. This can be used in predicting the value of these elements.

Analyzing the credit sector and the bank guarantee, the bank is trying to avoid unnecessary risk, thus categorizing itself as risk avert bank. By mobilizing its funds more in loans and advances, the bank could have increased its profit. But form the tabulated figures, it is evident that NSBL and NIC had preferred to invest in secured sectors like government securities and shares and debentures than in lending. From which various finding have shown in above chapter from that finding conclusion have been drawn which are presented as below

5.2 Major Findings of the Study

Having completed the basic analysis required for this study, the final and the most important for the researcher is to enlist the findings. A complete summary of the major findings of this study is as follows.

The major findings of the study from the analysis of financial data of NSBL and NIC are as follows.

Liquidity Ratio

The liquidity position of NSBL and NIC reveals that:

- The mean ratio of current ratio of NIC is higher than NSBL. The ratios of NIC are less variable and more consistent than NSBL. The mean current ratio both banks are greater than 1.
- The mean ratio of cash and bank balance to total deposit of NIC is higher than NSBL. The ratios of NIC are less variable and more consistent than NSBL. Because of higher ratio NIC is better capable to meet its customer's daily cash requirement than NSBL.
- The mean ratio of cash and bank balance to current assets of NSBL is slightly higher than NIC. The ratios of NIC Bank are less variable & more consistent than NSBL. High percentage of liquid assets makes NIC better liquidity position than NSBL. With higher cash & bank balance NIC readiness to meet its customer requirement. Because of high liquidity bank able to mobilize its current assets.
- The mean ratio of investment in government securities to current assets of NSBL is higher than NIC. The ratios of NIC are less variable & more consistent than NIC. This shows that NSBL has invested more of its fund in government securities than NIC.

At last we can conclude that the liquidity position of NIC is comparatively better than NSBL. Because NIC has the highest current ratio cash and bank balance to current assets, cash and bank balance to total deposit. NIC capable enough to meet its current & daily obligations. But mean investment in government securities of NSBL is better than NIC.

The ratio of investment in government securities to current assets of NSBL is more variable & less consistent during the study period.

Asset Management Ratio

The asset management ratio of NSB and NIC reveals that:

- The mean ratio of loan and advances to total deposit ratio of NIC is higher than NSBL. In terms of consistency both have been stable in their ratios. But NIC is less variable and more consistent than NSBL.
- The mean ratio of total investment to total deposits of NSBL is higher than NIC. The ratios of NIC Bank are more consistent and less variable than NSBL.
- The mean ratio of loan and advances to fixed deposit of NIC Bank is higher than NSBL. The ratios of NIC Bank are less variable and more consistent than NSBL.
- The mean ratio of loan and advance to saving deposit of NIC is higher than NSBL. But NIC is more variable and less consistent than NSBI.
- The mean ratio of fixed deposit to total deposit of NSBL is higher than NIC. But NSBL is more variable and less consistent than NIC. NSBL has the maximum fixed charge bearing deposit than NIC Bank.
- NIC has a higher saving deposit to total deposit ratio than NSBL. It shows that NIC has the maximum saving charge bearing deposit than NSBL.

  At last we can conclude that NIC has been more successful in mobilization of its loan and advances to total deposits, saving deposit to total deposit ratio. On the other hand, NSBL appears to be stronger in mobilization of total investment to total deposits. Both the banks have successfully managed their assets towards different income generation activities.

Profitability Ratios

The profitability ratios of NSBL and NIC reveal that,

- The mean ratio of return on total working fund of NSBL is higher than NIC. The ratios of NSBL are less consistent and more variable than NIC.
- The mean ratio of total interest earned to total working fund of NSBL is higher than NIC. NIC ratios are more stable and less variable than NSBL.

- The mean ratio of return on total loan and advances of NIC has been found to be slightly greater than NSBL. The ratios of NSBL are less variable and more consistent than NIC.
- The mean ratio of total interest earned to total outside assets of NSBL is higher than NIC. The ratios of NSBL are less consistent than NIC.
- The mean ratio of total interest paid to total working fund ratio of NSBL is higher than NIC. But NSBL ratios are more variable than NIC ratios.
- The mean ratio of return on Capital Employed of NIC Bank is higher than NSBL. However NIC ratios are less consistent and more variable than NSBL.

On the basis of above, we can conclude that NSBL has been more successful in maintaining the total interest on working fund, total interest on total outside asserts and total interest paid to total working fund ratio NSBL has been more successful in mobilization of its fund in interest baring asserts NSBL is in better position than NIC. From interest payment point of view NSBL has better position than NIC.

Growth Ratios

The growth ratio of NSBL and NIC reveals that,

- The average growth rate of deposits of NSBL is higher than NIC Bank.
- NSBL ratios were variable than NIC. The growth rate of total loan and advances of both the banks are in increasing trend. The average growth rate of total loan and advances of NSBL is better than NIC
- The growth rate of total investment of NIC and NSBL is in decreasing trend in FY 2006/07 but growth rate of total investment of both banks is in increasing trend from FY2007/08.
- The growth rate of net profit of both the banks has in increasing trend. The mean growth rate of NIC is higher than NSBL i.e., 46.90% > 35.27%.

On the basis of above we can concluded that NSBL is better than NIC in term of growth ratio, and total working fund of NIC is comparatively less than that of NSBL.

Co-efficient of Correlation Analysis

Co-efficient of correlation analysis between different variables of NSBL and NIC reveals that;

- The co-efficient of correlation between deposits and total investment of NSBL is higher than NIC.
- The coefficient of correlation between deposits and loan and advances NSBL is higher than NIC.
- The co-efficient of correlation between total outside assets and net profit NIC of is lower than NSBL.

In conclusion, we can say that there is a significant relationship between deposit and total investment, total deposit and loan & advances and total outside assets and net profit NSBL & NIC.

Trend analysis

Trend Analysis for Next Five Years;

- The deposits of both the banks have an increasing trend. The total deposit of NSBL is predicted to be Rs. 648137.6 million and that of NIC to be Rs. 269058.74 million at the end of F/Y 2014/2015. The deposit collection of NSBL is higher than NIC.
- The loan and advance of both the banks have an increasing trend. The total loan and advance of NSBL is predicted to be Rs. 301278.67 million and that of NIC to be Rs. 224777.04 million at the end of F/Y 2014/2015. The loan and advances of NSBL is higher compared to NIC Bank.
- The total investments of both the bank have an increasing trend. The total investment of NSBL is projected at Rs.246710.0 million and that of NIC at Rs. 73249.10 million by the end of F/Y 2014/2015. NSBL's investment is higher than NIC. It seems to have a much-focused policy with regards to total investment than NIC.
- The net profits of both the banks are in an increasing trend. The net profit of NSBL and NIC is predicted at Rs. 6932.07 million and Rs. 8589.1 million respectively by the end of F/Y 2014/2015. The position of NIC Bank with regard to utilization of the fund to earn profit is better than NSBL.

Regression Analysis

The regression coefficient (b) of NSBL and NIC are positive of 1.67027 and 1.86227 respectively. They indicate that there exists positive relationship between total investment and total deposit.

It shows that total investment and total deposit are significantly correlated.

The regression coefficient (b) of NSBL and NIC are positive of 2.58248 and 1.1258 respectively. They indicate that there exists positive relationship between loan an avance and total deposit.

It shows that loan & advances and total deposit are significantly correlated.

5.3 Conclusion

This study reveals that the current ratio of NIC and NSBL is less than standard ratios i.e.2:1 but current ratio greater than 1 is considered as satisfactory for banks. The current ratio of NIC ands NSBL is greater than 1which considered as satisfactory for them. The liquidity position of NIC is better than NSBL because current assert (cash and bank balance) of NIC is comparative better than NSBL and NIC is better capable to meet its customers daily cash obligation and it is also have more enough cash and bank balance to justify its daily cash requirements. But that does not mean NSBL can’t meet its daily requirement. The cash and bank balance of NIC with respect to deposits is greater than NSBL. This puts, NIC in a better position with respect to meeting customer requirement than NSBL. A high ratio of non-earning cash and bank balance is an indication of bank's unavailability to invest its fund in income generation areas. The mean ratio of cash and bank balance to total deposit of NIC is higher than NSBL. The mean ratio of investment in government securities of NSBL is better than NIC.

NSBL and NIC have been bitterly managing their assets management ratio. NIC has been more successful in mobilization of its investment to total deposits, saving deposit to total deposit ratio loan and advance to fixed deposit, loan and advance to saving deposit, on the other hand NSBL appears to be stronger in mobilization of total investment to total deposits fixed deposit to total deposit. both the banks have successfully managed their assets towards different income generation activities.

NSBL has been more successful in maintaining its higher return on loan and advances and total working fund and NIC has been more successful in term of earning power with respect to total working fund. NIC has been more successful in mobilization of its funds in interest bearing assets to earn higher total outside assets than NSBL. NIC is in a better position than NSBL from interest payment point of view. NIC has paid higher interest than NSBL.

The average growth rate of deposits of both banks is in increasing trend. NIC is significantly higher than NSBL. The growth rate of total loan and advances of both the banks are in increasing trend. The average growth rate of total loan and advances of NSBL is better than NIC. The growth rate of total investment of NSBL is in a fluctuating trend but growth rate of total investment of NSBI is in highly increasing trend except in FY 2006/07 and 2007/08. The growth rate of net profit of both the banks has in increasing trend.

There is a significant relationship between deposit and total investment, total deposit and loan & advances and total outside assets and net profit in case of both banks.

The trend value of deposits, loan and advances, investment and net profits of NSBL and NIC are in an increasing trend. The trend values of total deposits, loan and advance and total investment of NSBL are proportionately higher than NIC in all the years. On the other hand net profit of NIC proportionately better than NSBL in all the years. It concludes that NIC invest its fund in better income generating sector.

The regression coefficient (b) of NSBL and NIC are positive of 1.469 & 2.686 and 0.644 & 0.641 respectively. They indicate that there exists positive relationship between total investment and total deposit and between loan & advances and total deposit.

5.4 Recommendation

On the basis of analysis, findings, following recommendations are made. The banks can make use of these recommendations to overcome their weakness, inefficiency and improve their present fund mobilization and their overall financial analysis.

- The standard current ratio is 2:1, but both the banks current ratio were found below the standard. So it is recommended that the bank should increase the current assets to meet the daily demand and requirement of the bank. Otherwise there may arise question to the creditworthiness of the bank at any point of time.
- Cash and bank balance of total deposit ratio of the banks should be consistent. But both banks ratios were fluctuating order. Because it is the most liquid assets so the

should be made to have consistency. It is recommended to have moderate level of cash and bank balance to meet unanticipated calls on current Savings call and other deposits.

- The proportion of saving deposit to the total deposit is very low. It is recommended to increase the saving deposits of the banks to moderate the risk and return in the current situation. Is also recommended to increase daily interest rate on various accounts of banks for more collection.
- The banks should be very careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its all customers. NIC is strongly recommended to gain highest profit margin. Also it should reduce its expense. Profitability position of NSBL is satisfactory and should try to maximize it.
- The main source of commercial banks is collecting deposit from public who don't need that fund recently. So it is recommended to collect more amounts as deposits through large variety of deposits schemes and facilities, like cumulative deposit scheme, prize bonds scheme, gift, cheques scheme, recurring deposit scheme (life insurance), house building scheme, direct finance housing scheme, education loan scheme and many others. And open new branches in rural area for better deposit collection.
- It is recommended to adopt innovative approach to marketing. The business of the bank should be customer oriented because of the growing competition in the banking sector. It should strength and activates its marketing function as it is an effectively tools to attract and retain the customers for the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way be optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore the new market areas. Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corners of the country. NSBL and NIC have shown not more interest to open branches in rural areas. Both the banks are recommended to expand their branches and banking services and facilities in rural areas and communities to accelerate their economic development.

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ANNEXURE – 1

i. Current Ratio Times

NSBL

Fiscal year	Current assets	Current liability	Ratio
2005/6	12718870029	11853465396	**1.075**
2006/7	13592593847	12537909708	**1.084**
2007/8	16849558549	15572801362	**1.081**
2008/9	29594333442	28253832354	**1.047**
2009/10	37227442486	35397125395	**1.051**

NIC

Fiscal year	Current Assets	Current Liability	Ratio
2005/6	10238530726	9417139229	**1.087**
2006/7	11303646377	10560843893	**1.070**
2007/8	14928495199	13735309414	**1.066**
2008/9	18166566513	16890379468	**1.075**
2009/10	19864922098	18344378448	**1.082**

i. Cash and Bank balance to Total Deposit Ratio (%)

NSBL

Fiscal Year	Cash & Bank balance	Total Deposit	Ratio
2005/06	1118158408	11002041000	**10.16**
2006/7	1122690227	11445286030	**9.81**
2007/8	1342960326	13715394960	**9.79**
2008/9	1176439838	27957220794	**4.21**
2009/10	3441261477	34896424201	**9.86**

NIC

Fiscal year	Cash & Bank balance	Total deposit	Ratio
2005/6	749139079	8765950638	**8.546**
2006/7	599758632	10068230869	**5.35**
2007/8	1192348786	13084688672	**9.11**
2008/9	1461150549	15879930904	**9.2**
2009/10	2086130109	15968911792	**13.063**

iii. Cash and Bank Balance to Current Assets Ratio (%)

NSBL

Fiscal Year	Cash & Bank balance	Current Assets	Ratio
2005/06	1118158408	12718870029	**8.79**
2006/7	1122690227	13592593847	**8.25**
2007/8	1342960326	16849558549	**7.79**
2008/9	1176439838	29594369442	**3.97**
2009/10	3441261477	37227442486	**9.24**

NIC

Fiscal Year	Cash & Bank balance	Current Assets	Ratio
2005/6	749139079	10238530726	**7.316**
2006/7	599758632	11303646377	**5.305**
2007/8	1192348786	14928495199	**7.987**
2008/9	1461150549	18166566513	**8.043**
2009/10	2086130109	19864922098	**10.50**

iv. Investment on Government Securities to Current Assets Ratio (%)

NSBL

Fiscal Year	Investment Got. Securities	Current Assets	Ratio
2005/6	3591773064	12718870029	**28.23**
2006/7	3591773064	13592593847	**26.42**
2007/8	3035553586	16849558549	**18.01**
2008/9	3306573600	29594333442	**11.17**
2009/10	4313317315	37227442486	**11.56**

NIC

Fiscal Year	Investment Got. Securities	Current Assets	Ratio
2005/6	1756585150	10238530726	**17.15**
2006/7	1104060515	11303646377	**9.76**
2007/8	1545375347	14928495199	**10.35**
2008/9	2195003685	18166566513	**12.08**
2009/10	3978900635	19864922098	**20.029**

v. Loan and Advances to Total Deposit Ratio (%)

NSBL

Fiscal Year	Loan& Advances	Total Deposit	Ratio
2005/6	7626736137	11002041000	**69.32**
2006/7	9460450701	11445286030	**82.65**
2007/8	12113698428	13715394960	**88.31**
2008/9	15131747944	27957220794	**54.12**
2009/10	17480548194	34896424201	**50.09**

NIC

Fiscal Year	Loan& Advances	Total Deposit	Ratio
2005/6	6655954020	8765950638	**75.92**
2006/7	8941397651	10068230869	**88.88**
2007/8	11264678096	13084688672	**86.09**
2008/9	13679393779	15879930904	**86.14**
2009/10	12732014319	15968911792	**79.72**

vi. Total Investment to Total Deposit Ratio (%)

NSBL

Fiscal year	Total Investment	Total Deposit	Ratio
2005/6	3611312064	11002041000	**32.82**
2006/7	2659452919	11445286030	**23.23**
2007/8	3088886918	13715394960	**22.52**
2008/9	13286181660	27957220794	**47.52**
2009/10	16305632815	34896424201	**46.72**

NIC

Fiscal year	Total Investment	Total Deposit	Ratio
2005/6	2479912524	8765950638	**28.29**
2006/7	1599481050	10068230869	**15.88**
2007/8	2311468317	13084688672	**17.66**
2008/9	3026022185	15879930904	**19.05**
2009/10	4946777670	15968911792	**30.97**

vii. Loan and Advances to Fixed Deposit Ratio

NSBL

Fiscal Year	Loan & Advances	Fixed Deposit	Ratio
2005/6	7626736137	6116172567	**1.24**
2006/7	9460450701	5517466903	**1.71**
2007/8	12113698428	6854885000	**1.76**
2008/9	15131747944	17438404928	**.868**
2009/10	17480548194	22148948329	**.7892**

NIC

Fiscal Year	Loan & Advances	Fixed Deposit	Ratio
2005/6	6655954020	4064500981	**1.63**
2006/7	8941397651	4074563221	**2.19**
2007/8	11264678096	5875951533	**1.91**
2008/9	13679393779	7580059764	**1.8**
2009/10	12732014319	7554059836	**1.68**

viii. Loan and Advances to Saving Deposit Ratio (Rs. in 000)

NSBL

Fiscal Year	Loan & Advances	Saving Deposit	Ratio
2005/6	7626736137	2832639222	**2.69**
2006/7	9460450701	3274690124	**2.88**
2007/8	12113698428	4171176000	**2.90**
2008/9	15131747944	5822293866	**2.59**
2009/10	17480548194	7348969807	**2.37**

NIC

Fiscal Year	Loan & Advances	Saving Deposit	Ratio
2005/6	6655954020	3797420661	**1.75**
2006/7	8941397651	3335671231	**2.68**
2007/8	11264678096	3667897217	**3.07**
2008/9	13679393779	3993715640	**3.42**
2009/10	12732014319	3715846822	**3.42**

ix. Fixed Deposit to Total Deposit Ratio (%)

NSBL

Fiscal Year	Fixed Deposit	Total Deposit	Ratio
2005/6	6116172567	11002041000	**55.59**
2006/7	5517466903	11445286030	**48.20**
2007/8	5517466903	13715394960	**49.97**
2008/9	17438404928	27957220794	**62.37**
2009/10	22148948329	34896424201	**63.47**

NIC

Fiscal Year	Fixed Deposit	Total Deposit	Ratio
2005/6	4064500981	8765950638	**46.36**
2006/7	4074563221	10068230869	**40.46**
2007/8	5875951533	13084688672	**44.90**
2008/9	7580059764	15879930904	**47.93**
2009/10	7554059836	15968911792	**47.30**

x. Saving Deposit to Total Deposit Ratio (%)

NSBL

Fiscal Year	Saving Deposit	Total Deposit	Ratio
2005/6	2832639222	11002041000	**25.746**
2006/7	3274690124	11445286030	**28.61**
2007/8	4171176000	13715394960	**30.41**
2008/9	5822293866	27957220794	**20.825**
2009/10	7348969807	34896424201	**21.059**

NIC

Fiscal Year	Saving Deposit	Total Deposit	Ratio
2005/6	3797420661	8765950638	**43.32**
2006/7	3335671231	10068230869	**33.16**
2007/8	3667897217	13084688672	**28.13**
2008/9	3993715640	15879930904	**25.14**
2009/10	3715846822	15968911792	**23.26**

xi. Return Total Working Fund Ratio (%)

NSBL

Fiscal Year	Net Profit	Total Working Fund	Ratio
2005/6	117002000	4826338270	**2.424**
2006/7	254909000	11205975962	**2.27**
2007/8	247771000	10060373651	**2.46**
2008/9	316373000	12379295951	**2.55**
2009/10	391742000	16196389224	**2.42**

NIC

Fiscal Year	Net Profit	Total Working Fund	Ratio
2005/6	96587674	555655548	**0.88**
2006/7	158475051	459274322	**1.02**
2007/8	243058040	876728044	**1.06**
2008/9	317434138	811107985	**1.50**
2009/10	449843702	1433919587	**1.43**

xii. Total Interest Earned to Total outside Assets Ratio (%)

NSBL

Fiscal Year	Total Interest Earned	Total Outside Assets	Ratio
2005/6	708719000	60918232105	**11.6**
2006/7	831116781	12895955699	**6.4**
2007/8	970512681	14625380674	**6.7**
2008/9	1460446686	91986531007	**15.9**
2009/10	2269704291	176213247781	**12.9**

NIC

Fiscal Year	Total Interest Earned	Total Outside Assets	Ratio
2005/6	579979428	10148894757	**5.71**
2006/7	725819040	12939854039	**5.61**
2007/8	931400562	16190250558	**5.75**
2008/9	1283520711	21031458687	**6.10**
2009/10	1777165668	29643107888	**6.0**

xiii. Return on Loan and Advances (%)

NSBL

Fiscal Year	Net Profit	Loan and Advances	Ratio
2005/6	117002000	7626736137	**1.53**
2006/7	254909000	9460450701	**2.69**
2007/8	247771000	12113698428	**2.65**
2008/9	316373000	15131747944	**2.090**
2009/10	391742000	17480548194	**2.24**

NIC

Fiscal Year	Net Profit	Loan and Advances	Ratio
2005/6	96587674	6655954020	**1.45**
2006/7	158475051	8941397651	**1.77**
2007/8	243058040	11264678096	**2.15**
2008/9	317434138	13679393779	**2.32**
2009/10	449843702	12732014319	**3.53**

xiv. Total Interest Earned to Total working fund Ratio (%)

NSBL

Fiscal Year	Total Interest Earned	Total Working Fund	Ratio
2005/6	708719000	4826338270	**14.68**
2006/7	831116781	11205975962	**7.4**
2007/8	970512681	10060373651	**9.64**
2008/9	1460446686	12379295951	**11.46**
2009/10	2269704291	16196389224	**14.04**

NIC

Fiscal Year	Total Interest Earned	Total Working Fund	Ratio
2005/6	579979428	555655548	**5.26**
2006/7	725819040	459274322	**4.68**
2007/8	931400562	876728044	**4.09**
2008/9	1283520711	811107985	**6.048**
2009/10	1777165668	1433919587	**5.66**

xv. Total Interest Paid to Total Working Fund Ratio (%)

NSBL

Fiscal Year	Total Interest Paid	Total Working Fund	Ratio
2005/6	334770000	4826338270	**6.93**
2006/7	412261744	11205975962	**3.67**
2007/8	454917713	10060373651	**4.52**
2008/9	824700275	12379295951	**6.66**
2009/10	1443693573	16196389224	**8.91**

NIC

Fiscal Year	Total Interest Paid	Total Working Fund	Ratio
2005/6	340221921	555655548	**3.087**
2006/7	421374951	459274322	**2.71**
2007/8	505995879	876728044	**2.22**
2008/9	767196816	811107985	**3.61**
2009/10	1031474076	1433919587	**3.286**

xvi. Return on capital employed Ratio (%)

NSBL

Fiscal Year	Net profit	Capital employed	Ratio
2005/6	117002000	1182373728	**9.89**
2006/7	254909000	1363290851	**18.69**
2007/8	247771000	1614644812	**15.34**
2008/9	316373000	2662849442	**11.88**
2009/10	391742000	2650554070	**14.77**

NIC

Fiscal Year	Total Interest Earned	Total Outside Assets	Ratio
2005/6	579979428	10148894757	**5.71**
2006/7	725819040	12939854039	**5.61**
2007/8	931400562	16190250558	**5.75**
2008/9	1283520711	21031458687	**6.1**
2009/10	1777165668	29643107888	**5.99**

xvii. Sample Calculation of Growth Rate of Total Deposit of NSBL and NIC

Growth rate is calculated from

$D_n = D_o(1+g)^{n-1}$

D_n = Total deposit of n^{th} year.

D_o = Total deposit of initial year.

G = Growth rate.

N = Number of year.

$_{2009/10}$=34896424201 D $_{2005/06}$=11002041000 N=5

$D_{2009/10} = D_{2005/06}(1+g)^{n-1}$ or, 34896424201= 11002041000 $(1+g)^{5-1}$

Or, 3.172= $(1+g)^4$ or, 1+g = $(3.172)^{1/4}$ g=0.3345 or 33.45%

Growth rate of other banks are calculated and fed in the corresponding tables according to the above formula

Other growth ratios are same as above methods.

ANNEXURE - 2

i. Calculation of Correlation between Total Deposit and Total Investment of NSBL and NIC

NSBL

F/Y	Total Deposit	Total Investment	
2005/06	**11002041000**	**3611312064**	
2006/07	**11445286030**	**2659452919**	
2007/08	**13715394960**	**3088886918**	
2008/09	**27957220794**	**13286181660**	
2009/10	**34896424201**	**16305632815**	
R			**0.9913**
r^2			**0.9826**
P.E.			**0.00525**
6P.E.			**0.03149**

NIC

F/Y	Total Deposit	Total Investment	
2005/06	8765950638	2479912524	
2006/07	10068230869	1599481050	
2007/08	13084688672	2311468317	
2008/09	15879930904	3026022185	
2009/10	15968911792	4946777670	
R			**0.7165**
r^2			**0.5134**
P.E.			**0.14678**
6P.E.			**0.8806**

ii. Calculation of Correlation between Total Deposit and Loan & Advances of NSBL and NIC Bank Ltd.

NSBL

F/Y	**Total Deposit**	**Loan and Advances**	
2005/06	**11002041000**	**7626736137**	
2006/07	**11445286030**	**9460450701**	
2007/08	**13715394960**	**12113698428**	
2008/09	**27957220794**	**15131747944**	
2009/10	**34896424201**	**17480548194**	
R			**0.9499**
r^2			**0.9023**
P.E.			**0.02947**
6P.E.			**0.17682**

NIC

F/Y	**Total Deposit**	**Loan and Advances**	
2005/06	8765950638	6655954020	
2006/07	10068230869	8941397651	
2007/08	13084688672	11264678096	
2008/09	15879930904	13679393779	
2009/10	15968911792	12732014319	
R			**0.9009**
r^2			**0.8116**
P.E.			**0.05683**
6P.E.			**0.3409**

ii. Calculation of Correlation between Outside Assets and Net Profit of NSBL and NIC

NSBL

F/Y	**Total Outside Assets**	**Net Profit**	
2005/06	60918232105	117002000	
2006/07	12895955699	254909000	
2007/08	146295380674	247771000	
2008/09	91986531007	316373000	
2009/10	176213247781	391742000	
R			**0.5709**
r^2			**0.3259**
P.E.			**0.0934**
6P.E.			**0.5605**

NIC

F/Y	**Total Outside Assets**	**Net Profit**	
2005/06	10148894757	96587674	
2006/07	12939854039	158475051	
2007/08	16190250558	243058040	
2008/09	21031458687	317434138	
2009/10	29643107888	449843702	
R			**0.9933**
r^2			**0.9866**
P.E.			**0.00404**
6P.E.			**0.02425**

ANNEXURE – 3

i. Trend Value of Total Deposit of NSBL

(Rs. In LACK)

Fiscal Year (t)	**Total Deposit (y)**	**x = (t-2008)**	**X^2**	**Xy**
2005/06	110020	-2	4	-220040
2006/07	114453	-1	1	-114453
2007/08	137154	0	0	0
2008/09	279572	1	1	279572
2009/10	348964	2	4	697928
N = 5	**990163**	**0**	**10**	**643007**

$$a = \frac{\sum y}{N} = \frac{990163}{5} = 198032.7$$

$$b = \frac{\sum xy}{x^2} = \frac{643007}{10} = 64300.7$$

a=198032.7, b =64300.7

The Equation of the Straight Line Trend is;

$Y_c = a + bx$, $Y_c = 198032.7 + 64300.7x$

Year	**x = (t-2008)**	**Trend Value** $Y_c = 198032.7 + 64300.7x$
2005/06	-2	69431.3
2006/07	-1	133732
2007/08	0	198032.7
2008/09	1	262333.4
2009/10	2	326634.1
2010/11	3	390934.8
2011/12	4	455235.5
2012/13	5	519536.2
2013/14	6	583836.9
2014/15	7	648137.6

ii. Trend Value of Total Deposit of NIC (Rs. In Lack)

Fiscal Year (t)	**Total Deposit (y)**	**x = (t-2008)**	**X^2**	**Xy**
2005/06	87659.5	-2	4	-175319
2006/07	100682.3	-1	1	-100682.3

2007/08	130846.8	0	0	0
2008/09	158799.3	1	1	158799.3
2009/10	159689.1	2	4	319378.2

$$a = \frac{\sum y}{N} = \frac{637677}{5} = 12735.4$$

$$b = \frac{\sum xy}{x^2} = \frac{202176.2}{10} = 20217.62$$

a=12735.4, b=20217.62

The Equation of the Straight Line Trend is;

$Y_c = a + bx$, $Y_c = 127535.4 + 20217.62x$

Year	**x = (t-2008)**	**Trend Value** $Y_{c=}$ 127535.4 + 20217.62x
2005/06	-2	87100.16
2006/07	-1	107317.78
2007/08	0	127535.4
2008/09	1	147753.02
2009/10	2	167970.64
2010/11	3	188188.26
2011/12	4	208405.88
2012/13	5	228623.5
2013/14	6	248841.12
2014/15	7	269058.74

iii. Trend Value of Loan and Advances of NSBL (Rs. In Lack)

Fiscal Year (t)	**Loan and Advances (y)**	**x = (t-2008)**	**X^2**	**xy**
2005/06	76267.3	-2	4	-152534.6
2006/07	94604.5	-1	1	-94604.5
2007/08	121136.9	0	0	0
2008/09	151317.4	1	1	151317.4
2009/10	174805.4	2	4	349610.8

$$a = \frac{\sum y}{N} = \frac{618131.5}{5} = 123626.3$$

$$b = \frac{\sum xy}{x^2} = \frac{253789.1}{10} = 25378.91$$

a=123626.3,b=25378.91

The Equation of the Straight Line Trend is;

Y_c = a + bx , Y_c = 123626.3 +25378.91x

Year	**x = (t-2008)**	**Trend Value** Y_c = 123626.3 +25378.91x
2005/06	-2	72868.48
2006/07	-1	98247.3
2007/08	0	123626.3
2008/09	1	149005.21
2009/10	2	174384.1
2010/11	3	199763.03
2011/12	4	225141.94
2012/13	5	250520.85
2013/14	6	275899.76
2014/15	7	301278.67

iv. Trend Value of Loan and Advances of NIC (Rs. In Lack)

Fiscal Year (t)	**Loan and Advances (y)**	**x = (t-2008)**	**X^2**	**xy**
2005/06	66559.5	-2	4	-216891.98
2006/07	89413.9	-1	1	-129196.31
2007/08	112646.7	0	0	0
2008/09	136793.9	1	1	157619.77
2009/10	127320.1	2	4	339955.94

$$a = \frac{\sum y}{N} = \frac{532734.3}{5} = 106546.83$$

$$b = \frac{\sum xy}{x^2} = \frac{151487.42}{10} = 15148.742$$

a=106546.83, b=15148.742

The Equation of the Straight Line Trend is;

Y_c = a + bx , Y_c = 106546.83+ 15148.742x

Year	x = (t-2004)	Trend Value Y_c = 139950.34 + 15148.74x
2005/06	-2	72766.77
2006/07	-1	89656.8
2007/08	0	106546.83
2008/09	1	123436.86
2009/10	2	140326.89
2010/11	3	157216.92
2011/12	4	174106.95
2012/13	5	190996.98
2013/14	6	207887.01
2014/15	7	224777.04

v. Trend Value of Total Investment of NSBL (Rs. In Lakh)

Fiscal Year (t)	Total Investment (y)	x = (t-2008)	X^2	Xy
2005/06	**36113.1**	-2	4	-72226.2
2006/07	**26594.5**	-1	1	-26594.5
2007/08	**30888.8**	0	0	0
2008/09	**132861.8**	1	1	13861.8
2009/10	**163056.3**	2	4	326112.6
N = 5	**389514.5**	**0**	**10**	**241153.7**

$$a = \frac{\sum y}{N} = \frac{389514.5}{5} = 77902.9$$

$$b = \frac{\sum xy}{x^2} = \frac{241153.7}{10} = 24115.37$$

a=77902.9, b=24115.37

The Equation of the Straight Line Trend is;

Y_c = a + bx , Y_c = 77902.9 + 24115.3x

Year	x = (t-2008)	Trend Value Y_c = 77902.9 + 24115.3x
2005/06	-2	29672.3
2006/07	-1	53787.6
2007/08	0	77902.9
2008/09	1	102018.2
2009/10	2	126133.5

2010/11	3	150248.8
2011/12	4	174364.1
2012/13	5	198479.4
2013/14	6	222594.7
2014/15	7	246710.0

vi. Trend Value of Total Investment of NIC (Rs. In lakh).

Fiscal Year (t)	**Total Investment (y)**	**x = (t-2008)**	**X^2**	**Xy**
2005/06	24799.1	-2	4	-49598.2
2006/07	15994.8	-1	1	-15994.8
2007/08	23114.6	0	0	0
2008/09	30260.2	1	1	30260.2
2009/10	49467.7	2	4	98935.4
N = 5	**143636.4**	**0**	**10**	**63602.6**

$$a = \frac{\sum y}{N} = \frac{143636.4}{5} = 28727.28$$

$$b = \frac{\sum xy}{x^2} = \frac{63602.6}{10} = 6360.26$$

a=28727.28, b=6360.26

The Equation of the Straight Line Trend is;

$Y_c = a + bx$, $Y_c = 28727.28 + 6360.26x$

Year	**x = (t-2008)**	**Trend Value** $Y_c = 28727.28 + 6360.26x$
2005/06	-2	16006.76
2006/07	-1	22367.02
2007/08	0	28727.28
2008/09	1	35087.54
2009/10	2	41447.8
2010/11	3	47808.06
2011/12	4	54168.32
2012/13	5	60528.58
2013/14	6	66888.84
2014/15	7	73249.1

vii.Total value of net profit of NSBL (Rs. In Lack)

Fiscal Year (t)	Net Profit (y)	x = (t-2008)	X^2	xy
2005/06	1170.0	-2	4	-2340
2006/07	2549.0	-1	1	-2549
2007/08	2477.7	0	0	0
2008/09	3163.7	1	1	3163.7
2009/10	3917.4	2	4	7834.8
N = 5	**13277.1**	**0**	**10**	**6109.5**

$$a = \frac{\sum y}{N} = \frac{13277.1}{5} = 2655.42$$

$$b = \frac{\sum xy}{x^2} = \frac{6109.5}{10} = 610.95$$

a=2655.42, b=610.95

The Equation of the Straight Line Trend is;

$Y_c = a + bx$ $Y_c = 2655.42 + 610.95x$

Year	x = (t-2008)	Trend Value $Y_c = 2655.42 + 610.95x$
2005/06	-2	1433.52
2006/07	-1	2044.47
2007/08	0	2655.42
2008/09	1	3266.37
2009/10	2	3877.32
2010/11	3	4488.27
2011/12	4	5099.22
2012/13	5	5710.17
2013/14	6	6321.12
2014/15	7	6932.07

viii. Trend Value of Net Profit of NIC (Rs. In Lakh)

Fiscal Year (t)	Net Profit (y)	x = (t-2006)	X^2	xy
2005/06	965.8	-2	4	-1931.6
2006/07	1584.7	-1	1	-1584.7
2007/08	2430.5	0	0	0

2008/09	3174.3	1	1	3174.3
2009/10	4498.4	2	4	8996.8
N = 5	**12653.7**	**0**	**10**	**8654.8**

$$a = \frac{\sum y}{N} = \frac{12653.7}{5} = 2530.74$$

$$b = \frac{\sum xy}{x^2} = \frac{8654.8}{10} = 865.48$$

a=2530.4 , b=865.48

The Equation of the Straight Line Trend is;

$Y_c = a + bx$, $Y_c = 2530.74 + 865.48x$

Year	**x = (t-2008)**	**Trend Value** $Y_c = 2530.74 + 865.48x$
2005/06	-2	799.78
2006/07	-1	1665.26
2007/08	0	2530.74
2008/09	1	3396.22
2009/10	2	4261.7
2010/11	3	5127.18
2011/12	4	5992.66
2012/13	5	6858.14
2013/14	6	7732.62
2014/15	7	8589.1