CHAPTER – I
INTRODUCTION

1.1 Background of the Study

Banking sector plays an important role in the economic development of the country. Commercial Banks are one of the vital aspects of this sector, which deals in the process of mobilizing the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial institutions and non depository financial institutions. Commercial Banks a Finance Companies (in Nepalese context) are the examples of depository financial institutions whereas Employment Provident Fund, Development Banks, Insurance Companies etc. Are the examples of non- depository financial institutions. All the economic activities are directly or indirectly channelled through these banks. People keep their surplus money as deposits in the banks and hence banks can provide such funds to finance the industrial activities in the form of loans and advances.

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

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

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

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

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

“Bank” is a financial institution which plays a great in facilitating the growth of the trade and industry.

Bank is also a resource for economic development which maintains the self-confidence of various segments of the society and extends credit to people. It is assumed that the word “ Bank” has been originated through the Italian word ”Bank” which refers to the meaning of accumulation of money or stock (i.e. Share Capital).

Similarly the word bank has also been derived from German word “Bench” which signifies heap or mound.

We can also say that a bank is related to collection of deposits, advancing loan and other credit activities. A Bank will generally collect deposits from different individuals and institution and utilizes it by giving loans to industries and commercial enterprises.

1.1.1 Development of Banking Industry in Nepal

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

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

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

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

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

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

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

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

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

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

1.1.2 Introduction to Nepal SBI Bank Ltd.

Nepal SBI Bank ltd. is the first indo- Nepal joint venture in the financial sector sponsored by three institutional promoter's namely State Bank of India, employees Provident Fund and Agricultural Development Bank Nepal through a memorandum of understanding signed on 17th July 1992 NSBL was incorporated as a public Ltd Company at the office of the company resister at April 28, 1993 under the registration No. 7-049/50 with authorized Capital of Rs 12 corers and was licensed by NRB, of July 6, 1993. NSBL commenced operation with effect from July7, 1993 with one full fledged of office at durbar marga, Kathmandu with 18 staff members. The staff strengthen has increased to 351. Under the Bank and financial institution act 2063 NRB Granted fresh license to NSBL classifying it as "A" class license institution on April 26, 2006. The management team and the managing director, who is also the CEO of the Bank, are deputed by NSBI. NSBI also provides management support as per the technical services agreement.

NSBI Bank Share Subscription:

The Share subscription of NSBI Bank has been as under:

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

The capital structure of NSBI Bank has been as under:

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

1.1.3 Objectives of Nepal SBI Bank Ltd.

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

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

1.1.4 Services offered by Nepal SBI

There are many services offered by Nepal SBI among which some are as bellows: Deposits, Saving, Current, Fixed Remittance, Money transfers from and to 770 branches of State Bank of India, Loans and Advances. To priority and deprived sector, Letter of Credit, Consortium lending, Bank Guarantee, Sales, Enhancement of Nepal's rupees and travellers Cheques.

1.1.5 Introduction to Nepal Bangladesh Bank Ltd.

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

The establishment of Nepal Bangladesh Bank is also a part of that impact in June 1994 with a joint venture of IFIC (International Finance Investment and Commerce Bank Ltd). Which is a pre- premier commercial bank of Bangladesh with its 58 branches and also have a joint venture exchange company in Oman and a joint

Venture Bank in Pakistan? The Bank is managed by very expert team of professionals. Its head office is situated at Bijuli Bazar Kathmandu.

Nepal Bangladesh Bank Share Subscription:

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

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

Nepal Bangladesh Bank Capital Structure:

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

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

1.1.6 Objectives of Nepal Bangladesh Bank

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

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

1.1.7 Services offered by Nepal Bangladesh Bank:

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

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

1.2 Focus of the Study

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

The main objective of this research is to analyze the financial performance through the use of appropriate financial tools. Joint venture commercial banks plays a tremendous role in a developed of developing nation, also helps to improve the economic sector of the country.

The banks have managed to perform better than other local commercial banks with short span of time; they have been facing a neck to neck competition against one another so the focus is to reveal the competition among this company.

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

1.3 Statement of the Problem

After the identification of liberal and market – oriented economic policy by Nepal Government, the joint venture bank has been gradually established, although they are facing a great deal of competition among themselves. In this aspects the joint venture have been able to perform a great deal than other commercial bank within the country in a short span of time they have been facing a neck-to- neck competition within themselves. While assessing the financial health of the company answers to the questions relating to the company’s profitability, assets utilization, liquidity financing capabilities may be sought. A number of questions go beyond the scope of ratio analysis. They however need to be answered while assessing the financial health of the company. Therefore it's very necessary to compare the profitability ratio and other financial aspects of Nepal SBI as compared to Nepal Bangladesh Bank.

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

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

1. Whose performance is better among the joint venture banks?
2. How to identify the best opportunity possible among the banks?
3. Although the banks are considered efficient how far are they efficient?
4. These questions arise in banking sector. Among the many other joint venture banks the study here mainly emphasizes on Nepal SBI and Nepal Bangladesh Bank and trying to solve following questions:
    a. Are they maintaining sufficient Liquidity?
    b. How and why do cash and bank balances change each other?
    c. Whose performance is better? Can they meet the obligations?
    d. Dose these banks managements utilized this resources satisfactorily?
    e. What are their sources and applications of income?
    f. Do they maintain sufficient refund in its capital employments?

The study tries to solve this question and the issues.

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

1.4 Objectives of the Study

There is no doubt that commercial banks play a vital role in the optimum mobilization and utilization of scattered financial resources of a country. The study here has been with a view to examine the financial strength and weaknesses of Nepal Bangladesh Bank and Nepal SBI Bank Ltd.

The objectives can also be highlighted as under

1. To see the financial performance through the use of appropriate financial tools.
2. To highlight various aspects relating to financial performance of Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd. For the period of 5 year.
3. To see the cause of changes in cash position of the two banks and there cause and effect to the financial market and their assets, dividend position and market price per share and DPS.
4. To suggest and recommend both the banks to improve their financial performance.

1.5 Limitation of the Study

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

1. The study here focuses only on the financial performance of these two banks.
2. The study covers only the financial performance of the 5- year, which is very short period to analyze the financial performance.
3. This study deals with certain tools such as Ratio Analysis, EPS, DPS analysis.
4. The study mainly concentrates on the financial performance of Nepal Bangladesh and Nepal SBI Bank.

1.6 Organization of the Study

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

Chapter - I:- Introduction

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

Chapter - II:- Review of Literature

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

Chapter - III:- Research Methodology

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

Chapter - IV:- Presentation and Analysis of Data

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

Chapter - V:- Summary, Conclusion and Recommendations

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

Besides these, bibliography, appendices and other related items or figures will also be included at the end of the study report.

CHAPTER - II
REVIEW OF LITERATURE

2.1 Introduction

This chapter focuses with literature in the selected field and research related to the present studies. Review of literature is a way to discover what other research in the area of our problem has uncovered. Scientific research must be based on the past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study *(Wolf and Pant; 1999:3).* Review of literature means reviewing research studies of other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies maybe known and further research can be conducted. This part of the study highlights available literature related to this research which makes base of knowledge for the study. Review of literature is stock thinking of available literature in one's field of research. It comprises conceptual review, review of related studies and concept of financial analysis.

2.2 Conceptual Framework

2.2.1 Concept of Banking

The writers on the banking are divided regarding the origin of the word "Bank". Some authors feel that the word bank is derived from the words "Banco". "Bancus" or "Banque" which all mean a bench.

A bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credit and transfer funds by written order of depositors *(The Encyclopedia America; 1984:234 Vol. 3).*

Bank is an institution, which deals with money & credit. It accepts deposits from public, makes fund available to those who need them and helps in remittance of fund from one place to another. “A bank seeks optimum combination of earning liquidity and safety. While formulating investment policy" *(Chandler; 1973:138).* The more developed financial system of the world characteristically falls into three parts, the central bank, the commercial bank and other financial institutions *(Sayer; 1976:16).* According to concise oxford dictionary," A Bank is an establishment of custody of money which it pays out on customer demand".

Some other well know definition given by different writers regarding "Bank"
"A Bank is an institution where debts (Bank Deposits) are widely accepted in settlement of other people's debt by each other" *(Sayers; 1976: 21).*

At least, we can say that it's basically a financial intermediary action between transactions, the confidence of which is ultimately the success of the bank, this calls for the prompt, convenient and quality service to its customer but also establish good rapport with them,

"The American institute of banking has laid down four functions of the commercial bank i.e. receiving and handling deposits, handling payments for its clients, granting loans and investing and creating money by extension of credit"

Any bank must maintain adequate cash and bank balances to meet its day- to –day management of cash resources for remote contingencies.

According to the Nepalese Commercial act, 2031 B.S.

"A commercial bank is one which exchanges money, deposit money, accepts deposits, grants loans, and performs commercial banking function.

Origin of Bank in Nepal

The origin of bank in Nepal was also from the ancient period in the form of Moneylender, traders etc. But later on an institute called "Tejarath- Adda "was established at 1933 BS. The origin of bank is not a mew phenomenon because there was a raw form of banking in the ancient period or "Vedic Era". The term deposits, pledge, policy of loans, interest retested can be found in the "Manu Smriti" Era too..... But we can say that after the end of Roman emperor at 15th century and the beginning of the 16th century consequent commercial and other training activities in European Countries.

As per the proper origin Sir G. Crowther said that the following are the ancestors of banking activities.

- The Merchant Traders.
- The Gold Smith
- The money lenders

But in accordance to traceable and practicable origin the development of banking institution in the world was from Italy as "The Bank of Venice" established at 1157 AD. The second banking institution" The Bank of Bareelona" of Spain established at 1401 AD whereas " The Bank of England" was established at 1964 AD as a joint Stock bank and later on was the first central bank of the world.

In the context of Nepal, at 1994 BS the first commercial bank 'Nepal Bank Limited' was established which provided services to part of the country. After this institution the banking business started growing from time to time. Another banking institution 'Nepal Rastra Bank' was established at 2021 B.S. and is opened as the first central bank of Nepal which not only controls the entire bank but also controls credit and issue notes to general public. This was not the end later on in order to develop the industrial sector and 'industrial Development bank' was established at 2016 BS but the second commercial bank was established at 2022 BS. As Rastrya Banijya Bank which was the government established banks to develop the industrial sectors of the country but lately the need of development of agriculture sector was seen broadly this captured the 90% of the total occupation of the country which helped in establishing Agriculture Development Bank.

From 1984 AD Government of Nepal again established 5 regional development banks under the control of Central bank which can be pointed out as follows:

- Eastern Rural Development Bank
- Western Rural Development Bank
- Central Rural Development Bank
- Mid- Western Development Bank
- Far- Western Development Bank

2.2.2 Concept of Commercial/Joint Venture Bank

A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for co-operatives, agriculture, industries, or for such specific purpose *(Commercial Bank Act;1974:16).*

Commercial bank is a dealer in money and substitutes for money, such as cheque or bill of exchange. It also provides a variety of financial services *(The New Encyclopedia Britannica; 1985:600).*

2.2.3 Function of Commercial Banks

Accepting Deposits

The main function of commercial bank is to accept deposit from their customers People consider it more rational to deposit their savings in a bank because by doing so they generally banks accepting different types of deposits as follows.

i. Saving Deposit Account
ii. Current Deposit Account
iii. Fixed Deposit Account
iv. Recurring Deposit Account

Loan Extension

The second important function of commercial bank is to extension of loan to their entrepreneurs and general public. After keeping certain cash reserve the banks lend their deposits to the needy borrower. Following some types of loan is providing by banks to their customer.

i. Money at call
ii. Terms Loans
iii. Overdraft
iv. Cash Credit
v. Discounting of bills of Exchange

Agency Function

Banks also perform creation agency function for and on behalf of their customers.

- Remittance of funds.
- Collection and Payments of Credit Instruments
- Executing of standing orders
- Collection of Dividends on Share

General Utility Function

- Locker Facility
- Underwriting Securities
- Letter of Credit
- Foreign Exchange

Joint venture banks are important for the economic development to mixed economy Followers like Nepal. Nepalese economic situation and investment necessity provide a significant weight to joint venture banks bring foreign capital, experience, technology, skill and art.

In a global prospective, joint ventures are the mode of trading partnership among nations and also a form of negotiations between various groups and services for sharing comparative advantages. A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out a special operation.

The role of joint venture banks in Nepal are as follows.

- Good banking services and modern management.
- Joint venture bank plays a important role in Nepalese Economy
- Expose the Nepalese financial rules, regulations and policies to foreign Investors.
- Competitive environment
- Introducing foreign investment in Nepal

A business contract of management effort between two persons, companies or organization involving risk and benefit sharing *(Ahuja;1999:201).* When two or more independent firms mutually decide to participate in a business venture, contribute to the total equity more or less capital and establish a new organization, it is known as joint venture *(Jauch and Glueck; 1988:232).*

Some various functions of commercial banks are as follows:

- The credit function.
- The payment function.
- The insurance (risk management) function.
- The security banking (Security Underwriting) function.
- The merchant banking (Temporary Stock Investment).
- The saving function.
- The investment/financial planning function.
- The real estate and community development function.
- The cash management functions.

2.3 Financial Statement Analysis

Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable condition of a business concern, there fore, financial analysis reflects the financial position of a firm which is the process of determining the operational and financial characteristics of a firm.

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

Local commercial banks have been found relatively higher leveraged compared to other joint venture banks. Loans and advances has been the main form of the investment. Two third of the assts have been used for earning purpose *(Joshi;1989:56).*

Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firms to identify problems, if any in the past or present and/or likely to be in the future and to provide recommendation to solve the problems *(Pradhan;2000:120).*

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

It is both the analytical and judgmental process that helps answer and question that have been posed. Therefore, it is means to end. A part from the specific analytical answer, the solutions to financial problems and issues depend significantly. On the view of the issue and on the nature and reliability of the information available.

2.3.1 Objective of Financial Analysis

The main objectives of financial analysis is explain various facts related to the past performance of business and predict the potentials for achieving desired results. Some of the main objective of financial analysis can be pointed out as follows:

- To understand the solvency of short term and long term of a firms.
- To know the present and future profitability of the firm.
- To compare with different firms.
- Fore cast the future & preparing budgets.
- The financial stability of business firm.
- The long term liquidity of its fund.*(Brealey, &Myers; 1984:78)*

2.3.2 Need of Financial Analysis

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

What is the present performance of the firm? Which are the problem existing areas?

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

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

2.4 Review of Articles, Thesis and Journals

2.4.1 Review of Articles

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

Regarding the risk management of the bank Shrestha suggests that:

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

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

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

Bajaracharya (1991), entitled *"Monetary and Deposit Mobilization in Nepal"* concluded that, mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal. And commercial banks are the most active financial mediator for generating resource in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

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

Some of her conclusions relevant to this thesis are:

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

- Among the commercial banks, Standard Chartered Bank seems to have highest growth rate of EPS.

Shrestha (1998), entitled "*Capital Adequacy of Bank*" said that banks deal with in highly risky transactions to maintain strong capital base. He suggested that capital should be optimum level to keep the standard ratio of capital for each bank.

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

Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other resources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decision. The requirements of bank's financial statement have been expressly laid down in the concerned act. The Commercial Banking Act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

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

- The structure of balance sheet and profit and loss account.
- Operating efficiency and internal management system
- Managerial decision taken by top management regarding rate, exchange rate, lending policies etc.

- Environmental changes (technology, government, competition and economy)
- The other factors to be considered in analyzing the financial statements of a bank are to assess the capital adequacy ratio and liquidity position. In the line of adequacy, a bank is assessed on the basis of risk weighted assets. It indicates a bank's strength and solvency. Bank facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measured by the speed with which a bank's assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

Rana (2003), in his interview to *"Business Age"* monthly said that though JVBs have short term threats they are operating efficiently and earning and paying handsome dividends. Hence the share prices have gone up. If the law and order situations do not improve in the country, in two three years time top ranked banks are expected to survive somehow but others may find harder time.

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

Dhungana (2005), entitled *"Non Performing Loan and Commercial Banks"* said that the banking sector is severely affected by the non-performing loan. It is estimated that non-performing loan of the Nepalese banking system is around 16%. Due to the non-performing loan, two old commercial banks, RBB and NBL, are in the worst position today. JVBs are also facing non-performing loan problem. It has a serious implication on economic performance of the country. Hopefully the DebtRecovery Act 2058 will tackle this problem.

Pradhan (2008), made a Comparative "*Study between Government Shared Commercial Banks and JVBs in Respect of their Performances and Profitability*".
Major findings of this study are:

1. The foreign banks have better deposit collection.
2. Current deposits in JBVs are higher but fixed is lower in comparison to government shared banks.
3. By profitability JBVs are better.

Shrestha (2008), in his article "*Nepalma Banijya Bank Haruko Bhumika: Ek Paridrist*" I pointed out some important activities, seen in the banking sector, that deserve reviews:

a. Possibility of capital flight: The unstable political situations caused the possibility of capital flight soaring high. Joint venture banks can become the main source of capital flight. It should be seriously considered and analyzed and corrective actions to be taken in time.
b. Minimum deposit amount: Commercial banks and financial institutions have increased the minimum deposit amounts (threshold). This policy harasses depositors.
   Therefore this policy deserves review.
c. Debt recovery and its effectiveness: Debt recovery has become a problem to the banks. Therefore, effective evaluation of collateral and monitoring of loans use should be done effectively.

2.4.2 Review of Thesis

Prior to this study several research works have been done by the students on the performance of commercial banks of Nepal. For review purpose relevant studies have been gone through. Some of the conclusion drowns by them are cited below:

Singh (1995), entitled "*A Comprehensive Evaluation of Financial Performance of Nepal Arab Bank Ltd and Nepal Grindlays Bank Ltd*." Reveals that the liquidity position in terms of current ratio of both the banks is below the normal standards. The researcher's main objective was to analyse how these banks use their sources. According to the analysis of turnover of active ratios NABIL invest 57% of deposits whereas Nepal Grindleys Bank Invest 41% of the total deposits on the loans as advances. In this portfolio NABIL is performing better and has the better liquidity position. Profitability ratio of both the banks reveals positive reform during the study period but the progress is higher in Nepal Grindleys Bank whereas NABIL seems more efficient in utilizing its capital employed in generating interest income. As NABIL has acquired more funds, it has also raised more capital by issuing shares, bonus shares and retaining earnings.

The main objectives of this thesis are:

- To find out liquidity position of these commercial banks.
- To analyze the resource position of both banks.
- To show the profitability ratio of these banks.

Shakya (1995), made "*A Study on a Topic of Financial Analysis of JVB in Nepal*". His main objective was to make comparative study on financial performance of the Nabil and Nepal Grindlays Bank banks. By his study he wanted to help the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis, use and sources of the funds and statistical tools like hypothesis tests in his study. And he observed there is a significant difference between mean values of each selected ratios of NABIL and NGBL except in the cases of fixed despots to total deposits ratio, loans and advances to total deposits ratio and loans and advances to total assets ratio. He concluded that NGBL is comparatively better in liquidity position than NABIL. NABIL is more successful in assets utilization than NGBL. NGBL'S capital structure position is more risky than that of NABIL. NGBL‟s profitability position is better than NABIL‟s.

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

Major finding of these thesis are:

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

Shrestha (2002), entitled "*A Study on a Topic of a Comparative Evaluation of Financial Performance of Nepal Arab Bank Ltd and Nepal Grindlays Bank Ltd*." the main objective of the study was to analyze and evaluate the financial position of Nepal Arab Bank Ltd and Nepal Grind Lays Bank Ltd. In his study he used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, hypothesis tests. He revealed that the liquidity position in terms of current ratio of both the banks is below the normal standards. NABIL is better at utilization of outsiders‟ funds while NGBL is better at overall assets mobilization. NGBL is better at profitability. NABIL is better at utilizing capital for income generation. NABIL has better capital base.

Main objectives of this thesis are:

- To find out the financial position of the banks.
- To analyze the liquidity position and how the bank use their assets in remote area and facilitates people.
- To find out overall assts mobilization.

Lamsal (2004), made "*A Comparative Financial Statements Analysis of HBL and NGBL".* His main objective to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. He found that liquidity position of HBL is better than NGBL. HBL has sufficient cash and bank balance to meet its current and fixed deposits. HBL has better turnover than NGBL in terms of loan and advances to total deposits ratio. Investment to total deposit ratio of NGBL is better than HBL. NGBL pays higher dividend per share than HBL.

Parajuli, (2005), entitled "*A Comparative Study of the Financial Performance of Joint Venture Banks in Nepal*" has set the main objective to evaluate effectiveness of monitoring and collecting policies of banks. The researcher has specialized study on Nepal Grindleys bank Ltd. and Nepal Arab Bank Ltd. The analysis of liquidity ratio reveals that the liquidity position is relatively higher in case of NABIL. As indicated by the activity ratio, NABIL has better performance than Nepal Grindleys Ltd, which might be the consequences of better lending policy of NABIL. Regarding the profitability ratio, almost of the profitability ratios of NGBL is higher than those of NABIL in percentage, which reveals that NGBL is relatively great efficiency in mobilization it resources. Profitability ratio, which measures the bank's capacity to earn the means of substance, is different in those two banks. During the study time frame, NGBL has better result in respect of Net profit to total assets ratio, net profit to total deposit, return on network, return on assets and ROCE than NABIL. EPS of NABIL is better than NGBL. Thus, it may be concluded that NGBL may have bright future than that of NABIL because it is quiet efficient in generating the means of subsistence.

Mandel (2005), entitled "*A Comparative Financial Performance Appraisal of Joint Venture Banks*" concludes liquidity position of NIBL is better than NABIL and NGBL. NABIL and NGBL have registered low cash & bank balance percentage that indicates NABIL & NGBL may have invested there deposited amount in more productive sector like treasure bills, short term investments & market Securities. NGBL has earns more profit on this basis of earning per share than other two banks NABIL and NIBL.

Oli (2006), made *"A Comparative Study on Financial Performance of HBL, NSBIBL, and NBBL*." His main objective was to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. And he observed that NSBIBL and NBBL are always above the normal standard, HBL always below the normal at liquidity position. Liquidity position of NBBL is better than NSBIBL and NSBIBL is better than HBL. And they are suggested to utilize the excess of resources for income generation. Total debt to equity and total assets is higher for HBL than both. NBBL has been able to mobilize total deposits in loan and advances than HBL and NSBIBL. NSBIBL is better than HBL at this. HBL has better utilization of fixed deposits in earning. NSBIBL has better used of saving deposits than other two net profit to total assets of HBL is better. The profit level is lower in all.

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

Objectives of the study:

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

Major findings of this study are:

- The fund utilization NBBL is better than NGBL.

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

Regmi (2007), entitled *"A Comparative Study of Financial Performance of Himalayan Bank Limited & Nepal Bangladesh Bank Limited* "concludes that HBL is more levered. Both of these banks are utilizing their deposit funds through loans & advance to generate revenue efficiently, but comparatively NBB is utilizing its funds in short term investments and NBB has more non-earning idle assets as cash and bank deposits. Profitability position of NBB is not unsatisfactory one. The bank has shown improvement trend on this regards. In this regards, NBB has better financial performance than HBL.

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

Major finding of this study:

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

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

The main objectives of this study are:

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

Major finding of this study are:

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

Dahal (2009), made *"A Comparative Study of Financial Performance of HBL and NBBL"*. The main objective was to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and statistical tools like average, CV, SD, hypothesis tests (F- test) in his study. And he concludes that NBBL maintains above the standard liquidity ratio, NBBL is better at mobilizing the deposits, at mobilizing fixed deposits HBL is better, HBL is more leveraged and riskier, NBBL has been found better performed at utilizing overall resources, where as net profit to total deposit ratio is higher with HBL, HBL in better at mobilizing the equity. NBBL has higher fluctuation at net profit margin so it has high risk of solvency, NBBL is better at commission and discount whereas HBL is better at interest income, operational cost of HBL is higher.

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

The main objectives of this study are:

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

The major findings of this study are

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

2.5 Research Gap

After reviewing the researches done through out the past, the present researcher has found that comparative study of the financial performances of the banks has not been long analyzed especially between the Nepal Bangladesh Bank Ltd and NSBI Bank Ltd. The past studies have recommended some of the remedial references like to reduce the debt, increase the liquidity, to limit the operating cost. It's been time to check how far the differences have occurred in the banks. The present study explores the comparative and financial performances of the banks: NSBI Bank and Nepal Bangladesh Bank as sample banks.

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

CHAPTER - III
RESEARCH METHODOLOGY

Research Methodology is the process of arriving at the solution of a problem through a planned and systematic dealing with the collection, analysis and interpretation of the facts and figures. It presents research methodology adopted in achieving the objective stated in the earlier chapter. It contains research design, sources of data, data gathering procedure and data analysis tools.

The main objective of this report is to analyze, examine, highlight and complete the financial performance of Nepal Bangladesh Ltd. & Nepal SBI Bank Ltd. And recommend and suggest for better performance. So the propose of this study is to analyze and fulfil the stated objectives. Project methodology refers to the various sequential steps to be adopted by a reporter in studying a problem with certain objectives in view. It's the way to solve the research problem systematically. Here, focus is made on research design, sample size, source and type of data, data gathering instruments and procedures, data tabulation and processing study limitation and methods of analysis.

3.1 Research Design

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

Research design is plan, structure and strategy of investigation conceived. So as to obtain answer to research question and to control variances to achieve of the study, descriptive and analytical research design have been used.

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

3.2 Population and Sample

All the commercial banks operating in the country is the population of the country among them two joint venture commercial banks Nepal Bangladesh Bank and NSBI Bank Limited are selected for the study. The sampling technique used in this study is the judgmental.

3.3 Sources and Collection of Data

For the purpose of study only the secondary data are used. The required data and information for analysis are directly collected from the annual reports of the respective banks. The supplementary data are collected from number of institution like Shanker Dev Campus Library and documentation section of T.U. Library, company office etc. Similarly related books magazine Journals articles reports bulletins and data from security board Nepal. Further the secondary data have been collected from reports and financial statement of the company, published and unpublished officials reword, books, articles magazine, annual report etc.

3.4 Method of Data Analysis

For the purpose of analysis, financial, statements, profit and loss account and Balance Sheet of the concerned banks has taken financial as well as statistical tools have been used. Financial performance is analyzed through the use of two important tools.

3.4.1 Financial Tools

a) Ratio Analysis

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

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

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

1. Liquidity Ratio

Liquidity Ratio is a rigorous measure of a firm's ability to service its short-term obligation. It reflects the short term financial solvency of a firm as a whole or it is employed as a measurement of a company's liquidity position. The firm should maintain as appropriate liquidity neither excess nor less to meet its short term obligation when they become due. Inadequate liquidity can lead to unexpected cash short falls. A very high degree of liquidity is also not good, as ideal assets earn nothing, leading to fewer assets yields and contributing to poor earning performance. It can be divided into two parts. They are current and quick ratio for the study, only current ratio is taken into consideration.

i) Cash and Bank to Total Deposit Ratio

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

ii) NRB Balance to Current and Saving Deposit Ratio

NRB Balance to Current and Saving Deposit Ratio = $\frac{\text{NRB Balance}}{\text{Current \& Saving Deposit}}$

iii) NRB Balance to Fixed Deposit Ratio

NRB Balance to fixed deposit Ratio = $\frac{\text{NRB Balance}}{\text{Fixed Deposit}}$

iv) Fixed Deposit to Total Deposit Ratio

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

2. Utilization /Activity/ Turn Over Ratio

Turn over Ratio is concerned with measuring the efficiency in its assets management. This ratio measures the degree of effectiveness and use of resources of a firm. It indicated how quickly certain current assets are converted into cash. Higher the rate means more efficient in management on the utilization of its resources and vice versa.

Following ratios are used under utilization ratio:

i. Investment to Total Deposit Ratio

This ratio is calculated investment dividing by total deposit. This ratio presets how efficiently the resources the banks have been mobilized high ratio shows managerial efficiency regarding the utilization of deposit and vice- versa.

$$\frac{\text{Investment}}{\text{Total Deposit}}$$

ii. Loan and Advance to Saving Deposit Ratio

This ratio shows to the extent of saving has been turnover to loans and advance. This ratio is calculated by following formula.

$$\frac{\text{Loan and Advance}}{\text{Saving Deposits}}$$

iii. Loan and Advance to Total Deposits

This ratio measures the Bank's ability to utilize the deposits viz. Fixed, Current, Saving, Call and Margin deposits to earn profit by providing loans and advances. Higher ratio indicates higher and proper utilization of funds, and lower ratio is the signal of balance remained unutilized or remaining idle. The ratio can be calculated as under

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

iv. Loan and Advance to Total Assets Ratio

This ratio shows that, what a part of total assets has been used in focus and advance. This ratio is calculated by.

$$\frac{\text{Loan \& Advances}}{\text{Total Assets}}$$

3. Capital Adequacy Ratio

Capital adequacy ratio is used especially in case of bank to assess the strength of the capital adequacy of the capital. It is evaluated by compliance with the requirement stipulated by NRB. The capital adequacy ratio of banks is regularly monitored through their returns to submit to NRB. A very high or very low ratio is undesirable in terms of lowered return or lowered solvency respectively.

i) Net Worth to Total Assets Ratio

Net worth to total assets ratio is calculated by following formula.

$$\frac{\text{Net Worth}}{\text{Total Assets}}$$

ii) Net worth to Total Assets Ratio

This ratio is computed by net worth by total deposits. This ratio shows the percentage of net worth in relation of the total deposit collected in the bank.

$$\frac{\text{Net Worth}}{\text{Total Deposit}}$$

4. Capital Structure Ratio

Capital structure ratio measures bank's capacity of borrowings as a means of capital accumulation. Its measures of long form solvency of a bank. The combination of capital structure is debt and equity of banks. The ratio indicates the long term financial position. The following ratios are calculated to defined capital structure ratio of NB Bank and NSBI Bank.

i) Debt to Equity Ratio

This ratio represents the relationship between the both debt capital and equity capital. The ratio indicates the high debt and equity both are risky to the banks. This ratio is calculated in this way

$$\frac{\text{Total Debt}}{\text{Share Holders Equity}}$$

i) Debt to Total Capital Ratio

This ratio determines the relationship between total debt and total capital of the banks. This ratio is calculated in this way

$$\frac{\text{Total Debt}}{\text{Total Capital}}$$

ii) Total Debt to Total Assets Ratio

This ratio shows the portion of capital assets that are financed by outside funds on total assets. A high ratio implies a bank's success in exploiting debt to more profitable and riskier capital structure. It is calculated by dividing total assets.

This ratio is calculated by total debt dividing by total assets.

iii) Interest Coverage Ratio

This ratio is calculated by dividing earning before interest and tax by interest. This ratio shows the bank can pay the interest easily.

$$\frac{\text{Earning Before Interest \& Tax}}{\text{Interest}}$$

5. Profitability Ratio

Profitability ratio rated is designed to provide answer to questions such as: Does the firm adequate earn the profit? What rate of return does it represent? What is firm? What is the rate? Return to equity holders?

The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors.

i. Return on Total Assets Ratio

It is shows that the relationship of company is net profit and assets. This ratio indicated that of the bank RTAR is higher bank could well manage their operations.

$$\frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

ii. Return on Net Worth Ratio

This ratio also represents the relationship of net profit and assets, and this ratio shows to the investment in the banks are favourable or unfavourable. The ratio can be calculated in this way

$$\frac{\text{NPAT}}{\text{Net Worth}}$$

iii. Return on Total Deposit Ratio

This ratio is computed by net profit after tax dividing by total deposits. This ratio indicated the relation & net profit earned by bank with the total deposits accumulated.

iv. Staff Expenses to Total Ratio

Staff expenses refer to staff salary, allowance, personnel expenses, medical expense, and staff training expenses are involved. This ratio is calculated by staff expresses dividing by total income.

$$\frac{\text{Staff Expenses}}{\text{Total Interest Income}}$$

Total interest expenses consists of loan & advance, deposit and total interest paid and total interest income of government scurrilities retain from loans and advances etc.

6. Invisibility Ratio

i) Earning Per Share (EPS)

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

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

ii) Dividend Per Share (DPS)

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

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

iii) Dividend Payout Ratio (D/P Ratio)

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

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

3.4.2 Statistical Tools

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

Arithmetic Mean (Average)

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

$$= \frac{\sum x}{N}$$

Where,

$\bar{x}$= Arithmetic Mean

N = Number of Observations

$\sum X$= Sum of Observations

Standard Deviation (S.D.)

The standard deviation is the square root of man squared deviations form the Arithmetic mean and denoted by S.D. or σ. It is used as absolute measure of Dispersion or variability. It is calculated:

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

Where,

σ = Standard Deviation

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

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

Coefficient of Variation (CV)

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

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

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

Correlation Coefficient (r)

Correlation analysis in the statistical tools generally used to describe the degree which our variable is related to another. This tools is used for measuring the intensity or the magnitude of linear relationship between two variable X and Y is usually denoted by ‘r’ can be obtained as:

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

Where,

N = no of observation in series X and Y

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

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

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

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

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

Coefficient of Determination (r^2)

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

Probable Error of Correlation

The probable error of the co-coefficient of correlation helps in interpreting its value; it is obtained the following formula.

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

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

1. If r < P.E., it is insignificant. So, perhaps there is no evidence of correlation.
2. If r > P.E., it is significant.
3. In other cases nothing can be concluded.

Trend Analysis

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

Mathematically,

$$Y = a + bX$$

Where,

Y = Value of dependent variable

a = Y- intercept

b = slope of trend line

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

Normal equation of the above are

$$\sum Y = Na + \sum X$$

$$\sum XY = a\sum X + \sum X^2$$

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter the researcher has analyzed and interpreted relevant and available data of the selected commercial banks according to the research methodology as mentioned in the previous chapter. The analysis of data consists of organizing, tabulating and evaluating the collected data.

4.1 Ratio Analysis

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined.

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of a firm to meet its short-term obligations and reflects the short-term financial solvency of a firm. Sales factory liquidation position is one of the distinguishing characteristics of a sound banking system. Liquidity position of NB Bank and NSBI Bank is analyzed using the following relevant liquidity ratio.

a) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio of NBB an NSBI Bank different year have been presented in table 4.1.

Table 4.1
Cash and Bank Balance to Total Deposit Ratio

(Rs in Thousands)

Bank	NBBL			NSBI		
Year	**CBB**	**Total Deposit**	**Ratio (%)**	**CBB**	**Total Deposit**	**Ratio(%)**
2004/05	1401760	12807376	10.94	7237453	86547740	8.36
2005/06	1512294	12125578	12.47	4920350	11002041	4.47
2006/07	3544564	13015136	27.03	1156011	11445286	10.10

2007/08	3916865	93859495	14.17	1646973	13715395	12.08
2008/09	4063562	96123258	4.22	1910900	27957221	6.83
Mean			13.76			8.36
S.D.			7.45			5.92
C.V.			10.82			14.17

Source: Annual Reports of NBBL and NSBI (2004 /05to 2008/09) Appendix-1

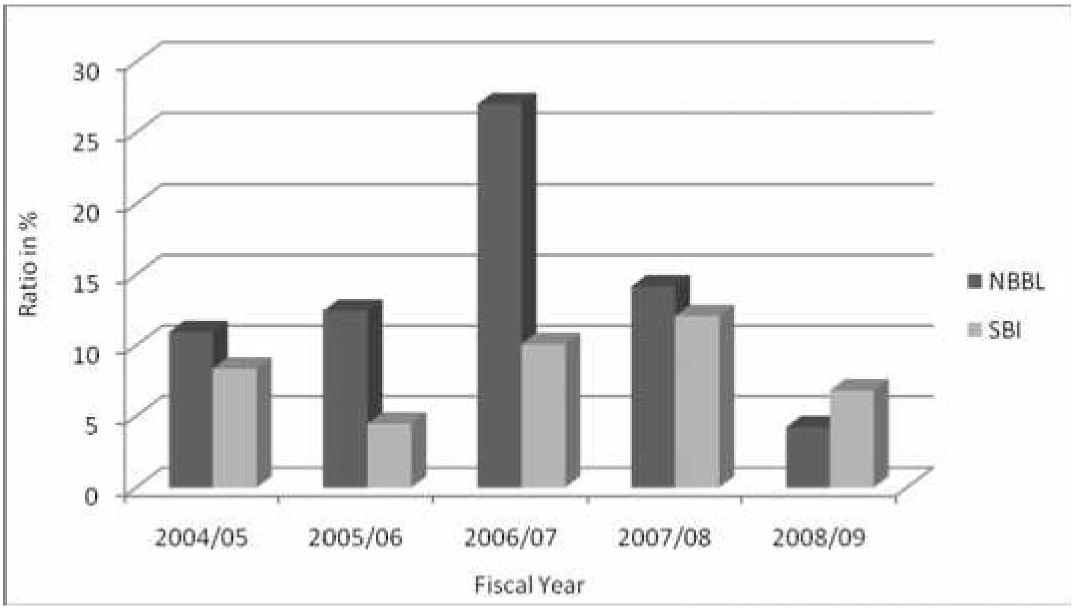
Table 4.1 shows that the cash and bank balance to total deposit ratio of the NBBL is 10.94, 12.47, 27.03, 14.17 and 4.22 % respectively in the selected year. It has highest in the year 2006/07 and lowest in 2008/09. The ratios are lower than average over 2004/05, 2005/06, 2007/08, 2008/09 and higher in the year 2006/07. The mean, S.D. and C.V. are 13.76, 7.45 and 10.82 respectively.

Similarly the ratios of NSBI over the study periods are 8.36, 4.47, 10.10, 12.08 and 6.83 % respectively in the selected year. It has highest in the year 2007/08 and lowest in 2005/06. The ratios are lower than average over 2005/06, 2008/09 and higher in the year 2006/07, 2007/08 and exactly in the year 2004/05

From the above calculation of cash and bank balance to total deposit ratio indicates that NBBL is more competent in payment deposits and more liquidity may maintained than NSBI and the analysis of C.V. it can be determined that the ratio percentage of C.V. is greater than NSBI, it shows NSBI have lower earning than NBBL.

Figure 4.1

Cash and Bank Balance to Total Deposit Ratio



b) NRB balance to Current & Saving Deposit Ratio

NRB balance to current & saving deposit ratio shows the cash balances of the bank in the Nepal Rastra Bank.

Table 4.2
NRB Balance to Current & Saving Deposit Ratio

(In Rs. Thousand)

Bank	NBBL			NSBI		
Year	**NRB -B**	**CSD**	**Ratio (%)**	**NRB-B**	**CSD**	**Ratio (%)**
2004/05	829861	6533560	12.70	245182	2458800	9.71
2005/06	794166	8532660	9.31	626123	2832639	22.10
2006/07	1157837	5696086	20.32	556678	3274690	16.99
2007/08	6144315	8356205	73.52	403810	4171175	9.68
2008/09	6578615	8965423	73.37	444138	5822293	7.63
Mean			39.84			13.22
S.D.			26.39			5.46
C.V.			15.10			6.74

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

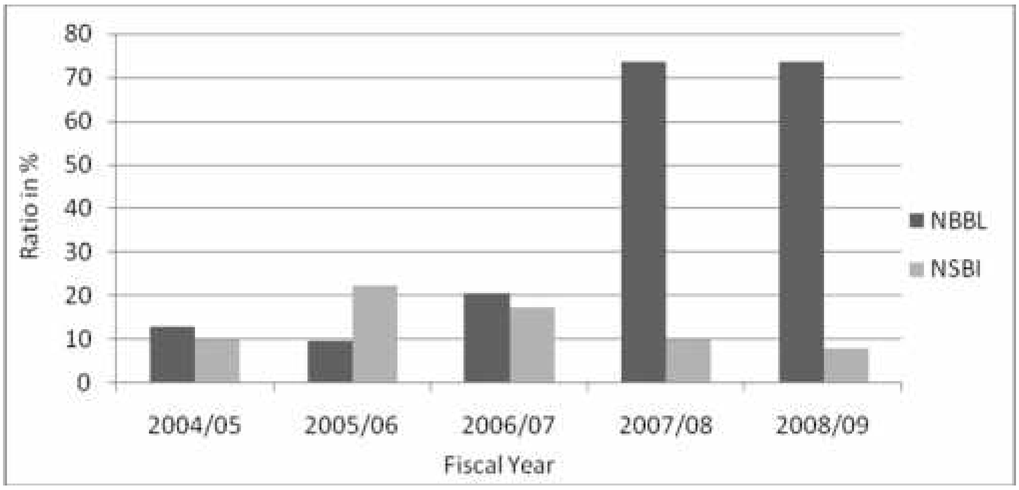
The above table shows the NRB Balance to Current & Saving Deposit Ratio of the selected banks in the selected years. The average ratio cash balance of NBBL is 39.84 which are higher than the NSBI. The S.D. and C.V. of the NBBL are 26.39 and 15.10 respectively.

NSBI also shows the similar type cash reserve ratio over the period. The average ratio is lower than the NBBL but trend is slightly different. The average ratio of NSBI is 13.22 and SD and CV of the bank is 5.46 and 6.74 respectively.

From the analysis it can be found that the average rate of cash balance of NBBL is greater than NSBI. This indicates that the position of liquidity of NBBL is stronger and NBBL has deposited excess cash in NRB.

Figure 4.2

NRB Balance to Current & Saving Deposit Ratio



c) NRB Balance to Fixed Deposit Ratio

This ratio shows the portion of fixed deposit deposited in the Nepal Rastra Bank. The ratio for both banks has been presented in table 4.3

Table 4.3

NRB Balance to Fixed Deposit Ratio

(Rs. in Thousands)

Bank	NBBL			NSBI		
Year	NRB-B	Fixed Deposit	Ratio (%)	NRB-B	Fixed Deposit	Ratio (%)
2004/05	508265	5031583	10.10	245182	2562317	9.56
2005/06	829861	4875734	17.02	626123	6116172	10.24
2006/07	794166	3536632	22.45	556678	8551746	6.51
2007/08	115783	2848158	40.65	403810	6854884	5.89
2008/09	6578615	96875623	6.79	444138	17438404	25.46
Mean			19.40			11.35
S.D.			11.94			7.45
C.V.			12.31			13.13

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

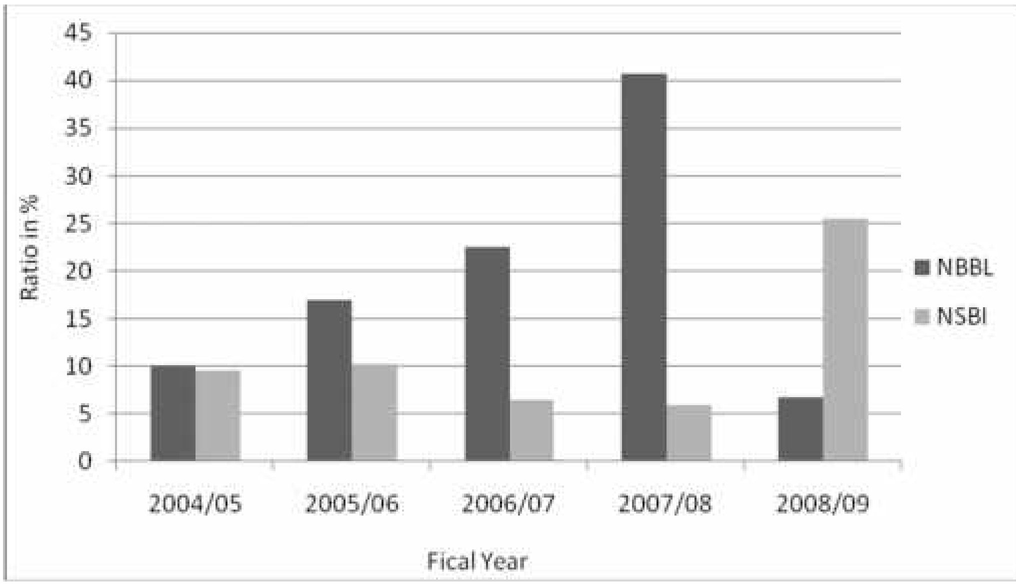
Table 4.3 shows that the average ratio of NBBL over the period is 19.40. This ratio is highest in the year 2007/08 and lowest in the year 2008/09. These indicate the amount of fixed deposit in the current year is decreased but remaining four year trend is increasing in year 2004/05 to 2007/08.

On the other hands the average ratio of the NSBI is 11.35 which are lower than the NBBL. This indicates that the fixed deposit of NSBI in an average is less than the NBBL. The S.D. is better than the NBBL it indicates that the risk is less then the NBBL.

From the above ratio it is found that the average NRB balance to fixed deposit ratio of NBBL is higher than the NSBI and NSBI has lower fixed deposit as compared to NBBL.

Figure 4.3

NRB Balance to Fixed Deposit Ratio



d) Fixed Deposit to Total Deposit Ratio

Fixed deposits to total deposits ratio shows the portion of fixed deposit in total deposit. Higher the ratio more chances will be to earn higher return in the future.

Table 4.4

Fixed Deposit to Total Deposit Ratio

(In Rs. Thousands)

Bank	NBBL			NSBI		
Year	Fixed Deposit	Total Deposit	Ratio (%)	Fixed Deposit	Total Deposit	Ratio (%)
2004/05	3536632	12807376	27.61	2562317	86547740	2.96
2005/06	2848158	12125578	23.48	6116172	11002041	5.56
2006/07	1578130	13015136	12.12	8551746	11445286	74.71
2007/08	1166720	93859495	1.24	6854884	13715395	49.98
2008/09	9687562	96123258	10.10	1743840	27957221	62.37
Mean			14.91			39.11
S.D.			9.51			29.53
C.V.			12.76			15.10

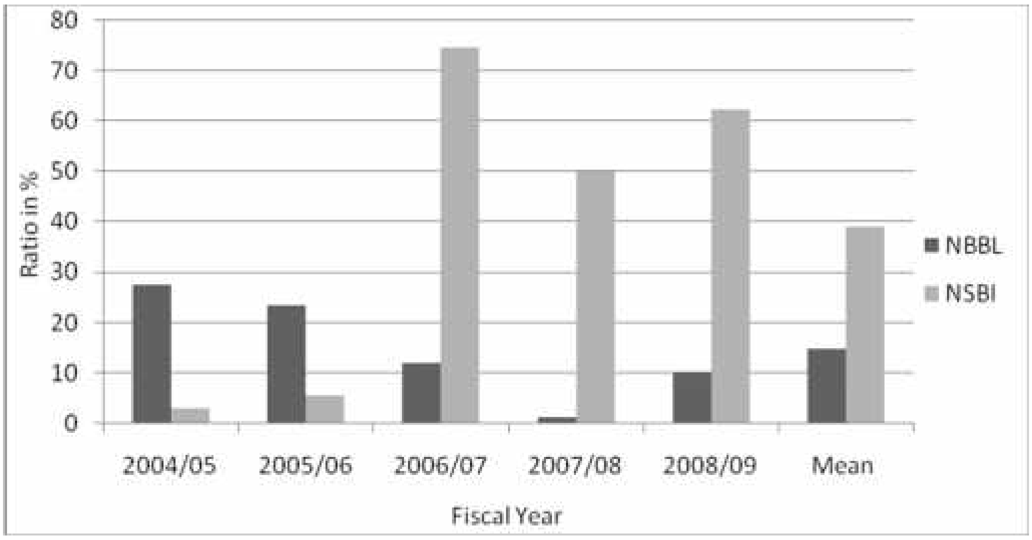
Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.4 shows that the mean ratio of NBBL is 14.91. The ratio over the period is decreasing over the period. The deposit in the year 2004/05 and 2005/06 are higher than average and in other year lower than average. This indicates the decreasing creditworthiness of the bank in the market. Similarly, the ratio of NSBI is also the fluctuation which is shows in above table. It indicates that the bank can improve their market competition.

The average ratio of NSBI is higher than the NBBL; therefore NSBI has more fixed deposit and has utilized opportunity of investment in sufficient profit generating area like as long-term loans. Another NBBL can invest in short term loans and current assets so as to strength its liquidity position.

Figure 4.4

Fixed Deposit to Total Deposit Ratio



4.1.2 Activity Ratio/ Turnover Ratio

This ratio is used to measure the efficiency and proper utilization of assets. Investment to total deposit ratio, loan & advance to total deposit ratio, loan & advance to total assets ratio, loan & advances to total saving deposit ratio here are included in this ratio.

a) Investment to Total Deposit Ratio

Investment to total deposit ratio for both banks (NBB & NSBI) are presented in table 4.5

Table 4.5

Investment to Total Deposit Ratio

(Rs. in Thousands)

Bank	NBBL			NSBI		
Year	**Investment**	**Total Deposit**	**Ratio(%)**	**Investment**	**Total Deposit**	**Ratio(%)**
2004/05	2799167	12807376	21.85	2607680	86547740	3.01
2005/06	2411720	12125578	19.88	3610775	11002041	32.81
2006/07	2661833	13015136	20.45	2659453	11445286	23.23
2007/08	1034560	93859495	1.10	3088887	13715395	22.52
2008/09	1536894	96123258	1.59	13286182	27957221	47.52
Mean			12.96			25.82
S.D.			9.54			14.54
C.V.			14.72			11.26

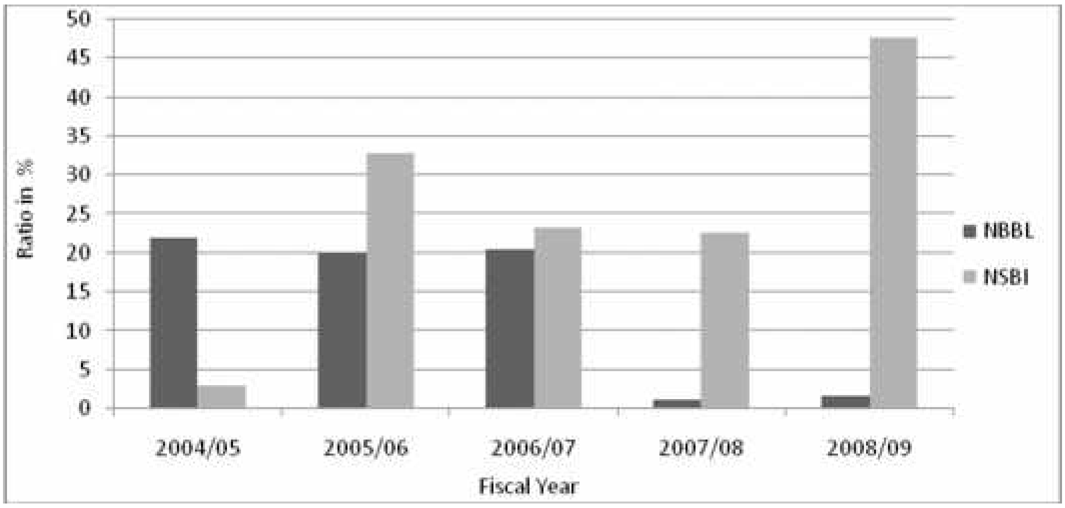
Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.5 shows investment portion out of total deposit in the sampled year. The average ratio of NBBL is 12.96 which is man that the average the bank is investing 12 percent of its deposit in different sectors. But the ratio is higher in the NSBI and which 25.82 percent. The S.D. and C.V. of both banks NBBL and NSBI are 9.54, 14.72 and 14.54, 11.26 respectively. It show that the risk is higher then the NBBL but per unit risk is higher than the NSBI.

From above calculation it is found that NSBI is investing more deposit than NBBL. Greater average ratio indicates successful utilization of deposit.

Figure 4.5

Investment to Total Deposit Ratio



b) Loan and Advances to Total Deposit Ratio

Table 4.6

Loans and Advances to Total Deposit Ratio

(Rs. in Thousands)

Bank	NBBL			NSBI		
Year	**Loan & Advance**	**Total Deposit**	**Ratio (%)**	**Loan & Advance**	**Total Deposit**	**Ratio (%)**
2004/05	8648744	12807376	67.52	6213879	86547740	7.18
2005/06	7787690	12125578	64.22	7626736	11002041	69.32
2006/07	6646024	13015136	49.63	9460451	11445286	82.65
2007/08	4409013	93859495	4.69	12113698	13715395	88.32
2008/09	4823895	96123258	5.02	15131748	27957221	54.12
Mean			38.28			60.32
S.D.			27.81			28.88
C.V.			14.53			9.57

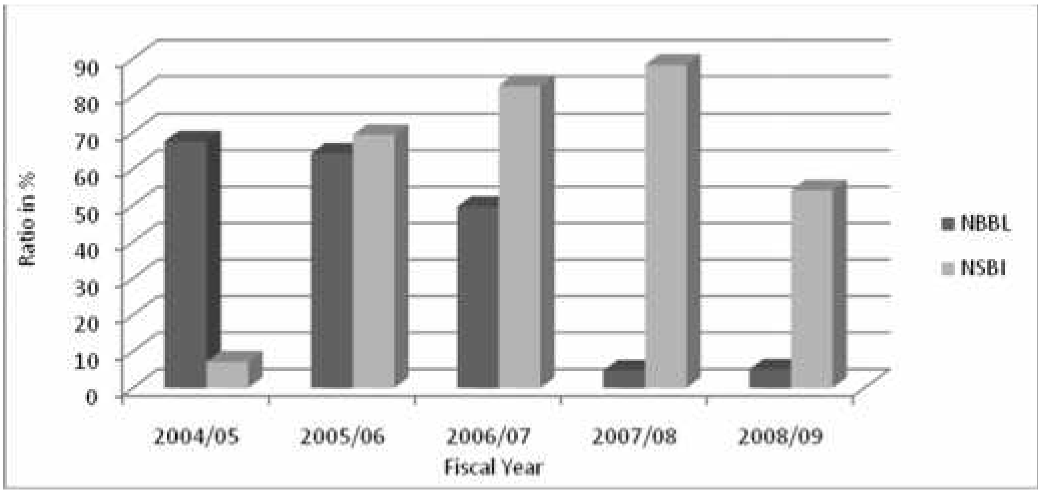
Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.6 shows loan and advances to total deposit ratio in the sampled year. The average ratio of NBBL is 38.28 which mean that the average the bank is lending 38 percent of its deposit. The ratio of the bank is decreasing over the period. Whereas the ratio of NSBI is decreasing and an average the bank is investing 60 percent of its total deposit which is more than NBBL.ie the bank landing more than 50 percent of its deposit.

From the above calculation it is found that NSBI is investing more deposit than NBBL. Greater average ratio indicates successful utilization of deposit.

Figure 4.6

Loans and Advances to Total Deposit Ratio



c) Loan and Advances to Total Assets Ratio (in Rs. Thousand)

Table 4.7

Loan and Advances to Total Assets Ratio

(In Rs. Thousands)

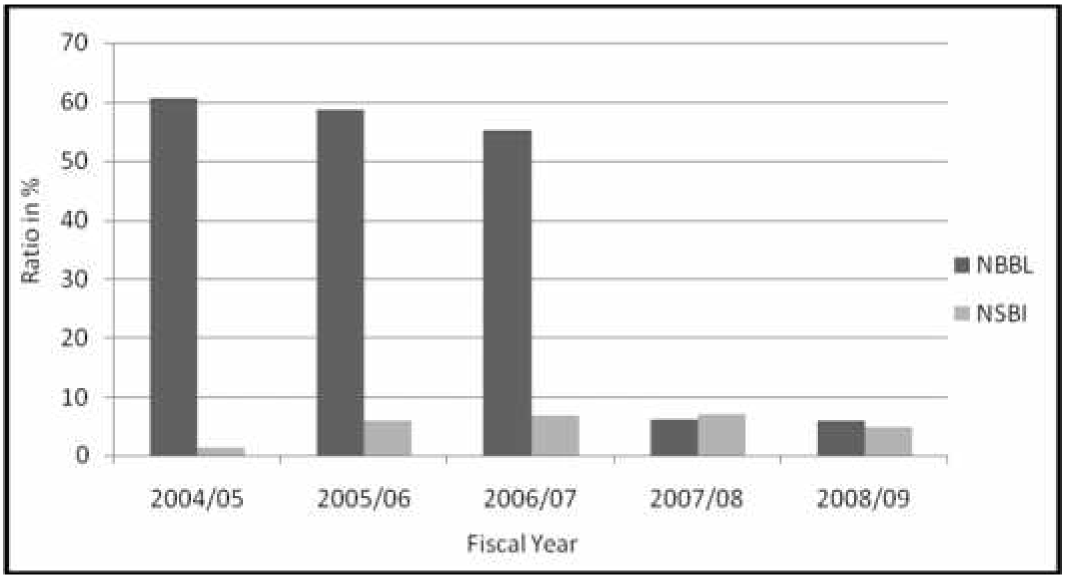
Bank	**NBBL**			**NSBI**		
Year	**Loan & Advance**	**Total Assets**	**Ratio (%)**	**Loan & Advance**	**Total Assets**	**Ratio (%)**
2004/05	8648744	14257973	60.65	6213879	500833563	1.24
2005/06	7787690	13277151	58.65	7626736	130358391	5.85
2006/07	6646024	11709281	55.17	9460451	139012005	6.80
2007/08	4409013	72545482	6.077	12113690	171874461	7.04
2008/09	4823895	81569845	5.91	15131745	309166817	4.89
Mean			37.29			5.16
S.D.			25.62			5.58
C.V.			13.74			21.61

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.7 shows that loan and advances to total assets ratio in the sampled year. The average ratio of NBBL 37.39. This ratio is also decreasing over the period which means the bank may have the idle cash or investing its money in marketable securities. The ratio of NSBI is in fluctuating. The average ratio of the NSBI is 5.16 which are highly lower than the NBBL.

From the above calculation it is found that NBBL is investing more deposit than NSBI. Greater average ratio indicates successful utilization of deposit. The average of NBBL is greater than NSBI, it shows that NBBL satisfactory to utilization of total assets in area.

Figure 4.7
Loan and Advances to Total Assets Ratio



4.1.3 Capital Adequacy Ratio

Banks and financial institutions have to maintain a sufficient amount as capital fund as required by the NRB. Holding an excess amount of capital there required may have hither holding cost and lower return from their investment.

a. Net worth to Total Assets Ratio

Table 4.8

Net worth to Total Assets Ratio

(In Rs. Thousands)

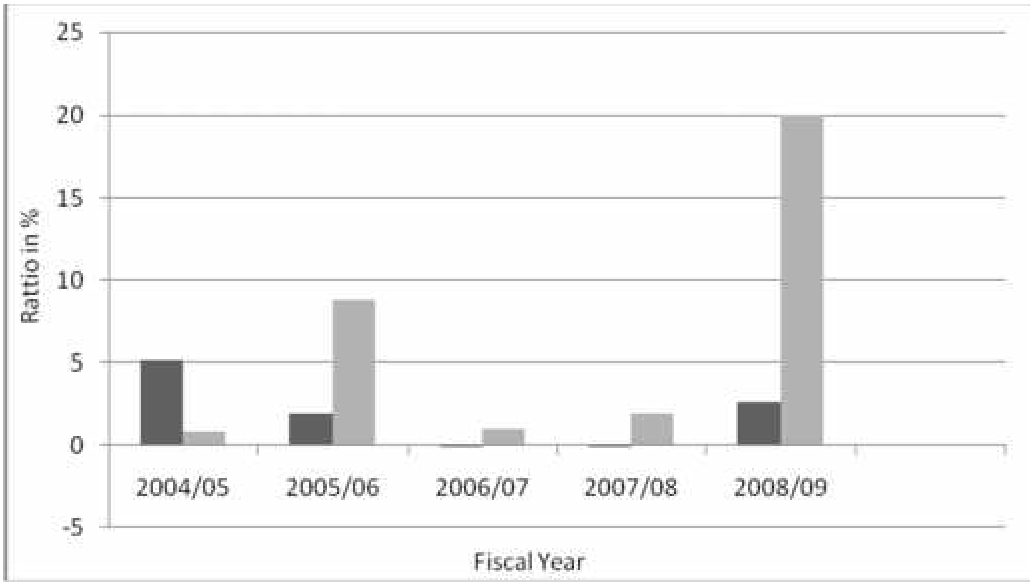
Bank	NBBL			NSBI		
Year	Net Worth	Total Assets	Ratio (%)	Net Worth	Total Assets	Ratio (%)
2004/05	656579	14257973	4.60	6890130	500833563	1.37
2005/06	234576	13277151	1.76	9717290	130358391	7.45
2006/07	(1256)	11709281	(0.007)	1153313	139012005	0.83
2007/08	(1548)	72545482	(0.002)	2526893	171874461	1.47
2008/09	256328	85456982	2.99	5589654	309166817	1.81
Mean			1.87			2.59
S.D.			3.14			2.45
C.V.			33.62			18.90

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.8 shows net worth to total assets ratio of the selected banks over the selected period. The average ratio of NBBL is 1.87. This ratio is decreasing over the period which means the bank's profitability over the period is decreasing and the net worth in the year 2006/07 to 2007/08 has turned negative. Whereas the average ratio of the NSBI 2.59 percent it is more consistent and not negative in any year. Form the above calculation it is found that NSBI is more successful to maintain capital adequacy ratio. An analysis of five periods the average ratio of NSBI is higher than NBBL, the higher average ratio indicates that NSBI has strong and highly capital adequacy position to contribution to investor.

Figure 4.8

Net Worth to Total Assets Ratio



b. Net Worth to Total Deposit Ratio

Table 4.9

Net Worth to Total Deposit Ratio

(Rs in Thousands)

Bank	NBBL			NSBI		
Year	Net Worth	Total Deposit	Ratio (%)	Net Worth	Total Deposit	Ratio (%)
2004/05	656579	12807376	5.12	6890130	86547740	0.81
2005/06	234576	12125578	1.93	9717290	11002041	8.83
2006/07	(1256)	13015136	(0.009)	1153313	11445286	1.00
2007/08	(1548)	93859495	(0.002)	2526893	13715395	1.92
2008/09	256328	96123258	2.66	5589654	27957221	19.99
Mean			1.94			6.51

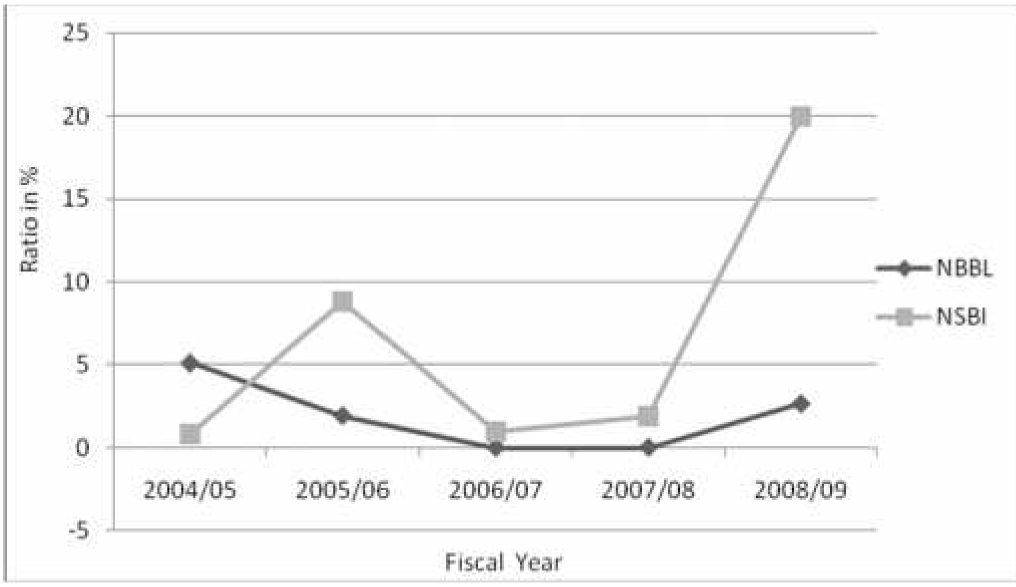
S.D.			1.91			7.36
C.V.			19.67			22.83

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.9 shows that the ratios of NBBL were 5.12, 1.93, 0.0, 0.0 and 2.66 the average ratio, S.D. and C.V. were 1.94, 1.91 and 19.65 respectively. On the other side the ratio of NSBI were 0.81, 8.83, 1.0, 1.92 and 19.99 respectively. The average ratio, S.D. and C.V. were 6.51, 7.36 and 22.83 respectively. Here the average ratio of NSBI is greater then NBBL which shows the favorable capital adequacy ratio.

Figure 4.9

Net Worth to Total Deposit Ratio



4.1.4 Capital Structure Ratio

Capital structure or leverage ratio is used to judge the long-term financial position of the firm. As short term creditors are interested to know the liquidity or short-term financial position of the firm, long-term creditors are interested to know the long-term financial position of the firm & this is reflected through capital structure or leverage ratio.

a) **Debt to Equity Ratio**

Table 4.10

Debt to Equity Ratio

(Rs in Thousands)

Bank	NBBL			NSBI		
Year	**Total Debt**	**SHE**	**Ratio (%)**	**Total Debt**	**SHE**	**Ratio (%)**
2004/05	112486	565100	19.90	5319572	68901306	7.72
2005/06	136013	921600	14.75	1182373	98237372	1.20
2006/07	130425	921600	14.15	8993476	11632908	7.31
2007/08	132718	719900	18.43	1614644	14146448	11.41
2008/09	142552	805236	17.70	1912607	17126071	11.17
Mean			16.99			7.76
S.D.			2.17			3.69
C.V.			2.54			9.52

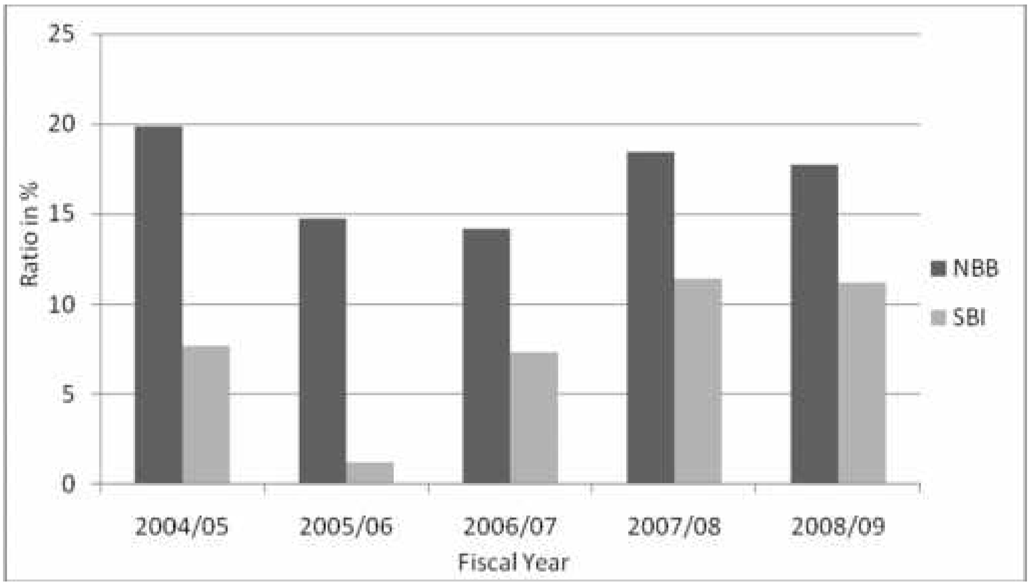
(Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.10 shows the ratio of NBBL were 19.90, 14.75, 14.25, 18.43 and 17.70 % respectively. The average and C.V. were 16.99 and 2.17 respectively. Whereas NSBI were 7.72, 1.20, 7.31, 11.41 and 11.17 % respectively. The average ratio and CV 7.76 and 9.52 respectively.

From the analysis it is found that the debt ratio of NBBL is more consistent than the NSBI. This ratio is increasing in last two year of NSBI but it is more consistent in the NBBL. It shows that NSBI is riskier and may fail to satisfy the creditors.

Figure 4.10

Debt to Equity Ratio



b) Debt to Total Capital Ratio

Table 4.11
Debt to Total Capital Ratio

(In Rs. Thousand)

Bank	NBBL			NSBI		
Year	**Total Debt**	**Total Capital**	**Ratio (%)**	**Total Debt**	**Total Capital**	**Ratio (%)**
2004/05	112486	677586	16.60	531957	74220878	7.17
2005/06	136013	1057613	12.86	118237	99419745	1.19
2006/07	130425	1052025	12.39	899354	20626384	43.60
2007/08	132718	852618	15.57	161464	15761092	10.24
2008/09	142552	947788	15.04	191260	19038678	10.01
Mean			14.49			14.44
S.D.			2.79			14.94
C.V.			0.038			0.21

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Total capital is the sum of Total Debt and Shareholders' Equity. Table 4.11 shows the debt to total capital ratio of the selected banks over the year 2004/05 to 2008/09. The ratio of NBBL is 16.60, 12.86, 12.39, 15.57 and 15.04 % respectively. The average ratio, S.D. and C.V. are 14.49, 2.79 and 0.038 respectively. The ratio of NSBI is 7.17, 1.19, 43.60, 10.24 and 10.01% respectively. The mean ratio, S.D. and CV are 14.44, 14.94 and 0.21 respectively.

Mean ratio of NBBL is greater than NSBI. Greater average ratio indicates that NBBL gradually raising the capital through debt and decreasing the equity capital.

c) Total Debt to Total Assets Ratio

Table 4.12
Total Debt to Total Assets Ratio

(In Rs. Thousand)

Bank	NBBL			NSBI		
Year	**Total Debt**	**Total Assets**	**Ratio (%)**	**Total Debt**	**Total Assets**	**Ratio (%)**
2004/05	11248680	14257973	78.89	531957233	500833563	106.21
2005/06	13601395	13277151	102.44	118237378	1303583912	9.70
2006/07	13042575	11709281	111.39	899347651	1390120055	64.69
2007/08	13271865	72545482	18.29	161464481	1718744617	9.39
2008/09	14255256	13559980	105.13	191260719	3091668179	6.19
Mean			83.23			39.24
S.D.			34.28			39.97
C.V.			8.23			20.37

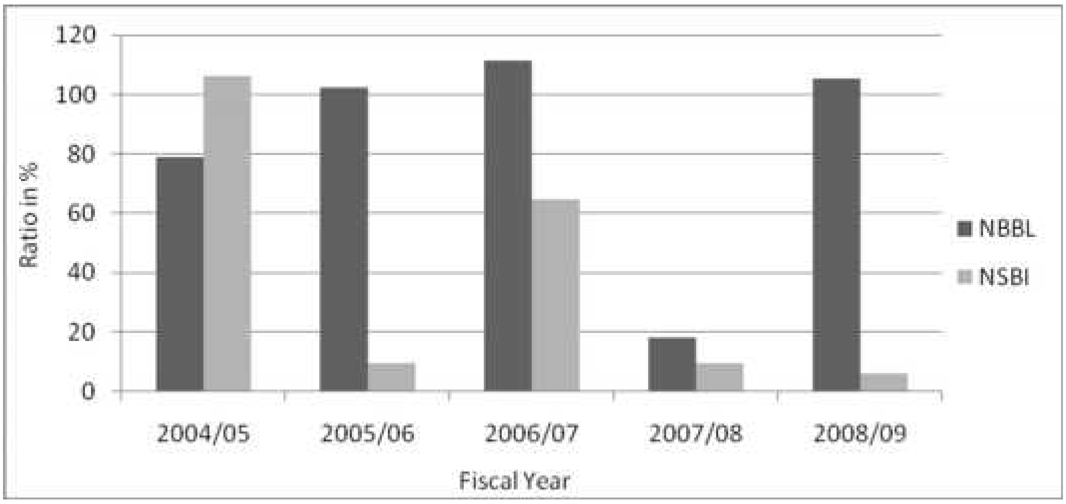
Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

This ratio implies a bank's success in exploiting debts to be more profitable as well as its riskier capital structure. The average ratio of NBBL is higher than the NSBI. The ratios of NBBL over the fiscal year 2004/05 to 2008/09 are 78.89, 102.44, 111.39, 18.29, and 105.13 % respectively. The average ratio and CV are 83.23 and 8.23 respectively. Whereas the ratio of NSBI are 106.21, 9.70, 64.69, 9.39 and 6.19 % respectively. The average ratio and C.V. are 39.24 and 20.37 respectively.

Higher debt ratio indicates the higher risk and NBBL has higher mean ratio as compared to NSBI. This indicates that NBBL's risk is more than NSBI.

Figure 4.11

Total Debt to Total Assets Ratio



d) Interest Coverage Ratio

As stated above, interest coverage ratio is the most conventional coverage ratio used to test the firm's debt- servicing capacity. The table below shows the computations of interest coverage ratio of both the bank for the five years study period.

Table 4.13

Interest Coverage Ratio

(In Rs. Thousand)

Bank	**NBBL**			**NSBI**		
Year	**EBIT**	**Interest**	**Ratio (%)**	**EBIT**	**Interest**	**Ratio (%)**
2004/05	589384	625361	94.24	1251933	5783720	216.46
2005/06	876508	547942	159.96	1997640	7087190	28..87
2006/07	758181	518093	146.33	3445898	8311170	41.46
2007/08	982196	432218	227.24	3480335	9705130	35.86
2008/09	952546	468945	203.12	4430315	14604460	30.33
Mean			166.17			70.59
S.D.			46.33			73.07
C.V.			5.58			20.70

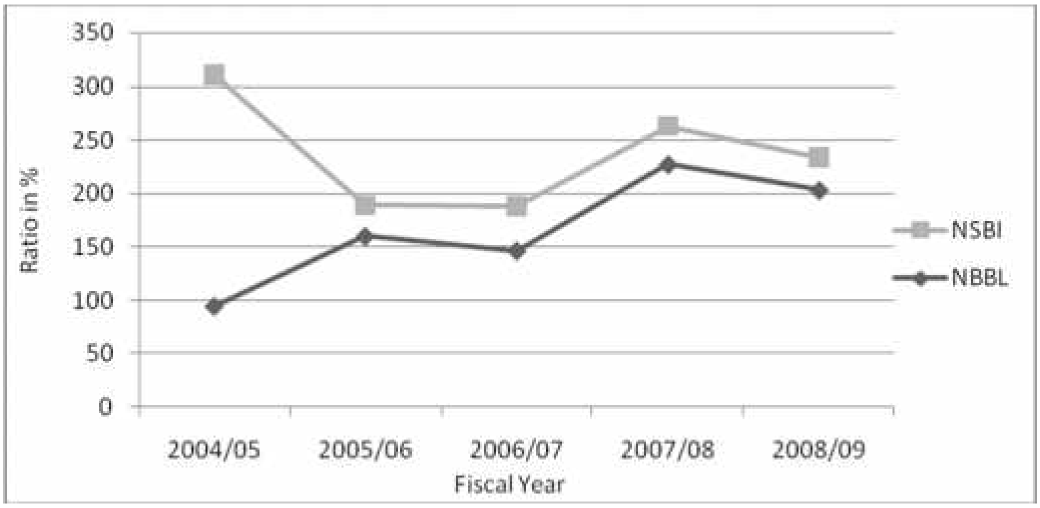
Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.13 shows that the interest coverage ratio of the selected banks and for sampled years. The ratio over the period of NBBL is 94.24, 159.96, 146.33, 227.24, and 203.12 respectively. The average ratio and CV of the bank are 166.17 and 5.58 respectively. But the average ratio of NBBL is greater than the NSBI. From here it can be conclude that the interest paying ability of NBBL in an average is more than NSBI.

Above analysis obviously shows that the interest coverage ratio of NBBL is better than NSBI.

Figure 4.12

Interest Coverage Ratio



4.1.5 Profitability Ratios

As mentioned above, profitability ratios are the measurement of effectiveness. So with the help of these ratios, one decides whether to invest in a particular firm or not. Profit is the difference between total revenue & total expense over a period of time. Profitability ratios are used to indicate the overall efficiency of the fir. There are many measures of profitability. Higher degree of profitability ratio shows better financial position & performance to the firms.

a) Return on Total Assets Ratio

Table 4.14

Return on Total Assets Ratio

(In Rs. Thousand)

Bank	NBBL			NSBI		
Year	**NPAT**	**Total Assets**	**Ratio (%)**	**NPAT**	**Total Assets**	**Ratio (%)**
2004/05	2643	14257973	.018	57387	104340	0.55
2005/06	(1456)	13277151	(0.011)	107002	13901200	0.77
2006/07	(1879)	11709281	(0.016)	254909	13035899	1.95
2007/08	(1465)	72545482	(0.002)	247771	17187446	1.44
2008/09	2472	13559980	0.018	316373	30916681	1.02
Mean			0.0014			1.15
S.D.			0.014			48.97
C.V.			20.00			8.47

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.14 shows analysis of return on total assets of the selected banks over the selected period. The ratios of the NBBL are 0.018, (0.011), (0.016) ,, (0.002) and 0.018% respectively. The average ratio and CV of the bank are 0.0056 and 0.007

respectively. On the other side the ratio of NSBI are 0.55, 0.77, 1.95, 1.44 and 1.02 % respectively. The average ratio and CV of the bank are 1.15 and 48.97 respectively. Here, NSBI has the higher profit ratio in the fiscal year 2006/07 and lower in the year 2004/05. It shows that the NSBI profitability position over the total assets is much more satisfactory then that of NBBL.

b) Net Worth to Total Deposit Ratio

Table 4.15

Net worth to Total Deposit Ratio

(Rs. in Thousands)

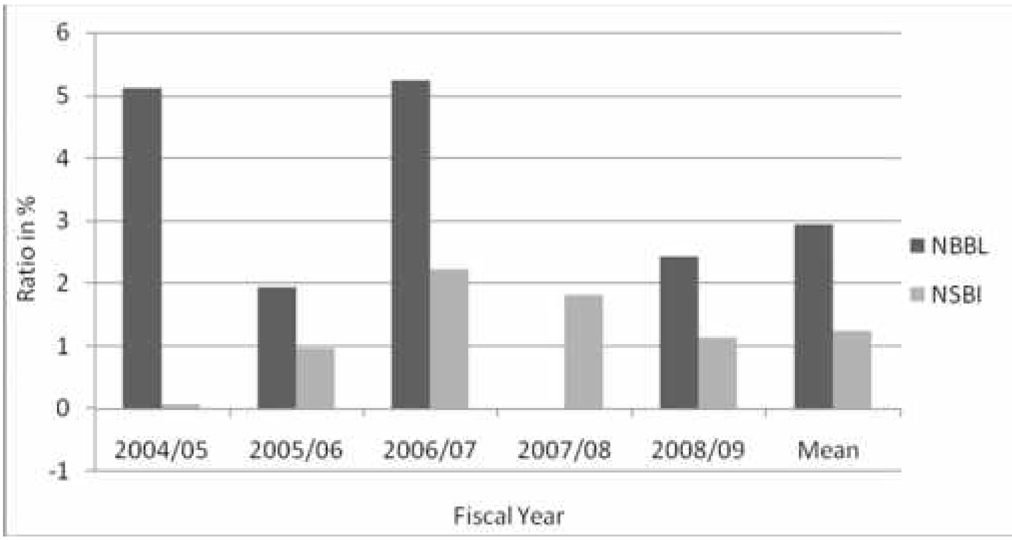
Bank	**NBBL**			**NSBI**		
Year	**Net Worth**	**Total Deposit**	**Ratio (%)**	**Net Worth**	**Total Deposit**	**Ratio (%)**
2004/05	656579	12807376	5.12	57387	8654774	0.066
2005/06	234576	12125578	1.93	107002	11002041	0.97
2006/07	683932	13015136	5.25	254909	11445286	2.23
2007/08	(1548)	93859495	(0.0016)	247771	13715395	1.81
2008/09	256328	10580648	2.422	316373	27957221	1.13
Mean			2.94			1.24
S.D.			2.01			0.74
C.V.			13.64			0.12

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.15 shows analysis of net worth to Total Deposit Ratio of the selected banks over the selected period. The ratios of the NBBL are 5.12, 1.93, 5.25, 0.00 and 0.00 respectively. The average ratio and CV of the bank are 2.46 and 18.98 respectively. On the other side the ratio of NSBI are 0.066, 0.97, 2.23, 1.81 and 1.13 respectively. The average ratio and CV of the bank are 1.24 and 0.12 respectively. Here, NBBL has the higher worth ratio in the fiscal year 2006/07 and lower in the last two years. It shows that the NBBL profitability position over the total deposit is much more satisfactory then that of NSBI.

Figure 4.13

Net Worth to Total Deposit Ratio



c) Return on Total Deposit Ratio

This ratio measures the ability of the bank to earn a return on deposits. Higher ratio is preferred.

Table 4.16

Return on Total Deposit Ratio

(In Rs. Thousand)

Bank	**NBBL**			**NSBI**		
Year	**NPAT**	**Total Deposit**	**Ratio (%)**	**NPAT**	**Total Deposit**	**Ratio (%)**
2004/05	2643	12807376	0.020	57387	8654774	0.66
2005/06	(1456)	12125578	(0.012)	107002	11002041	0.99
2006/07	(1879)	13015136	(0.014)	254909	11445286	2.23
2007/08	(1465)	93859495	(0.001)	247771	13715395	1.81
2008/09	2472	96123258	0.025	316373	27957221	1.13
Mean			0.0036			1.36
S.D.			0.016			0.33
C.V.			0.89			0.49

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.16 shows analysis of return on total deposit of the selected banks over the selected period. The ratios of the NBBL are 0.020, 0.00, 0.00, 0.00 and 0.025 respectively. The average ratio and CV of the bank are 0.09 and 0.27 respectively. On the other side the ratio of NSBI are 0.66, 0.99, 2.23, 1.81 and 1.13 respectively. The average ratio and CV of the bank are 1.36 and 0.49 respectively.

The table shows clearly that the ratio of NSBI is higher than that of NBBL. Again, net profit after tax of NSBI is also higher and fluctuating whereas that of NBBL is low and negative. The total deposit of both bank are in increasing trend but the increasing percentage of NSBI is higher than the NBBL.

d) Office Operating Expenses to Total Income Ratio

Table 4.17

Office Operating Expenses to Total Income Ratio

(In Rs. Thousand)

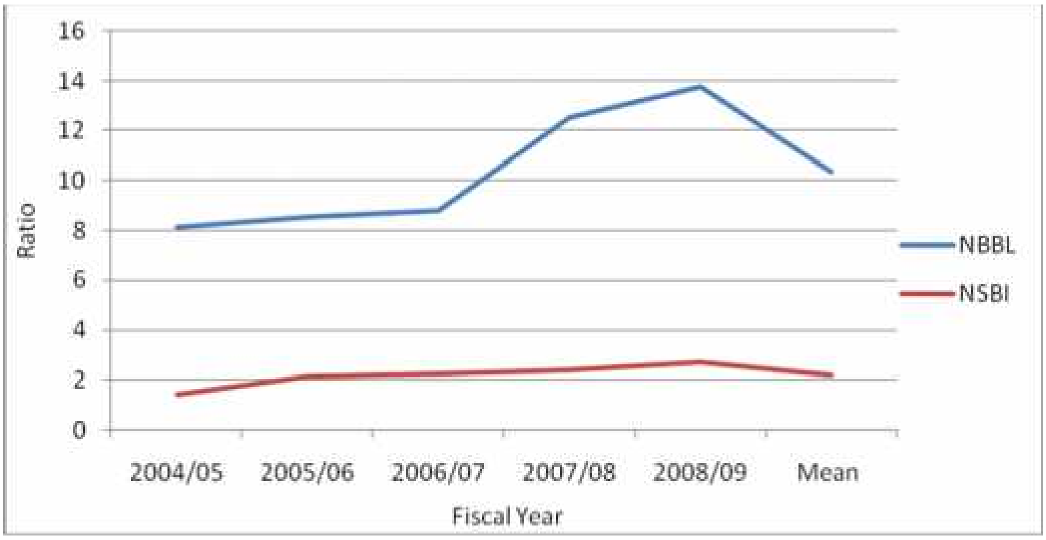
Bank	**NBBL**			**NSBI**		
Year	**Office Operating Expenses**	**Total Income**	**Ratio (%)**	**Office Operating Expenses**	**Total Income**	**Ratio (%)**
2004/05	101404	1243828	8.15	90629	6440627	1.41
2005/06	113762	1327195	8.57	99214	4648993	2.13
2006/07	161344	1832717	8.80	120112	5335114	2.25
2007/08	119905	9552330	12.55	152380	6380593	2.39
2008/09	135628	9856987	13.76	223966	8286664	2.70
Mean			10.37			2.18
S.D.			2.30			40.68
C.V.			4.44			3.73

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.17 shows office operating expenses to total income ratio of selected bank form 2004/05 to 2008/09. The ratios of NBBL are 8.15, 8.57, 8.80, 12.55 and 13.76 respectively. The mean ratio is 10.37 and C.V. is 4.44. NSBI has 1.14, 2.13, 2.25, 2.39 and 2.70 ratios respectively over the period and mean 2.18 and C.V. 3.73. Higher average ratio in office operating expenses to total income ratio indicates more expenses to build office management. Here, NBBL has higher expenses ratio than the NSBI.

Figure 4.14

Office Operating Expenses to Total Income Ratio



4.1.6 Invisibility Ratio

a) Earnings per Share (EPS)

Earnings per share measure the profit available to the each equity holders. EPS does not indicate how many dividends are being paid on each share. It only measures the overall operational efficiency of the bank. It is the profit after tax figure that is dividend by the number of common shares to calculate the value of earnings per share. This figure tells us what profit the common shareholders for every share held have earned.

Table 4.18

Earnings per Share

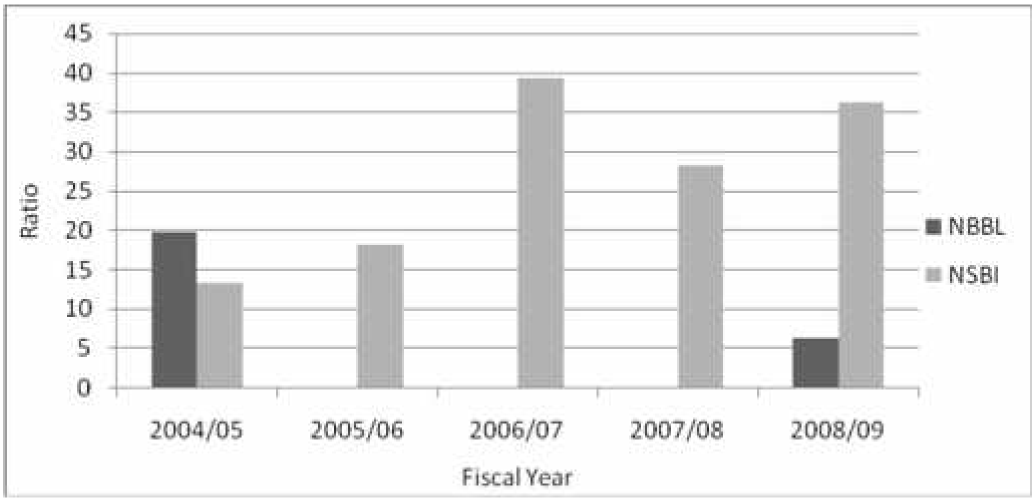
Bank	NBBL			NSBI		
Year	**Net Profit**	**No of Shares**	**Ratio**	**Net Profit**	**No of Shares**	**Ratio**
2004/05	70950	359925	19.86	57386634	4318656	13.29
2005/06	(1256)	719852	-	117001973	6402361	18.27
2006/07	(2451)	719852	-	254908844	6477984	39.35
2007/08	(1352)	719852	-	247770758	8745278	28.33
2008/09	45890	719852	6.37	316373495	8745278	36.18
Mean			5.25			27.10
S.D.			7.70			9.98
C.V.			29.39			7.37

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.18 shows an analysis of sampled years the ratios of NBBL are 19.86, 0.00, 0.00, 0.00 and 6.37 respectively where as the ratios of NSBI is 13.29, 18.27, 39.35, 28.33 and 36.18 respectively. Higher average ratio indicates that NSBI is able to earn more profit per share to the common shareholders than that of NBBL, EPS has been criticizes as the measure of profitability, because it does not considered the amount of asset of capital required to generate that level of earning.

Figure 4.15

Earnings per Share



c. Dividend Per Share (DPS)

It implies the profit allocated to shareholders as return in terms of cash on per share basis. The following table shows the dividends per share given to the shareholders of respective banks for last five years.

Table 4.19

Dividend per Share

Bank	NBBL			NSBI		
Year	Earning Paid to Ratio	No of Shares	Ratio	Earning Paid to Ratio	No of Shares	Ratio
2004/05	0	359925	19.86	958040	4318656	22.18
2005/06	0	719852	0.00	958040	6402361	14.96
2006/07	0	719852	0.00	207200	6477984	3.21
2007/08	0	719852	0.00	452305	8745278	2.37
2008/09	0	719852	0.00	415856	8745278	4.76
Mean			3.97			9.51
S.D.			7.94			7.77
C.V.			40.00			16.37

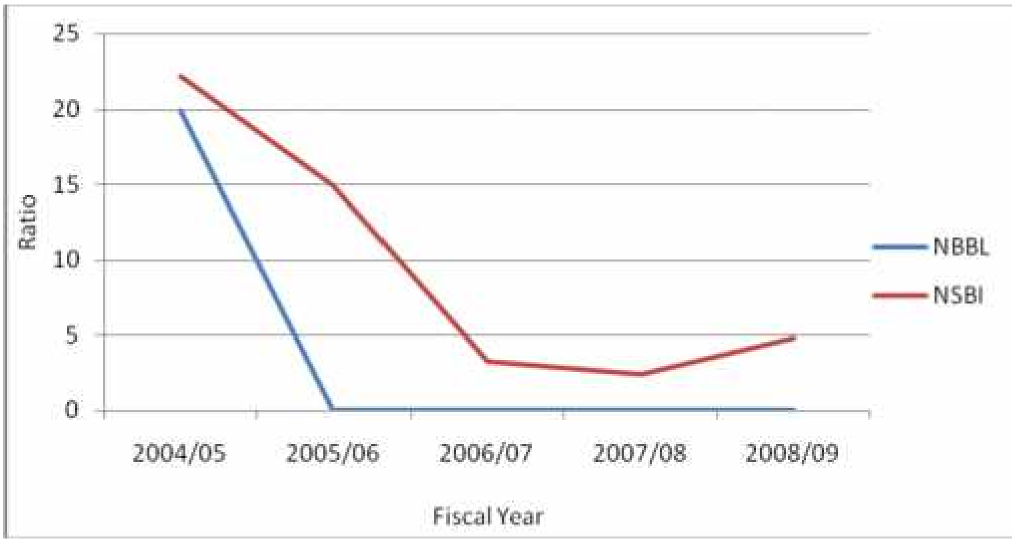
Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.19 shows the dividend paid by the selected organization over the period. Over the study period NBBL has not paid any dividend but the NSBI has paid average 9.51 per share. As per NRB direction each bank should reached its capital fund up to 500 million. NBBL cannot declare dividend for each year due to the failed to earn profit.

Average ratio of cash dividend of NSBI is more attractive than NBBL cash dividend attracts the attention of shares holders toward the inter prices, which lead to boost. The market value of share and it also reflects to better performance of the company.

Figure 4.16

Dividend per Share



d. **Dividend Payout Ratio (D/P Ratio)**

Dividend payout ratio indicates the percentage amount of dividend paid to shareholders out of earnings per share. It reflects how much to be distributed as dividend and how much to be retained as retained earnings. The D/P ratio for the study period for both the banks is presented in the following table.

Table 4.20

Dividend Payout Ratio

(In Rs. Thousand)

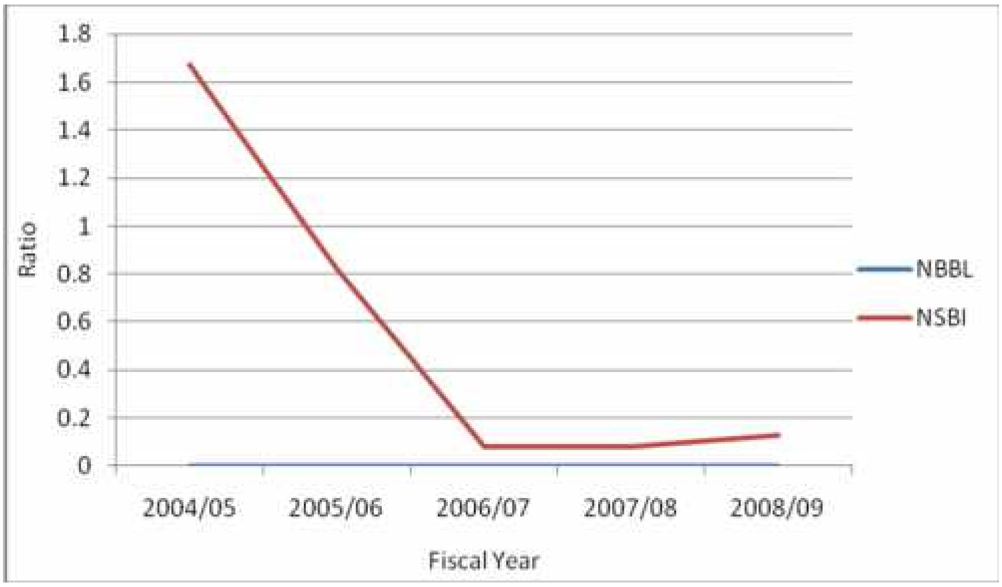
Bank	NBBL			NSBI		
Year	**DPS**	**EPS**	**Ratio**	**DPS**	**EPS**	**Ratio**
2004/05	0.00	19.86	0.00	22.18	13.29	1.67
2005/06	0.00	0.00	0.00	14.96	18.27	0.82
2006/07	0.00	0.00	0.00	3.21	39.35	0.08
2007/08	0.00	0.00	0.00	2.37	28.33	0.08
2008/09	0.00	6.37	0.00	4.76	36.18	0.13
Mean			0.00			0.56
S.D.			0.00			0.62
C.V.			0.00			0.22

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.20 shows the dividend payout ratio of the selected companies over the period 2004/05 to 2008/09. NBBL has zero cash dividend over the year so it has zero dividend payout ratios. EBL has paid cash dividend in the year 2005, 2006, 2007, 2008, and 2009. Average ratio of NSBI has better than NBBL; higher dividend shows the bank successful to pay dividend to the shareholders.

Figure 4.17

Dividend Payout Ratio



4.1.7 Income Analysis

The major sources of income of commercial banks are:

- Interest received from loan and advances and overdraft, government securities, debenture, investment and others,
- Commission and discount received form bills purchase, letter of credit, and draft bank transfer guarantee commission, remittance charger, selling of shares and other chargers and commission.
- Earning from foreign exchanges.
- Others miscellaneous income.

Table 4.21

Income Analysis of NBBL

(In Rs. Thousand)

Income	**Interest Income**		**Commission & Discount**		**Foreign Exchange Income**		**Other Income**	
Year	**Rs.**	**%**	**Rs.**	**%**	**Rs.**	**%**	**Rs.**	**%**
2004/05	442138	82.04	36773	6.80	45414	8.39	13783	2.55
2005/06	520173	81.87	61504	9.68	32208	5.07	20198	3.18
2006/07	657249	83.72	74331	9.47	27794	3.34	23818	3.03
2007/08	719298	83.74	78130	9.09	27078	3.06	31479	3.66
2008/09	903411	136.0	401397	6.06	96839	14.6	14398	2.17
Mean		93.47		8.22		6.93		2.92
S.D.		21.28		5.30		4.26		0.52
C.V.		22.77		64.50		61.47		17.80

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Table 4.22

Interest Income of NSBI

Income	**Interest Income**		**Commission & Discount**		**Foreign Exchange Income**		**Other Income**	
Year	Rs.	%	Rs.	%	Rs.	%	Rs.	%
2004/05	850525	79	124422	11.5	69705	6.5	32150	2.98
2005/06	1013712	81.5	109046	8.77	56299	4.53	64771	5.21
2006/07	1095501	82.5	105058	7.92	5619	4.23	63152	4.75
2007/08	876508	47.8	92998	5.07	39671	2.16	73997	4.04
2008/09	758132	44.16	85299	4.96	63957	3.73	47846	2.79
Mean		66.99		7.66		4.23		3.95
S.D.		17.26		2.41		1.4		0.9
C.V.		25.76		31.5		30.01		22.72

Source: Annual Reports of NBBL & NSBI (2004/05 to 2008/09)

Interest Income

The major sources of income of commercial banks are loan & advance, debenture, government securities etc. the main sources of income of bank are interest which is very important.

Table 4.21 and 4.22 shows the various ratio of income of NBBL and NSBI, NBBL 82.4, 81.87, 83.72, 83.74, 136.00 mean and C.V of that banks has 93.47 and 22.77

respectively. Similarly NSBI were 79.00, 81.5, 82.5, 47.8, 44.16 Mean and C.V has 66.99 and 25.76 respectively.

From above analysis higher average ratio of NSBI represents NSBI has able to earn more interest than NBBL. So NSBI can choose the best returnable area i.e. government sector on loan and advance.

Commission and Discount

From table 4.21 and 4.22 the different years percentage came, on commission and discount such as 11.5, 8.77, 7.92, 5.07, 4.96 mean and C.V of NSBI has 7.66 and 31.5respectively. NBBL has 6.80, 9.68, 9.47, 9.09, 6.06 average ratio of NBBL has 8.22. Comparison of commission and discount average ratio of NBBL has greater than NSBI. It indicates that commission and discount is consistency then NSBI.

Foreign Exchange Income

Both tables show the ratio of foreign exchange income where as average ratio of NBBL has 6.93 and average ratio of NSBI has 4.23 respectively. Higher ratio shows that NBBL earned higher position of foreign exchange income represent most of the commercial banks purchase and sell foreign currency from the customer under their rules and regulation.

Other Income

From table 4.21 ad 4.22, other income ratio of NSBI was 2.98, 5.21, 4.75, 4.04, 2.79 Staff expenses hold third procreated to the staffs like office operating expenses includes rent, lighting and heating telephone, repair and maintenance, water charge, traveling and transportation, audits fees, board ad general meeting expenses and other sundry expenses.

4.1.8 Correlation and Regression Analysis

i) Correlation Coefficient and Regression Analysis between DPS and EPS

Table 4.23

Regression Analysis on DPS and EPS

Bank	Base of Evaluation				Remarks
	r	r^2	Probable Error 6 × P.E.	Std. Error of the Estimate	

NSBI	-0.57	0.33	1.21	5.59	Nothing can be Calculated
NBBL	0	0	0	0	

Regression equation of DPS(Y) on EPS (X) is given by

Regression Equation	Constant(a)	Coefficient(b)
Y = a+ b x	38.31	-1.161

Source: Appendix 2

Table 4.23 presents the correlation coefficient between DPS and EPS during the study period of selected banks. The calculated Person's Correlation Coefficient was found -0.57, which show the negative degree of correlation. The coefficient of determination was found to be 0.33 which indicates that 33% of total change in DPS has been determined by the EPS. On the other side, the correlation coefficient between DPS and EPS of NBBL is not analysis because of zero value of DPS.

The value of co-efficient of correlation denoted by 'r' and it always lies between +1 and -1. + 1 indicate that there is perfectively positively correlated and -1 indicate perfectively negative correlated. The significant of coefficient of correlation (r) is tested with the help of probable error of r (i.e. P.E). If coefficient of correlation r is less than probable error P.E., it is insignificant. So, perhaps there is no evidence of correlation. If coefficient of correlation r is greater than six times of probable error P.E.(r), it is significant and the other cases, nothing can be concluded.

In above table, the coefficient of correlation r is less than the P.E. it is insignificant, so there is no evidence of correlation.

The value of b is found to be -1.161, which means that, on average, 1 rupees change in EPS result in Rs.1.161 change in the DPS of the related bank.

ii) Trend Analysis Least Square Method

Trend analysis is a statistical tool, which will highlight the previous trend of the financial performance and helps in forecasting the future financial results of the bank. Trend analysis shows the trend of EPS of the bank for nine years. EPS shows a bank's earning capability.

Table 4.24

Trend of Performing EPS of NSBI Bank Limited

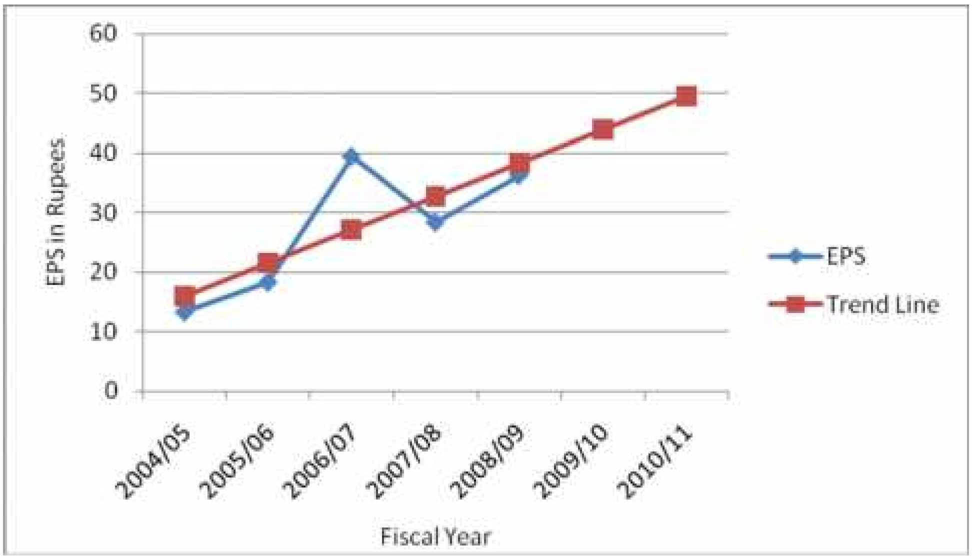
Year	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
EPS	13.29	18.27	39.35	28.33	36.18	-	-
Trend Line	15.916	21.50	27.084	32.668	38.252	43.836	49.42

Source: Appendix- 4

In the above table 4.24, the trend of performing EPS of NSBI is seen in an decreasing trend. It shows the trend figure:

Figure 4.18

Trend of Performing EPS of NSBI Bank Limited



The above figure 4.18 shows the trend line of performing loans during the period 2004/05 to 20010/11. The Original line of performing EPS the study period in decreasing in a slower pace whereas the trend of projected performing EPS during the period of 2007/08 is highest then after decreasing every year. The trend line is upward slopping in each year.

iii) Correlation Coefficient and Regression Analysis on MPS and P/E Ratio

Table 4.25

Regression Analysis on MPS and P/E Ratio

Bank	Base of Evaluation				Remarks
	r	r^2	Probable Error	Std. Error of the Estimate	
NSBI	0.87	0.76	0.074	739.66	Significant
NBBL	0	0	0	0	

Source: Appendix 3

Regression equation of P/E Ratio(Y) on MPS (X) is given by

Regression Equation	Constant(a)	Coefficient(b)
Y = a+ b x	1106.08	0.018

Table 4.24 presents the correlation coefficient between MPS and P/E Ratio during the study period of selected banks. The calculated Person's Correlation Coefficient was found 0.87, which show the negative degree of correlation. It indicates that the DPS and EPS were found highly related with each other. The coefficient of determination was found to be 0.77 which indicates that 76% of total change in MPS has been determined by the P/E Ratio. On the other side, the correlation coefficient between MPS and P/E Ratio of NBBL is not analysis because of zero value of P/E Ratio.

The value of co-efficient of correlation denoted by 'r' and it always lies between +1 and -1. + 1 indicate that there is perfectively positively correlated and -1 indicate perfectively negative correlated. The significant of coefficient of correlation (r) is tested with the help of probable error of r (i.e. P.E). If coefficient of correlation r is less than probable error P.E., it is insignificant. So, perhaps there is no evidence of correlation. If coefficient of correlation r is greater than six times of probable error P.E.(r), it is significant and the other cases, nothing can be concluded.
In the above table the value of r is more then six time of P.E. so it is significant.

The value of b is found to be 0.017, which means that, on average, 1 rupees change in MPS result in 17 paisa change in the P/E Ratio of the related bank.

iv) Trend of performing MPS of NSBI Bank Limited

Table 4.26

Trend of Performing MPS of NSBI Bank Limited

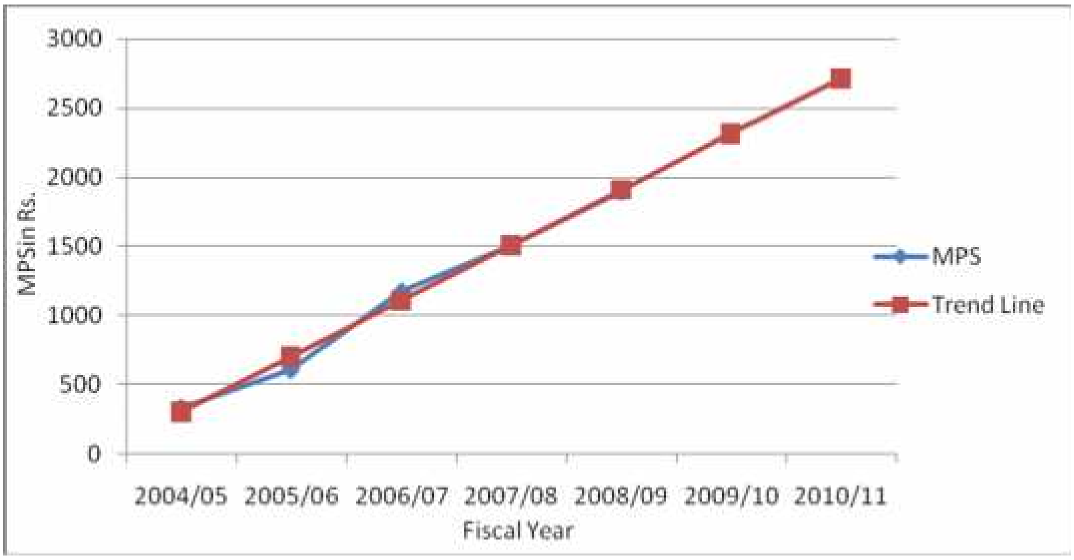
Year	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
MPS	335	612	1176	1511	1900	-	-
Trend Line	301	703.90	1106.80	1509.70	1912.60	2315.50	2718.40

Source: Appendix- 4

In the above table 4.26, the trend of performing MPS of NSBI is seen in decreasing trend. It shows the trend figure:

Figure 4.19

Trend of Performing MPS of NSBI Bank Limited



4.3 Major Findings

- The analysis of cash and bank balance to total deposit ratio indicates that the NSBI is more competent in payment of deposits. The company has more liquidity maintained than NBBL.
- From the analysis it can be found that the average rate of cash balance of NBBL is greater than NSBI. This indicates that the position of liquidity of NBBL is stronger and NBBL has deposited excess cash in NRB.
- It is found that the average NRB balance to fixed deposit ratio of NBBL is higher than the NSBI and NSBI has lower fixed deposit as compared to NBBL.

- The average ratio of NSBI is higher than the NBBL; therefore NSBI has more fixed deposit and has utilized opportunity of investment in sufficient profit generating area like as long-term loans. Another NBBL can invest in short term loans and current assets so as to strength its liquidity position.
- It is found that NSBI is investing more deposit than NBBL. Greater average ratio indicates successful utilization of deposit.
- It is found that NSBI is investing more deposit than NBBL. Greater average ratio indicates successful utilization of deposit.
- It is found that NBBL is investing more deposit than NSBI. Greater average ratio indicates successful utilization of deposit. The average of NBBL is greater than NSBI, it shows that NBBL satisfactory to utilization of total assets in area.
- An analysis of five periods the average ratio of NSBI is higher than NBBL, the higher average ratio indicates that NSBI has strong and highly capital adequacy position to contribution to investor.
- The average ratio of NSBI is greater then NBBL which shows the favourable capital adequacy ratio.
- It is found that the debt ratio of NBBL is more consistent than the NSBI. This ratio is increasing in last two year of NSBI but it is more consistent in the NBBL. It shows that NSBI is riskier and may fail to satisfy the creditors.
- Mean ratio of NBBL is greater than NSBI. Greater average ratio indicates that NBBL gradually raising the capital through debt and decreasing the equity capital.
- Higher debt ratio indicates the higher risk and NBBL has higher mean ratio as compared to NSBI. This indicates that NBBL's risk is more than NSBI.
- The average ratio of NBBL is greater than the NSBI. From here it can be conclude that the interest paying ability of NBBL in an average is more than NSBI.
- Above analysis obviously shows that the interest coverage ratio of NBBL is better than NSBI.
- NSBI has the higher profit ratio in the fiscal year 2006/07 and lower in the year 2004/05. It shows that the NSBI profitability position over the total assets is much more satisfactory then that of NBBL.

- NBBL has the higher worth ratio in the fiscal year 2006/07 and lower in the last two years. It shows that the NBBL profitability position over the total deposit is much more satisfactory then that of NSBI.
- The ratio of NSBI is higher than that of NBBL. Again, net profit after tax of NSBI is also higher and fluctuating whereas that of NBBL is low and negative. The total deposit of both bank are in increasing trend but the increasing percentage of NSBI is higher than the NBBL
- The average return on ratio of the bank NSBI is 1.36 where as the average of NBBL is 0.09 percent. It shows that the NSBI is able to generate more return than the NBBL.
- Higher average ratio in office operating expenses to total income ratio indicates more expenses to build office management. Here, NBBL has higher expenses ratio than the NSBI. It is time to decrease their operating expenses and control their expenses and increase financial position.
- Higher average ratio indicates that NSBI is able to earn more profit per share to the common shareholders than that of NBBL, EPS has been criticizes as the measure of profitability, because it does not considered the amount of asset of capital required to generate that level of earning.
- Average ratio of cash dividend of NSBI is more attractive than NBBL cash dividend attracts the attention of shares holders toward the inter prices, which lead to boost. The market value of share and it also reflects to better performance of the company.
- NSBI has better than NBBL; higher dividend shows the bank successful to pay dividend to the shareholders.
- Higher average ratio of NSBI represents NSBI has able to earn more interest then NBBL. So NSBI can choose the best returnable area i.e. government sector on loan and advance.
- Commission and discount average ratio of NBBL has greater then NSBI. It indicates that commission and discount is consistency then NSBI.
- NBBL earned higher position of foreign exchange income represent most of the commercial banks purchase and sell foreign currency from the customer under their rules and regulation.

- The trend of EPS and DPS of the both sampled bank are not satisfactory, it is show in trend line that the NBBL DPS is not paid by shareholders but in same time the DPS of NSBI is also decreasing line.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter deals with the summary, conclusion and recommendation. The first part of the chapter is summary, second conclusion and third recommendation.

5.1 Summary

Financial institution plays a vital role in the process of growth of the country. Financial infrastructures of an economy consist of financial intermediation, financial institution and financial markets. Financial institutions facilitate mainly development of Nepalese trade, industry and commerce.

Nepal has adopted mixed economy system, which is known to be combination of good aspects of socialistic and capitalistic economic system, in this economic system both government and private sector are active for the industries since 1990, Nepal has adopted more liberal and open economic system with high emphasis an private sector led growth in the early years of development the government had taken the leadership for industrial development by establishing industries under its ownership.

Bank is one of the financial institutional which provides to public borrowing and lending. Now days the banking sector reached to the most remote areas of the country and has gain a good experienced in the growth of the economy.

The present structure of the financial institution is based on commercial banks. The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy.

The first chapter of the study explains the background and statement of the problem and objective of the study and limitation. The second chapter includes the review of literature from the conceptual frame work and past studies. The third chapters explain the research methodology followed in this study. In this study two commercial banks have been selected from twenty three commercial banks.

From the analysis it is found that the financial performances of the NSBI in different components are better than the NBBL. So the management of the company, investors and the regulator are recommended to improve the financial performance, to make right investment decision and proper regulation.

5.2 Conclusion

The main objective of the study is to analyze comparative performance of the two selected commercial banks Nepal Bangladesh Bank Ltd and NSBI Bank Limited. The analysis of cash and bank balance to total deposit ratio indicates that the NSBI is more competent in payment of deposits.

The company has more liquidity maintained than NBBL. It can be found that the average rate of cash balance of NBBL is greater than NSBI. This indicates that the position of liquidity of NBBL is stronger and NBBL has deposited excess cash in NRB. It is found that the average NRB balance to fixed deposit ratio of NBBL is higher than the NSBI and NSBI has lower fixed deposit as compared to NBBL. NSBI has more fixed deposit and has utilized opportunity of investment in sufficient profit generating area like as long-term loans. Another NBBL can invest in short term loans and current assets so as to strength its liquidity position. It is found that NSBI is investing more deposit than NBBL. Greater average ratio indicates successful utilization of deposit. It is found that NSBI is investing more deposit than NBBL. Greater average ratio indicates successful utilization of deposit. It is found that NBBL is investing more deposit than NSBI. Greater average ratio indicates successful utilization of deposit. The average of NBBL is greater than NSBI, it shows that NBBL satisfactory to utilization of total assets in area. The average ratio of NSBI is higher than NBBL; the higher average ratio indicates that NSBI has strong and highly capital adequacy position to contribution to investor.

The average ratio of NSBI is greater then NBBL which shows the favourable capital adequacy ratio. It is found that the debt ratio of NBBL is more consistent than the NSBI. This ratio is increasing in last two year of NSBI but it is more consistent in the NBBL. It shows that NSBI is riskier and may fail to satisfy the creditors. Mean ratio of NBBL is greater than NSBI. Greater average ratio indicates that NBBL gradually raising the capital through debt and decreasing the equity capital. Higher debt ratio indicates the higher risk and NBBL has higher mean ratio as compared to NSBI. This indicates that NBBL's risk is more than NSBI. The average ratio of NBBL is greater than the NSBI. It can be concluding that the interest paying ability of NBBL in an average is more than NSBI. The interest coverage ratio of NBBL is better than NSBI. NSBI has the higher profit ratio in the fiscal year 2006/07 and lower in the year 2004/05. It shows that the NSBI profitability position over the total assets is much more satisfactory then that of NBBL. NBBL has the higher worth ratio in the fiscal year 2006/07 and lower in the last two years. It shows that the NBBL profitability position over the total deposit is much more satisfactory then that of NSBI. The ratio of NSBI is higher than that of NBBL. Again, net profit after tax of NSBI is also higher and fluctuating whereas that of NBBL is low and negative.

The total deposit of both bank are in increasing trend but the increasing percentage of NSBI is higher than the NBBL. The average return on ratio of the bank NSBI is 1.36 where as the average of NBBL is 0.09 percent. It shows that the NSBI is able to generate more return than the NBBL. Higher average ratio in office operating expenses to total income ratio indicates more expenses to build office management. Here, NBBL has higher expenses ratio than the NSBI. It is time to decrease their operating expenses and control their expenses and increase financial position. Higher average ratio indicates that NSBI is able to earn more profit per share to the common shareholders than that of NBBL, EPS has been criticizes as the measure of profitability, because it does not considered the amount of asset of capital required to generate that level of earning. Average ratio of cash dividend of NSBI is more attractive than NBBL cash dividend attracts the attention of shares holders toward the inter prices, which lead to boost. The market value of share and it also reflects to better performance of the company. NSBI has better than NBBL; higher dividend shows the bank successful to pay dividend to the shareholders. Higher average ratio of NSBI represents NSBI has able to earn more interest then NBBL. So NSBI can choose the best returnable area i.e. government sector on loan and advance. Commission and discount average ratio of NBBL has greater then NSBI. It indicates that commission and discount is consistency then NSBI. NBBL earned higher position of foreign exchange income represent most of the commercial banks purchase and sell foreign currency from the customer under their rules and regulation.

5.3 Recommendations

From the analysis of the collected data and conclusion made in the previous section the following recommendations have been made.

Every organization needs profit to survive for long period which is the fact. It is also needs profit for different purposes which is only possible when there is effective and efficient management as well as the total team commitment, it would be better for the bank if there is excellent management and the excellent services, cooperation with all the clients of the bank and excellent team work within the organization which is the key elements for the survival of the bank and as well as for its own goodwill. Besides these there are various factors which Bank needs to be improved. They are mentioned below.

- The cash balance of cash and bank balance total deposit ratio of NSBI is higher so the company has to invest its excess cash in different alternatives.
- The NRB balance to fixed deposit ratio of NBBL is higher than the NSBI and NBBL has lower fixed deposit as compared to NSBI so that NSBI should collect fixed deposit form public.
- The fixed deposit to total deposit ratio of NSBI is more than NBBL therefore NSBI has more fixed deposit and has utilized opportunity of investment in sufficient profit generating area like as long- term loans. Another NBBL can invest in short term loans and current assts so as to strength its liquidity position.
- Net worth to total assets ratio of NBBL is higher then NSBI so NBBL should improve its performance to enter the company in to profit.
- The debt ratio of NBBL is more consistent which means that the bankruptcy risk of the bank is less then the NSBI. So investors are recommended to invest in NBBL.

- The interest coverage ratio of NBBL is greater than the NSBI. So NBBL is recommended to increase the operating profit and to decrease interest rate in the reasonable level.
- Office operating expenses to total income ratio of NBBL is higher so the company should try to minimize it.

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www.nepalbangladesh bank.com p

www.nsbibank.com

APPENDICES

Appendix- 1

Calculation of Mean, Standard Deviation and Coefficient of Variation of NBBL

Bank	NBBL			NSBI		
Year	**CBB**	**Total Deposit**	**Ratio**	**CBB**	**Total Deposit**	**Ratio**
2004/05	1401760	12807376	10.94	7237453	86547740	8.36
2005/06	1512294	12125578	12.47	4920350	11002041	4.47
2006/07	3544564	13015136	27.03	1156011	11445286	10.10
2007/08	3916865	93859495	14.17	1646973	13715395	12.08
2008/09	4063562	96123258	4.22	1910900	27957221	6.83
Mean			13.76			8.36
S.D.			7.45			5.92
C.V.			10.82			14.17

Here,

Calculation of $Mean\,(\overline{X})$, Standard Deviation (σ) and Coefficient of Variation (C.V.)

$$Mean\,(\overline{X}) = = \frac{\Sigma x}{N}$$

$$= \frac{\text{Sum of the different Years Ratio}}{\text{No. of Year}}$$

$$= \frac{10.94+12.47+27.03+14.17+4.22}{5}$$

$$= 13.76$$

Standard Deviation (σ) = $\sqrt{\frac{\Sigma x2}{N} - \left(\frac{\Sigma x}{N}\right)^2}$

$$= 7.45$$

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

$$= \frac{7.45}{13.76}$$

$$= 10.82$$

Mean, Standard Deviation and Coefficient of Variation of NBBL is 13.76, 7.45 and 10.82 respectively.

Here,

Calculation of $Mean\,(\overline{X})$, Standard Deviation (σ) and Coefficient of Variation (C.V.)

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

$$= \frac{\text{Sum of the different Years Ratio}}{\text{No. of Year}}$$

$$= \frac{8.36+4.47+10.10+12.08+6.83}{5}$$

$$= 8.36$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum x2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

$$= 5.92$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{\overline{X}}$$

$$= \frac{5.92}{8.36}$$

$$= 14.17$$

Mean, Standard Deviation and Coefficient of Variation of NSBI is 8.36, 5.92 and 14.17 respectively.

Note: In case of other sampled, the same process is followed.

Appendix-2

Correlation Coefficient and Regression between DPS and EPS

NSBI Bank Limited

Year	DPS(X)	EPS(Y)	XY	X^2	Y^2
2004/05	22.18	13.29	294.7722	491.9524	176.6241
2005/06	14.96	18.27	273.3192	223.8016	333.7929
2006/07	3.21	39.35	126.3135	10.3041	1548.423
2007/08	2.37	28.33	67.1421	5.6169	802.5889
2008/09	4.76	36.18	172.2168	22.6576	1308.992
Total	47.48	135.42	933.7638	754.3326	4170.421

Here,

$Mean\ (\overline{X}) = 9.496$

$Mean\ (\overline{Y}) = 27.084$

The Correlation Coefficient $= \dfrac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

$= -0.57$

Coefficient of Determination (r^2) = 0.3272

Standard Error of Correlation Coefficient S.E. (r) = $\dfrac{1-r^2}{\sqrt{n}}$

$= 0.30$

Probable Error (P.E.) = $P.E. = 0.6745\dfrac{1-r^2}{\sqrt{n}}$

$= 0.2029$

Independent Variable (predictor): EPS (Say X)

Dependent Variable: DPS (Say Y)

Regression Equation of Y on X is Y= a+ bx

Where,

a= Regression Constant

b= Regression Coefficient

According to the principle of least squares, two normal equations for estimating two Numerical constants a and b are given by

$$\sum Y = n.a + b\sum X$$

$$\sum XY = a\sum X + b.\sum X^2$$

Solving these two normal equations, we get,

$$\mathbf{b} = \frac{n\sum XY - \sum X\sum Y}{n\sum X^2 - (\sum X^2)} = -1.161$$

$$a = \bar{Y} - b.\bar{X} = 38.11$$

Now, standard Error of Estimate See = $\sqrt{\frac{\sum Y^2 - a\sum Y - b\sum XY}{n-2}}$ = 5.59

Note: in case of other sampled Banks, the same process is followed.

Appendix- 3

Correlation Coefficient and Regression between MPS and Price Earning Ratio

NSBI Bank Limited

Year	P/E Ratio(X)	MPS(Y)	XY	X^2	Y^2
2004/05	25.21	335	8445.35	635.5441	112225
2005/06	33.49	612	20495.88	1121.58	374544
2006/07	29.89	1176	35150.64	893.4121	1382976
2007/08	53.34	1511	80596.74	2845.156	2283121
2008/09	52.52	1900	99788	2758.35	3610000
Total	194.45	5534	244476.6	8254.042	7762866

Here,

$Mean\ (\overline{X}) = 38.89$

$Mean\ (\overline{Y}) = 1106.08$

The Correlation Coefficient $= \dfrac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$ = 0.87

Coefficient of Determination (r^2) = 0.7541

Standard Error of Correlation Coefficient S.E. (r) = $\dfrac{1-r^2}{\sqrt{n}}$ = 0.11

Probable Error (P.E.) = $P.E. = 0.6745\dfrac{1-r^2}{\sqrt{n}}$ = 0.074

Independent Variable (predictor): EPS (Say X)

Dependent Variable: DPS (Say Y)

Regression Equation of Y on X is Y= a+ bx

Where,

a= Regression Constant

b= Regression Coefficient

According to the principle of least squares, two normal equations for estimating two Numerical constants a and b are given by

$$\sum Y = n.a + b \sum X$$

$$\sum XY = a \sum X + b.\sum X^2$$

Solving these two normal equations, we get,

$$\mathbf{b} = \frac{n\sum XY - \sum X \sum Y}{n\sum X^2 - (\sum X)^2} = 0.018$$

$$a = \bar{Y} - b.\bar{X} = 1105.38$$

Now, standard Error of Estimate See = $\sqrt{\frac{\sum Y^2 - a.\sum Y - b.\sum XY}{n-2}}$ = 739.66

Note: In case of other sampled Banks, the same process is followed.

Appendix-4

Trend of performing EPS of NSBI Bank Limited

Computation of straight line trend analysis of performing EPS and DPS of NSBI Bank limited.

Year(X)	EPS(Y)	x= X-2007	x2	Xy
2004/05	13.29	-2	4	-26.58
2005/06	18.27	-1	1	-18.27
2006/07	39.35	0	0	0
2007/08	28.33	1	1	28.33
2008/09	36.18	2	4	72.36
Total	135.42	0	10	55.84

Let the trend line be Y= a + bx ……………..1

Where, x = x- middle Year

Since, ∑x= 0,

a= $\frac{\sum y}{n}$ = 27.084

b= $\frac{\sum xy}{\sum x^2}$ = 5.584

Now, substituting the values of a and b in equation 1

$Y_c = 27.084 + 5.854 * x$

Trend values substituting x= -2, -1, 0, 1 and 2

Where, x=-2

$Y_c = 27.084 + 5.584 * -215.916$

Where, x= -1

$Y_c = 27.084 + 5.584 * -121.50$

Where, x=0

$Y_c = 27.084 + 5.584 * 027.084$

Where, x= 1

$Y_c = 27.084 + 5.584 * 132.668$

Where, x=2

$$Y_c = 27.084 + 5.584 * 238.252$$

Where x=3

$$Y_c = 27.084 + 5.584 * 343.836$$

Where, x= 4

$$Y_c = 27.084 + 5.584 * 449.42$$

Note: In case of other sampled Banks, the same process is followed.