

CHAPTER I

INTRODUCTION

1.1 Introduction

In the recent time, most of the developing countries are trying to attain growth with stability. But, stability is not the end of any development policy; it is emphasized only because of the fact that instability may delay the growth process. So, non-inflationary environment is preferable for the economic development. In this regard, the commercial banks play an important role because bankers are to be considered not as dealers in money, but the leaders in development. They are not just the store houses of the country's wealth but are the reservoirs of resources necessary for economic development. It is also said that the flow of credit is very much like the circulation of blood. If the circulation of blood is not smooth that would do irreparable harm to our body, so, also unsteady and unsmooth flow of credit harm to the economy. It has widely been accepted that the economic activities of a country are greatly influenced by the development of a sound banking system. So called developed countries, today, also have fostered their economic development with help of their banking. (Sharma; 1968).

In other words, bank facilities also become right hand for the growth of trade and industry of national economic of developing country like Nepal. The above fact shows that a bank plays vital role for the economic development of the country.

Taking about the history of bank and institutional banking system came into existence in Nepal only in the 19th century. Nepal Bank Limited was first financial institution of Nepal established on the 30thKartik 1994 BS. Only one Nepal Bank Limited was not sufficient to look all the sectors of the country. So, in 2013 BS, another bank named Nepal Rastra Bank was established as the central bank. Similarly the second commercial bank Rastriya Banijya Bank was established as the second commercial bank of Nepal in Magh 10, 2022 BS under Rastriya Banijya Bank Act 2021. This act is now revised as Bank and Financial Institution Act 2063 BS. Accepting deposit granting loan

and performing commercial banking functions are the main motto of commercial banks. Agriculture Development Bank was established on Magh 7, 2024 BS under the Agriculture Bank Act 2024 BS which is now revised as Bank and Financial Institution Act 2063 BS.

The process of development of banking system in Nepal was not satisfactory up to year 2040 B.S. no other commercial banks were established during this period. So, during this period Nepal was searching what shorts of programs, policies, laws and regulations should be brought into practice for the development of financial sector and for the solution of the problem government of Nepal adopted the policy of liberalization & globalization. The door of banking sector was opened to the private sector and even foreign investment was allowed. As consequence of the step taken by the government the first foreign joint venture bank was set up as Nepal Arab Bank Limited (now called as Nabil Bank Ltd) in 2041 B.S. The inception of the bank proved to be a milestone in history of banking. It gave new ray of hope to the sluggish financial sector. One year after commencement of Nepal Arab Bank Ltd. Second bank established under joint investment was Nepal Indosuez Bank Ltd. (Presently renamed as Nepal Investment Bank Ltd). Similarly other joint venture banks like, Nepal Grindlays Bank Limited on 2043 B.S., Himalayan Bank Limited on 2049 B.S., Nepal Bangladesh Bank Limited established on 2051 B.S. like this Siddhartha Bank Limited on 2059 B.S. have been also established. Till now others commercial banks have been also established.

Among them, majority of banks are established as joint venture banks. A joint venture bank is an association of two or more persons or parties under taken to make the operation highly effective with their collective efforts. Joint venture banks play an important role for economic development of nation. They have been adopted new banking technique, management like, hypothecation, syndication lending policies, tale banking, credit card, master card from international banking technique. They render various services to their customers in order to facilitate their economic and social life. Joint venture banks are operating in Nepal in an act as commercial banks are operating and

performing their work under the direction of Nepal Rastra Bank. Now a days, there are many joint venture banks and other financial institutions, But there are little opportunities to make fair investment. Meanwhile the banks and financial institutions are offering very low deposit and credit interest rate. So to survive in the competitive banking market one should follow the fundamental principles of sound investment policy with minimum risk and maximum profit.

However, the joint venture banks are operating in Nepal and play important role in the economic development of the country.

1.2 Development of Banking system in Nepal

1.2.1 NRB and its role in Development of Banking System in Nepal

The development of banking is not so much old in Nepal. Money lenders, businessman and merchant were the ancient banker in Nepal. However the history shows of the banking system named koushi thosha khana in the period of king Prithivi Narayan Shah it 18th century and after then Tejaratha Adda was established as an institutional development of banking in Nepal which was established during Prime Minister Ranadip Singh.

Nepal Rastra Bank was established as a central bank of Nepal in 2013 B.S. under the Nepal Rastra Bank Act 2012. After its establishment, it has been playing crucial role towards fulfilling Nepals development aspirations. Nepal Rastra Bank is responsible of management and supervision of the monetary and credit system of the country. Every economic sector is directly or indirectly guided by Nepal Rastra Bank. It has been empowered under the various provisions of the following legislation Nepal Rastra Bank Act 2058, Bank and Financial Institutions Ordinance 2063. The provision of this act is applicable to domestic as well as joint venture banking institution.

Nepal Rastra Bank posses as the central bank of the country and assumed the responsibility of ensuring proper management of the issuance of Nepalese currency notes; making proper arrangement for the circulation of Nepalese currency throughout the kingdom; stabilizing the exchange rates of the Nepalese

currency; mobilizing; capital for development; encouraging activities related to expansion of trade and industry; and developing banking.

Nepal Rastra Bank was established as a central bank on April 26, 1956. The bank was empowered to Act to have direct control over banking institution within the country. It also took over the treasury function of 'Muluki khana Adda' (Government treasury) and started issuing currency in 1959, and also thus relieved the various 'Mal Addas' (Revenue office) of their work in the connection. (*40 years of Nepal Rastra Bank, 1966*).

As central bank Nepal Rastra Bank issues directives form time to time to commercial banks and other financial institution regarding banking operations, currency and financial institutions to comply with such directives.

According to Nepal Rastra Bank Act, 2058 the bank has the following objectives:-

- a) Formulation and management of monetary and foreign exchange policies for stability and balance of payment, which is essential for economic development.
- b) Promote essential liquidity for the stability of banking and financial sectors.
- c) Develop healthy, secured and strong system of payment.
- d) Regulation supervision and monitoring of banking and financial system.
- e) Promote overall banking and financial system within the country to increase the public faith upon banks and financial institution.

1.2.2 Concept of Commercial Bank

Financial Intermediaries play significant role to the development of national economy. They influence savings and surpluses considerably, which in turn influence investments. Financial intermediaries collect financial resources and supply them to the productive sectors that boost up trade, commerce and industry.

Commercial banks are also financial intermediaries they mediate people who save money (surplus economic units) and people want to secure the use of money (deficit economic units) by accepting deposit, borrowing funds and advancing loans. In addition to this primary function, commercial banks collect cheque and bills, open letter of credit, guarantee on behalf of customers, undertake capital and other many activities, exchange foreign currencies etc. Our whole financial system is dominated by commercial banks. They are corporate bodies and they are established and operated under the law specified by the act of the country.

In the context of Nepal Commercial banks are operated under Bank and Financial Institutions Act 2063. In addition to commercial Bank Act Nepal Rastra Bank also lays down many other directives. At present there are twenty seven commercial banks in Nepal which are as follows:-

Table 1.1

List of Commercial Banks in Nepal

S.No.	Names of Banks	Est.(B.S)
1.	Nepal Bank Limited	1994
2.	Rastriy Banijya Bank	2022
3.	Agriculture Development Bank	2024
4.	Nabil Bank Limited	2041
5.	Nepal Investment Bank Limited	2042
6.	Standard Charter Bank Nepal Limited	2043
7.	Himalayan Bank Limited	2049
8.	Nepal SBI Bank Limited	2050
9.	Nepal Bangladesh Bank Limited	2051
10.	Everest Bank Limited	2051

11.	Bank of Kathmandu Limited	2051
12.	Nepal Credit and Commercial Bank Limited	2053
13.	Nepal Industrial and Commercial Bank Limited	2055
14.	Lumbini Bank Limited	2055
15.	Kumari Bank Limited	2056
16.	Machhapuchhre Bank Limited	2057
17.	Laxmi Bank Limited	2058
18.	Siddhartha Bank Limited	2059
19.	Global Bank Limited	2063
20.	Citizen Bank Limited	2064
21.	Prime Commercial Bank Limited	2064
22.	Sunrise Bank Limited	
23.	Bank of Asia Limited	
24.	Development Credit Bank Limited	
25.	NMB Bank Limited	
26.	KIST Bank Limited	
27.	Janata Bank Nepal Limited	

Among them Nabil Bank Limited and Siddhartha Bank Limited are taken as sample for the field of financial performance.

1.2.3 Brief Profile of selected Bank

1.2.3.1 Nabil Bank

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern

banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 40 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-today operations and Management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit card, state-of-art, world-renowned software from Infosys Technologies system, Bangalore, India, Internet banking system and Tele-banking system.

1.2.3.2 Siddhartha Bank Limited

Siddhartha Bank Limited (SBL) commenced operations in 2002. The Bank is promoted by a group of highly reputed Nepalese dignitaries having wide commercial experience. We provide a full range of commercial banking services through our 30 branches across Nepal.

The environment of Nepalese banking sector is undergoing a rapid transformation. With liberalization in financial markets and integration of domestic market with external markets, bank operations have become more complex and dynamic. We are geared to meet the challenges and keep abreast with the changes.

The Vision statement of the Bank describes the core values and purposes that guide the Bank as well as an envisioned future. Fundamentally, in all dealings SBL earnestly believes in transparency, financial soundness, efficiency and better technology

1.2.4 Problems of Banking in Nepal.

There are lots of problems, which have been facing by banks in Nepal. Some of the major problems being faced by banks are explained as follows.

-) Nepal Rastra Bank (NRB) has the power, right & duty to inspect, supervise and control the activities of banks. It has the right to punish and fine banks; if the rules and regulations have been violated by them NRB has exercised this right from time to time. But it has failed to exercise this power & right for the purpose of making healthy banking system. NRB has maintained only the formality over the banks and financial institution. This lack of effective control and correct direction may raise problems to the banks. (*Kharel, S.K.& Sharma, N.K.,2003:6*)
-) Banks are facing numbers of due to the present situation of the country. They have centralized their banking activities in urban areas because of the security problems arise in the country. Government of Nepal has failed to provide necessary securities to those banks which are operating in rural areas. As a result, some of the banks have relocated their branches from unsafely to safely place.
-) It has been challenging for banks to invest their funds in productive sector because of economic depression of the country.
-) One of the major problems faced by banks is political influence upon them. Because of the political pressure in appointment, promotion of employee, distribution of loans etc. affects the functions of the bank which ultimately affects the profitability of the bank.
-) Existing laws and rules are insufficient for development of banking sector. There are lots of contradictions between various acts. This raises different problems in the operation of banking activities. Therefore, new laws and policies should be enacted by the government to encourage the banking activities.

1.3 Focus of the study

The focus of the study is on the determination of financial performance of two banks namely Nabil Bank and Siddhartha Bank Limited for the period of five years. The strengths and

weaknesses of the companies are evaluated by analyzing the financial statements using various tools and techniques. The main sources of the banks are public saving, interest on investment and miscellaneous incomes. So financial performance analysis depicts how well the company has utilized the collected income. Further, it explains the solvency situation, liquidity position, sources and application of the funds, relationship between assets and liabilities, working capital management, value of shares (in book value term), earning per share (EPS), portfolio of incomes from different banking sectors etc.

In order to study the financial performance of the banks, comparative balance sheet and profit and loss account, funds flow statement analysis, important ratio analysis, trend analysis and profitability analysis of these banks have been prepared with the help of the published data and other related official records. In brief, financial performance analysis shows the strengths and weakness of the company after identifying the weaknesses of the company and analyzing the financial statements of the company properly.

1.4 Statement of the problems

The open and liberal economic policy towards the banking sector of Government of Nepal initiated many joint venture banks and finance companies, rural banks and cooperatives societies in Nepal. The rapid growth of financial institutions has led a sharp competition among each other. Although joint venture banks have been managing for better performance than other local commercial banks within short span of time, they have been facing cut throat competition from other commercial banks. They have been facing neck to neck competition among each other's and are taking advantage of weakness and inefficient of domestic commercial banks.

Nabil Bank and SBL are also face these kinds of problems, even though they gave been able to make profit. In fact, efficient financial performance is a mirror of weakness and strength of the bank. A strong joint venture bank can contribute to national economy and also attract further foreign investors in this sector.

Therefore, financial statement should to fully observe to find out whether the banks are economically and financially strong or not.

It is necessary to examine the profitability position of Nabil Bank as compared to SBL and also other aspects related with finance. A comparative analysis of financial performance of the bank will be highly beneficial for pointing out their strength and weakness.

So, the researcher of this study will seek the answer to the following questions.

-) How far have they able to keep the sound status in terms of financial performance?
-) Whether financial plan process is been followed properly or not in Nabil Bank and SBL? What are the major problems faced by the bank in developing financial planning?
-) What does their financial performance indicate? Are they able to meet the financial obligations?
-) What are comparative liquidity, profitability, capital structure, activity, and growth position of these two banks?

1.5 Objectives of the study

Financial analysis can be considered as a heart of financial decision, the growth and development of an enterprise is fully affected by its financial performance. The main objective of this study to analyze the financial performance of Nabil Bank and SBL. It helps to examine the financial strength and weakness of the banks. The main objective is specified as below.

-) To study present position of Nabil Bank and SBL,
-) To evaluate the liquidity, profitability, capital structure, activity and growth position of the Nabil Bank and SBL,
-) To compare the financial position among these two banks,

-) To evaluate the income and expenditure pattern of these selected banks,
-) To provide suitable suggestion to improve financial performance of Nabil Band and SBL.

1.6 Need of the Study

Many commercial banks have been establishing time to time after the restoration of democracy in 2046 B.S. because of the fair governmental policy on industrial sector. Some banks are strongly got success and some other failure. Best financial performance of commercial banks encourages for the development of whole economic sector of a nation. This study leads to the battlement of financial performance of proposed bank along with their weakness and strengths in terms of ratio, cash and funds availability and its effective uses of the leverage and determines true position of the company. As appropriate financial performance in the means of success of any organization, so such study is necessary. This study assumes poor financial performance is the main cause of failure of commercial banks. Nepalese commercial Banks are not smoothly operated. It is relevant to know how financial performance affects the development of commercial banks and its effect on other sectors. In reality, development of commercial banks is the development tool of the core economic sector so that it is necessary to analyze the financial performance of major commercial banks of developing countries like Nepal. It gives corrective suggestions in financial performance of financial institutions. This study suggests improving financial performance of commercial banks and encourages following up the best performance strategy among them. This study is also relevant study, so that lack of study in such area with relevant topic many contribute more.

1.7 Significance of study

Joint venture commercial bank can play an important role in the upliftment of developing countries like Nepal. It also helps to improve the economic position of the country. The main objective of this research is to analyze the financial performance through the use of appropriate financial tools. This study helps to

different parties since the significance of the banking business for a national development is obvious. This study helps to the person and parties such as shareholders, management, brokers, customers, owners, investors and government, etc. and other policy making persons who are concerned with banking sector.

1.8 Limitation of the study

This study covers only last five years data. The analysis is made on the basis of the data for this period. This can be considered as its limitations studies & reference are also extremely limited. The study is based on secondary data which are collected from various sources. The same data provide by different bodies sometimes may differ. The lack of sufficient time and resources is another limitation of the study; the study is fully based on the researcher's financial resources and is to be completed within limited time. Not only have the two banks measured the whole banking sector performance.

1.9 Organization of the study

The whole study is divided in to five chapters which are as follows:

Chapter 1: The first chapter is the introductory one. In this chapter, the research problem is defined. The objectives, limitation and organization of the study etc are also being presented in this chapter.

Chapter 2: This chapter is concerned with literature review. This chapter mainly deals with the theoretical aspect of the conceptual understanding of financial statement. The past research studies have been reviewed in brief. Some of the journals and reports have been reviewed too.

Chapter 3: The research methodology, which is very important aspect of any research work, is presented separately in the third

chapter. It expresses the way and use technique while studying applied in research process is also included in this chapter.

Chapter 4: This chapter has covered the "presentation and analysis of data" with presenting charts, figures and other statistical tools, mathematical tools and financial tools. Data collected from different sources is also being presented in meaningful manner as per the demand and need of this study.

Chapter 5: This study is concluded in the fifth chapter with the findings and some suggestions made for improvement. This chapter is concerned with outcomes of thesis as summary, conclusion and recommendation. This is presented in the last along with appendices and bibliography.

CHAPTER II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature is an essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. It is also a way to avoid investigating a problem that has already been definitely answered.

Review of literature is the process of reviewing the available material relating to the particular research work. The purpose of literature is to receive sources, ideas for conducting research and to find out what research studies have been conducting. The review of literature accomplishes the following functions:-

1. It establishes a point of departure of future research.
2. It avoids needless duplication of costly research efforts.
3. It reveals areas of needed research.

The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to be done. It provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing. The literature survey also minimizes the risk of pursuing the dead-end in research.

In this chapter, the summary of major findings from reviewing the books, journals, magazines etc related to the field of the study have been presented. Research is a continuous process and hence the procedures and the findings may change due to continuous research. For getting the power and ability of analysis and interpretation of data, a researcher must review the literature about his field. This field study might provide the present study with the past research. The previous studies cannot be ignored because they provide the foundation to the present study. The literature survey provides with the knowledge of the status of their field of research. Some Nepalese and foreign Books, Journals and Magazines and other related handouts have been reviewed and findings have been presented in this chapter.

A careful review of the literature enables the researcher in discovering important variables relevant to the area of the present research, when significant variables are discovered the relationship among them can be identified. Subsequently, the identified relationship is incorporated between the different variables must be built up reviewing the literature so that a good centre may be built up for subsequently investigation. The effective research is based upon the past knowledge a survey of past literature help to eliminate the duplication of what has done and sometimes provide useful hypothesis. In this connection, a review of previous related research

Project (literature) will help the researcher to formulate a satisfactory structure for his project.

Thus, to review the related literature, a researcher in advised as to identify the past research work and studies by reviewing book, articles, report etc. Review should be made in form of objectives, methodologies, findings gaps deficiencies etc.

2.2 Conceptual Review

This chapter includes the conceptual understanding of related literature. This study can be made worthwhile in the brief concepts of all the related heading clearly mentioned. This chapter includes of concept of financial performance, financial statement, financial statement analysis, objectives, needs and significance of financial statement analysis, Review of research tools and review of past research work.

2.2.1 Concepts of financial performance

Financial performance indicates the overall finding strength " The term financial strength has reference to the ability of a business (1) to meet the claims to creditors not only under current economic conditions but also under unfavorable situation that may occur in the future; (2) to take advantage of business dealing or expansion which require presently owned resources additional funds obtained through the sale of long-term debt obligations and capital stock, or a favorable credit rating; and (3) to continue interest and dividends payments without interruption. Financial strength should be studied from both a short-term and long-term point of view" (*Ralph D. Kennedy and Stewart Y. McMullen, 1973, 203*)

Financial performance is that managerial activity which is concerned with planning, raising, controlling and administration of financial resources of an

organization. It is basically measured by analyzing financial statements of an organization by using different financial and statistical tools and techniques. Financial performance is not only the evaluation of financial condition but also the evaluation of planning and it help to improve the panning in future. The real picture of financial performance mainly depends upon the past, present and anticipated profit, and current financial position of a business organization.

Financial performance is not only concerned with the profitability of the organization but rather it gives the picture of overall financial position of an organization. The performance of a firm can be assessed by computing key ratios and analyzing (a) How is the firm performing relative to the industry? (b) How is the firm performing relative to the leading firm in their industry? (c) How does the current year performance compare to the previous year(s)? (d) What are the variables driving the key ratios? (e) What are the linkages among ratios? (It's hard to analyze a ratio in isolation) (f) What do the ratios reveal about the future prospects of the firm for various stakeholders such as shareholders, bond holders employees, customers etc?

A sound financial performance of a bank is characterized by adequate profitability, appropriate level of liquidity, efficiency in operation, credit worthiness, efficient usage of assets and funds effective bank's financial policies, better financial status and future prospects. " The financial performance of a firm is largely affected by many external factors such as type of society, economic development of nation, political factors, existing government rules, regulation and policy, rate of inflation, size of market, occurrence of an extra ordinary event such as a flood, fire, existence or non existence of national emergency or war condition" (*Ibid*). So, it is necessary to consider the economic, social, business and political factor which are affection the banking business while analyzing financial performance.

"Management should be particularly interested in knowing the financial strength of the firm to make their best use and to be able to spot out the financial weakness of the firm to take suitable corrective action. The future plans of the firm should be laid down in view of the firm's financial strength and weakness." (*I.M. Pandey, 1983, P. 89*)

Both internal management and external groups analyze financial performance. Firms would perform such an analysis in order to evaluate their overall current performance, identify problem/opportunity area, develop budgets and formulate and implement strategies for the future external

groups (such as investors, lenders, regulators, customers_ also perform the financial analysis in deciding whether to invest in a particular firm, whether to extend credit, whether to make deposit etc.

In short, the better financial performance means to generate the reasonable profit by giving high quality of goods and services to the customer and concerned parties.

2.2.2 Financial Statements

A bank communicates data and information regarding its financial conditions through financial statement. Financial statement reflects a combination of recorded facts, accounting conventions and personal judgments and the judgments and convections applied affects them materially.

“The financial statements provide a summary of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as of a certain data and the income statement showing the results of operations during a certain period.” *(John N. Mayer, 1994 P95)*

In fact, financial statements are historical documents and relate to the past periods and are expressed in monetary terms to indicate the financial position in terms of assets and liabilities through balance sheet. “Financial statements are prepared for the purpose of presenting a periodical review or report on progress by the management and deal with the studies of investment in the business and the results achieved during the period under review.” *(R.S.N Pillai and Bagavathi)*

The major financial statements are balance sheet and profit and loss statement. Other derived statements are profit and loss appropriation account and cash flow statement etc.

Balance sheet is a financial statement of greater important. In fact it is called the fundamental accounting report. Balance sheet provides the value of firm's assets (what the firm owns), liabilities (what the firm's owes outsiders), and equity (what the inside shareholders won) on a particular date. Hence, the balance sheet shows the assets, liabilities and equity of the firm as of the given date (generally last date of accounting period). It is a static statement as it shows the position of business at a certain moment of time. It provides a snapshot of the financial position of the business at the closing of the accountancy period. It can be prepared either in account form or statement

form. Balance sheet contains information about resource and obligation of a business entity and about its owner's interest in the business at particular point of time.

If properly prepared and certified by an independent auditors, the balance sheet is very useful to give a clear and accurate picture of firm's financial position. When used in conjunction with income statement and other financial data, the balance sheet provides valuable information on the firm. Financial ratios can be developed to gain insight into the liquidity, solvency and profitability aspects of the business. This is particularly true because most balance sheets are comparative. A comparative balance sheet displays the current balances and the prior year's balance of each account in two columns. This allows the analyst to compare the beginning and end of year position and to measure the changes in each amount during the course of the year.

Profit and loss statement is another major financial statement, which is also known as income statement. The profit and loss statement is a statement of revenues earned and the expenses incurred for earning that revenue. If there is an excess of revenue over expenditure, it will show a profit otherwise loss. Moreover, as the profit and loss statement of a bank present the summary of revenue, the expenses, net profit or loss of a particular period of time; it serves as a measure of the bank's profitability. It provides information on the various revenue generated during the certain period and expenses incurred by the firm during that period.

The profit and loss account is condensed and classified record, prepared from various subsidiary and nominal accounts of the gains or losses to the business for a period of time." (*S.B. Chaudhary, Mgmt Accountancy, Kalyani Publisher, P21*)

It is a report of the firm's activities during a given period (normally one year). It shows the revenue and expenses of the firm, the effect of interest and taxes and the net profit for the period. It reflects the earning capacity and potentials of the firm.

Profit and loss appropriation account is the statement showing the balance in retained earnings after making adjustments for current profits and current dividend. The statement of retained earnings or profit and loss appropriation account acts as a link between the income statement and the balance sheet. The closing balance in retained earnings equals.

Opening balance +current net income-dividends

A cash flow statement is a statement of changes in financial position on cash balance. It is a statement of recording systematically all in flows and out flows of cash of the accounting period. It summarizes the causes of changes in cash position between dates of the two balance sheets. It indicates the sources and uses of cash.

Cash flow statement concentrates on transactions that have direct impacts on cash. "Cash flow means inflows and outflows of cash during accounting period. From the beginning of the year up to the end of the year cash is received from various sources and spent on various heads. Incoming and outgoing of cash is termed as cash flow." (*Pillai and Bagavathi, p.cit. P. 1437*)

"Cash flow statement is a statement of change in financial position, based on cash concept of funds. In the preparation of such a statement all items that increase/decrease cash are included but all those which have no effect on cash are excluded. Hence, it essentially a tool of short term financial planning." (*M.Y. Khan, and P.K.Jain, 2000, p 324*)

These above mentioned financial statements of banks contained summarized information of financial affairs as well as other many important aspects of bank in an organized and systematic way. "Financial statements attempt to do several things. First, they portray the assets and liabilities of a business firm at a moment of time, usually at the end of the year. This portrayal is known as the balance sheet. On other hand, an income statement portrays the revenues, expenses, taxes, and profit of the firm of a particular period of time, again usually a year. While the balance sheet represents a snapshot of the firm's financial position at a movement in time, income statement depicts its profitability over time." (*James C. Van Horne*)

2.2.3 Financial Statement Analysis

Financial Statement Analysis is a major tool to analyze the firm's financial performance of a firm can be determined only through the critical analysis of financial statements. A poor financial analysis may lead the firm to become failure. By comprehensive analysis of financial performance, a firm can evaluate its past and present position and can make a better future planning and improvement toward goal achievement. Users of financial statement can get better insight about financial strength and weakness of the firm if they

properly analyze information reported in those statements. Financial statement analysis is the starting point for making plans before using any sophisticated forecasting and planning procedure.

"Financial statement analysis is an information processing system designated to provide data for decision making. The process of analysis of financial and operating data and the preparation and interpretation with measuring devices such as ratios, trends and percentage." (*N.P Agrawal, 1981 p.5*)

"Financial statement analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance and the profit and loss account." (*I.M. Pandey, 1993:96*)

"The analysis of financial statements refers to the treatment of the information contained in the financial statement in a way so as to afford a full diagnosis of the profitability and financial position of the firm concerned. For this purpose financial statement are classified methodically, analyzed and compared with the figures of previous years of other similar firm." (*S.P. Jain and K.C. Narang, 1991:4*)

"Financial statement analysis involves a comparison of a firm's performance with that of other firms in the same line of business, which is often, identifies the firm's industry classification." (*Weston, J.f. Besley, s. and Brigham, F.E. 1996:78*)

Financial statement analysis thus assists the management to take benefit of the strategic management techniques by providing the management with the information regarding the strength and weakness of the firm so as to exploit the opportunities lying in the environment and manages the threats posed by the environment. The major purpose of financial statement analysis is to get detailed knowledge of financial/economic condition of a firm. Financial analysis flow the information about relationship of several items shown in financial statements. It involves analyzing the firm's financial statements to extract information that can facilitate decision-making. An analysis of financial statements can reveal whether the firm will be able to meet its long term debt commitment; whether the firm is financially distressed; whether the firm is using its physical assets efficiently; whether the firm has an optional financial mix; whether the firm is generating

adequate returns for its shareholders; and whether the firm can sustain its competitive advantage.

A number of factors should be taken into account in analyzing financial statements. One of the basic rules to observe in utilizing financial information is to be sure to know the rules under which the information was prepared. Also the statements must be interpreted. The use of standard ratios, especially comparing them to industry norms, can be very revealing. An analyst can develop and use a wide range of ratios and other diagnostic device that have economic meaning.

After analysis of financial statement its interpretation is most necessary. Interpretation is impossible without analysis and without interpretation analysis has no value. In fact, analysis means breaking down a complex set of facts of figures into simple terms and to explain is such a simple language of the financial position and earning capacity of the firm when can be understood even by a laymen, who does not know accounting. Thus interpretation acts as a bridge between the act of recording and reporting financial information and the act of using this information. So analysis refers to the process of fact-finding and breaking down complex set of figures into simple components while interpretation stands for explaining the real significance of these simplified components. Interpretation is mental process based on analysis and criticism and it is dependent on the interpreter himself. It is the drawing of inference and starting what the figures in financial statements actually mean. The most important objectives of the interpretation of financial statements is to understand the significance and meaning of financial statements data to know the strength and weakness of the business so that a forecast may be data of the future prospects of the business.

2.2.3.1 Objective of financial statement Analysis

Financial statements are prepared from the accounting records maintained by the firm. The generally accepted accounting principles and procedures are followed to prepare these statements. The basic objectives of financial statement analysis are to assist in managerial decision making. Other objectives are (*Pandey, 1993:30*)

-) Resource and obligation: - To provide reliable financial information's statistics about economic resources and obligation of a business enterprise.

-) Change in net resources: To provide reliable information about change in net resources (resource minus obligations) of an enterprise that results from the profit directed and other activities.
-) Earning potential: To provide financial information that assists in estimating the earnings potential of the enterprise.
-) Full disclosure: To disclose, to the extent possible other information related to the financial statement that is relevant to statement users.

2.2.3.2 Need of Financial Statement Analysis

Financial statements are prepared from account records. The financial statements are the interim records of an enterprise. The actual situation can't be ascertained of the business only when making of financial statements. They are analyzed, interpreted and reached in a final conclusion. The need of financial statement analysis is to observe the financial soundness of the firm. The need of analyzing can be listed below by studying the various authors' views:

-) To process the financial statistics and information.
-) To pin point the strength and weakness of a business undertaking by regrouping, comparing and examining the content of statement.
-) To determine the significance and meaning of financial data.
-) To make forecasting for the future earning ability and in other aspects.
-) To establish significant relationship and pointing up changes and trends of financial condition of the firm.
-) To have a clear understanding of the profitability and financial ability of the enterprises.

In addition to these, analysis of financial statements is useful for the different parties of the business who are involved in business transaction such as owners of investors, debtors and creditors and financial executives. Interpretation of financial statements is necessary for the business management who wishes to determine their own performance. It is also essential for creditors and credit granting institutions, which have to determine the credit worthiness of borrowing concerns. Besides the investors who plans to buy stocks and shares in a business concern and also the underwriters are interested in financial statement analysis.

Financial statement analysis is undertaken by outsiders, supplier of the capital, creditors, and investors and also by the firm itself. The purpose isn't only for internal control but also for better understanding what capital

suppliers see in the way of financial condition and performance from it. A creditor or a bond holder may evaluate firm's stability by analyzing its capital structure major sources and uses of funds, its profitability overtime and projections of future profitability etc. are concerned by them. According to Weston Fred J. and Brigham F. Eugene, "From an investor's stand point, predicting the future is what financial statement is all about. While from management stand point, financial statement analysis is useful both as a way to anticipate future conditions and more important, as a starting point for planning actions that will influence the future course of events" (*Weston & Brigham, 1996:P.56*)

In conclusion, the analysis of financial statements is equally necessary for all the parties such as decision makers, debtors, creditors, suppliers, investors of capital, bankers, customers etc. for ascertaining of financial statistics and information.

2.2.3.3 Significance of Financial Statement Analysis.

From the concept of financial performance analysis, it has proved that one can explore various facts related to the past performance of the business and predict out the future potentials for achieving expected results. In the present time, various parties are involved in the business such as shareholders, creditors, depositors, employee's trade associations, managers, investors and other persons who are directly or indirectly involved in the business. They all are interested in the financial conditions of the firm for their own different purpose. In this regard, financial statement analysis is very helpful in assessing the financial position and profitability of a firm. The importance of financial statement analysis is axiomatic and uncontroversial but it is significant to hold the extent and fields of its important. In this connection, N.P Agrawal states " In the interest of good health, medical authorities advice every individuals to have a periodic examination of his body and similarly in the interest of sound financial policy, every company should also analyze its accounts periodically." (*Agrawal, N.P. 1981:5*)

Highlighting on the importance of financial statement as well as analysis, J.C. Vanhorne says, " In order to bargain more effectively for outsider fund, the management of a firm should be interested in all aspects of financial analysis that outsider supplier of capital use in evaluation the firm" (*Vanhorne, James C. 11th edition :691*). Further, Management of a concern is interested in the result of financial statement analysis because the resultant outcomes serve inputs for the present and future decision making purpose.

Financial statement analysis thus assists the management to take benefit of the strategic management technique by providing the management with the information regarding the strength and weakness of the enterprises so as to exploit the opportunities lying in the environment and overcome the threats posed by the environments. According to Weston and Brigham, "Financial plans may take many forms but any good plan must be related to the firm's existing strengths and weakness. The strengths must be understood if they are to be used to proper advantage, and the weakness must be recognized if corrective action is to be taken." (*Weston, J Fred, and Brigham, F Eugene, 19981:145*)

In this connection, financial statement analysis is helpful to the decision maker for finding out favorable and unfavorable situation of business firm. Likewise, financial statement analysis is exceptionally useful to a member of parties who related directly or indirectly to the firm. The analysis is important to them for different aspects of their interest.

2.2.4 Review of Research Tools

The financial statement is analyzed to gain the real knowledge of financial performance of the company. The statement is analyzed with the help of some financial, accounting and statistical tools. Among them, some important research tools that are used in this study are mentioned below.

2.2.4.1 Financial Tools

Since, the study is related to financial performance analysis, financial tools are more important. They help to identify the financial strength and weakness of financial sectors. Various tools a variable research has primarily stressed on ratio analysis as it is the most suitable table.

Ratio Analysis

Simply, ratio is the arithmetical relationship between two figures determined by no. of items one contains to another. In financial management ratio analysis is the process of establishing a proper meaningful relationship between two or more figures/items mostly taken from balance sheet and income statement for identifying and analyzing the financial strength and weakness of an enterprise for a particular period of time. Ratio analysis is useful to make rational decision not only for the enterprise itself but also for the outsider, shareholders, investors, bankers, depositors etc.

The firm's purposes for the ratio analysis is not only for internal control but also better understanding of what outsiders seek in financial conditions and performance from the firm. The ratio analysis can be expressed as a percentage and in times.

Various types of ratio can be used to analyze the financial condition of the enterprises. Under this study ratio analysis has been described as below.

A. Liquidity Ratio

Liquidity ratios are devices to judge the company's ability to meet its short-term current obligations and provide measure of liquidity position. Their shouldn't be the condition of lower and higher liquidity. Lower liquidity indicates the failure of meeting the company's current obligations and adverse result. On the other hand, higher liquidity indicates idle assets which are also not good as it earns nothing. So, it is essential for the corporation to maintain the balance of liquidity position. In the context of examining liquidity position of the corporation, only one liquidity ratio has been computed, that is current ratio. Current ratio is the measurement of a short-term solvency to show the availability of current assets expressed in rupees for every one rupee of the current liability. It is computed by dividing total current assets by total current liabilities. It can be expressed as:

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

The standard of this ratio is generally accepted as 2:1. A relatively high current ratio means the company is able to meet its short-term obligations and vice-versa.

B. Leverage Ratio

The leverage ratios are also termed as capital structure ratio. They are computed in order to get insight in the long-term financial status of the company. This ratio shows the company's current debt-paying ability. The risk of the company can be diversified by issuing bond and debentures or by using creditor ship capital. The owners, creditors and outsiders are interested in firm's debt-paying ability. If the company is high levered, then the firm will face difficulties to raise funds, not only from the creditors but also from the owners too. The owners of the company may take advantages if the firm raises funds through the debt. In such case, they lose control over funds.

The nature of issuance of the debt of the firm to make equity holder more beneficial is called 'trading of equity'. The main disadvantage of the issuance of debt funds in the company is that the owners of the company can get the residual portion of assets when the firm is in liquidation or nothing if there are no residual funds. Debt is considered more risky than the equity due to their obligation to pay certain interest. Consequently there should be optimum combination of the debt and equity in capital structure.

The leverage ratios are as follows:

I. Debt equity ratio: It measures the claim of the creditors and owners against the firm's assets.

$$\text{Debt equity ratio} = \frac{\text{Debt}}{\text{Net Worth}}$$

Net Worth = Share Capital + Retaining Earning + Share Premium + Reserve and Surplus – Accumulated loss if any.

II. Total debt to total assets ratio = It measures the percentage of funds provided by the creditors. Mathematically,

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

III. Total debt to total capital ratio = This ratio measures the portion of long term debt in the total capital structure of the firm. Mathematically,

$$\text{Debt to total capital} = \frac{\text{Long term debt}}{(\text{Long term debt} + \text{Net Worth})}$$

IV. Interest coverage ratio = It is calculated to know the debt servicing capacity. It shows the number of times the interest charge is covered by EBIT. Mathematically,

$$\text{Interest coverage ratio} = \frac{\text{EBIT}}{\text{Interest Charge}}$$

C. Other Financial Ratio

Banking sector's the service rendering business with its profit motive. Being a financial institution only, some important ratios have been calculated. These, ratios are described below:

I. Net profit to total income = as suggested by the export of the banking sector, net profit to total income ratio is the most essential ratio. This is calculated by dividing net profit by total income. Mathematically,

$$\text{Net profit to total income} = \frac{\text{Net profit}}{\text{Total income}} \times 100$$

Net profit margin ratio establishes the relationship between net profit and total income which indicates management's efficiency in operating business, administering and managing the business. If net profit margin is inadequate, the company will fail to achieve satisfactory return on shareholder's fund.

$$\text{II. Net profit ratio} = \frac{\text{Net profit after tax}}{\text{Operating income}}$$

$$\text{III. Operating profit ratio} = \frac{\text{EBIT}}{\text{Operating Income}}$$

$$\text{IV. Net profit to total assets ratio} = \frac{\text{Net profit}}{\text{Total assets}}$$

$$\text{V. Return on equity} = \frac{\text{Net profit}}{\text{Equity}}$$

$$\text{VI. Expenses to total income} = \frac{\text{Total expenses}}{\text{Total income}}$$

$$\text{VII. Earnings per share} = \frac{\text{Net profit available to equity shareholders}}{\text{No. of shares outstanding}}$$

$$\text{VIII. Dividend per share} = \frac{\text{Dividend available}}{\text{No. of share outstanding}}$$

High net profit ratio is good sign of efficient management. It is also an indication of the company's good position to take advantage of favorable economic condition. Operating profit ratio is an important ratio that explains the changes in the net profit ratio. Higher operating profit ratio is favourable because it indicates large margin that will leave to cover interest and tax. On the other hand, the lower ratio is unfavourable because lower margin is left to cover the interest. Net profit to total assets ratio is the way of useful measurement of profitability of all financial resources invested in the company's assets. The higher return on assets, the more efficient use of

capital invested. The lower ratio will indicate worse utilization of capital. Return on equity measures the profitability on shareholder's investment. The higher return on equity, the higher the price of share and a strong attraction to new investors.

An expense to total income ratio is very important for analyzing the profitability of the company. A low expensed ratio is favourable while a high one is unfavourable for the company. So, expenses ratio is used as a yardstick of profitability.

EPS is the measurement of income per share. High EPS attracts the new investors. It maximizes the value of the firm. High earning per share indicates the firm's good efficiency in the performance. Dividend is the earning distributed to ordinary shareholders from net cash flows or net income. Higher DPS attracts the large number of present and potential investors. Investors are more interested in DPS rather the EPS. So, high DPS is favourable for the company, which measures the firm's strength.

2.2.4.2 Statistical Tools

Statistical tools are also used to analyze the data. The statistical data used in the study are mean, standard deviation, coefficient of variation, co-efficient of determination and trend analysis.

Statistical tools are expected to provide valuable information about variation, correlation and growth trend etc. which analyzing financial performance. Such analysis helps to draw conclusion which of the organization is better managed and helps management to take corrective action.

A. Arithmetic Mean (AM)

This statistical tool is applied to calculate the average of data. It is the most popular and widely used measured of representing the entire data by one value is what most laymen call an average and what the statisticians call the arithmetic mean. Its value is obtained by arithmetic mean. Its value is obtained by adding together all the items and by dividing this total by the number of items. It can be computed as follows:

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

Where,

$$\bar{X} = \text{x-bar / mean}$$

$$\phi = \text{Sigma / the sum of the value.}$$

$$N = \text{no. of items.}$$

B. Standard Deviation (SD)

It is denoted by the Greek Letter sigma (Ω). This statistical tool is used to examine risk of return distribution. The value of the standard deviation depends upon whether the other return data are scattered or clustered around the central value or A.M., if the other values are scattered from the central values, it is regarded more volatile or risky; the (Ω) will be higher, if the risky value are clustered around the mean, the return distribution is regarded less volatile or less risky, the (Ω) will be lower.

It is define as the positive square root of the arithmetic mean of the square of the given observations from their arithmetic mean.

In symbol,

$$\text{S.D.} = \left[\left(\frac{\sum x^2}{n} \right) - \left(\frac{\sum x}{n} \right)^2 \right]$$

C. Coefficient of Variation (CV)

The relative's measure of risk-ness of return based on the Ω is known as coefficient of variation (C.V.), which reflects risk per unit rate of return and CV provides a quick summary of the relative provides a quick summary of the relative trade-off between rate of return and risk CV is defined as under.

$$\text{CV} = \frac{\Omega}{\bar{x}}$$

Where,

$$\Omega = \text{Standard Deviation.}$$

$$\bar{x} = \text{Mean.}$$

D. Correlation co-efficient Analysis

Correlation co-efficient is one of the most widely used and also one of the most widely abused statistical measure the relationship between two variables. Hence, the coefficient of correlation is computed in order to examine the relationship between deposit and investment, interest earned and operating profit and interest earned and interest paid of both JVBs. Symbolically, Karl Pearson's co-efficient is denoted by 'r'

The formula of computing 'r' is

$$r = \frac{\Sigma xy}{\sqrt{(\Sigma x^2 \cdot \Sigma y^2)}}$$

Co-efficient of correlation is always lies in $|\leq 1$, where r is +1 there is perfect positive correlation between two variables. Where r is -1 there is perfect negative correlation between two variables. Where, r is 0 there is no correlation between the variables.

E. Trend Analysis

The general tendency of time series data to increase or decrease during a long period of time is called trend. In the situation of analysis, different kinds of tools can be used to know the actual position of a business concern, out of which trend analysis is one which shows the percentage changes in several successive years instead of between two years. Trend analysis indicates the direction of change.

The trend percentage statements also known as trend ratio is an analytical device, which examines whether the financial position of a firm is improving or deteriorating over the years. In this regard, J.C. Vanhorne and J.M. Wachowiz say "An analysis of percentage financial statements where all balance sheet or income statements figures for base year equal to 100 (percentage) and subsequent financial statements items are expressed as percentage of their values in the base year." (*Vanhorne, J.C. & Wachowicz J.M.; 2000; 145*)

However, as the base year is always changing, so it becomes difficult to interpret the series of percentage changes and this problem becomes more evident in case of inter-firm comparison, so the percentage changes may be better expressed assuming the first year as the base year. Trend percentage can be computed by using the following formula.

$$\text{Trend percentage} = \frac{\text{Yearly Amount}}{\text{Base Year's Amount}} \times 100$$

The index percentage can be plotted on graph either in arithmetic scale or semi logarithmic or ratio chart to facilitate the study of trend of firm.

2.2.5 Review of Previous Study

In this section, different views expressed by different persons, authors, professors, executives etc. in their publication (articles and books) regarding the operation, function, activities, financial position, performance etc. of Nepalese commercial bank have been reviewed.

A. Sarita and Bhuwan Dahal (2060) in their book “ A Hands Book of Banking ” have made an attempt to highlights into different topics – Introduction of banking, Banking Operations, Liquidity, Profitability, Loan and Capital, Management of bank. This book presents gradual development of banking business in Nepal, the current position of banking business in Nepal, current operation financial and managerial strengths and weakness of banking business in Nepal. The authors express their views on the financial position of the commercial banks in Nepal as under:

All the joint venture banks are running at profit but two major banks i.e. Nepal Bank limited and Rastria Banijya Bank are incurring huge losses. Moreover, all the joint venture do not have strong financial base in respect of capital adequacy and EPS. Non operating assets and interest suspense of all the banks including the best banks like NABIL and SCB are also increasing. This is a serious problem of banking in Nepal because bad quality of assets leads bankruptcy of many banking in South-East Asia.

There is a rumor that some banks are manipulating in the classification of credit and less provision is being made. If the rumor is trod, there balance sheet is not presenting the true picture. In the long run, this will prove to be very costly for depositors in particulars.

B. Govinda Bahadur Thapa (2000) in his article “Nepal Banking System: can the mess be managed?” States that “The joint venture banks have been earning a huge profit not from fund based lending but from non-based activities and from investing outsides. That is why these banks have been less interested to lend aggressively in the domestic market. Economic activities have slow down in Nepal for several years. However, commercial banks have not lowered their lending rates to revitalize the economy. On the contrary, the commercial banks have been discouraging the deposits to get rid to excess liquidity. And, new avenue that a country with such a low saving rate and need to unlimited investment, is investing huge amount of resources in developed countries and is piling up international reserve. Therefore, it can be inferred that Nepalese banking system has not been made and motivated to contribute to the promotion of the economic activities in the country as it should do.

C. Matrika Prasad Khatiwada, (2005), has written thesis paper on “Comparative Study of the Financial Performance of Nepal Arab Bank Limited and Nepal SBI Bank Limited.” He has taken the main objective to have a comparative analysis of the financial performance of those two joint venture banks. He has presented and analyzed the collected data financial statement from the fiscal year 1998/99 to 2002/03, by using financial as well as statistical tools. He has used financial tools like liquidity analysis, activity analysis, deposit utilization, expenses analysis and profitability analysis. Besides these, he has used some statistical tools like mean, standard deviation, correlation and trend analysis. By analyzing the data, he has concluded about the financial performance of Nabil Bank Limited as:

As regard the liquidity position of the Nabil Bank is short of the requirement level during whole of the study period, i.e. Nabil fail to maintain sufficient cash and bank balance as per NRB directives and violating NRB directly in all the years of study.

1. Comparatively NSBL relies more on outsider’s funds than NABIL.
2. Ability to invest long-term investment and to make short-term investment is comparatively lower in NABIL than in NSBL.
3. Policy of depending in medium term investment is better for NABIL.
4. NABIL is taking risk of using more deposit it increase profitability.
5. NABIL has higher deposit utilization capacity than that of NSBL.
6. NABIL pays higher salaries and allowances of facilities to its staff than NSBL.

7. NABIL use comparatively more money to operate the office than NSBL.
8. Higher bonus payment by NABIL means it has higher profitability in comparison to NSBL.
9. NABIL has higher EPS, ROE and market price than that of NSBL.
10. There is positive correlation between deposit and investment; interest earned and operating profit; and finally between interest earned and interest paid. But the degree of correlation is quite lower.
11. Trend of major financial indicators of NABIL are positive (i.e. growing). And he has suggested the NABIL to:
 - I. Improve its liquidity position.
 - II. Increase the % of fixed deposit in deposit structure.

D. Rajib Raj Joshi, (2001), reports of the financial performance of Nepal Arab Bank Limited (NABIL) & Nepal Grindleys Bank Limited (NGBL) in the following words.

1. The liquidity analysis reveals that overall liquidity position of NABIL is better than of NGBL.
2. The activity ratio analysis reveals that NGBL is more efficient than NABIL in managing and utilizing its resources.
3. The overall profitability of NGBL is better than that of NABIL because it pays less interest to its depositors than it earns interest on deposits.
4. The average price-earnings ratio of NABIL is higher which reveals that NABIL has higher market price per share over earning per share and the investors will prefer to invest in stock (share) of NABIL because they will recover their investment quickly.
5. The stock of NABIL is highly priced than that of NGBL since it has higher book value per share.
6. Average dividend payout ratio indicates that NGBL pays more dividends to its shareholders than NABIL where as NABIL retains more earning.

E. Bindeshwor Mahato, (1997), has undertaken a thesis study on 'A Comparative Study of The Financial Performance of Nepal Arab Bank Ltd and Nepal Indosuez Bank Ltd' with the main objective of assessing and analyzing the financial performance of two JVBs. Using ratio analysis, income and expenditure analysis, and trend analysis tools he has presented and analyzed the financial statement of these two JVBs for the period of 1990/91 to 1994/95. In his thesis he has concludes that;

1. Both banks under study maintain adequate liquidity. But the primary and secondary reserve position of NABIL is better.
2. NABIL is utilizing more deposits for the income generating purpose than NIBL.
3. NIBL is following conservative and safer deposits and selective lending policy than NABIL, though the capital adequacy requirements are met by both of them.
4. NABIL is performing well in terms of return on capital, cash dividend per share, earning per share, price earning multiple, market value per share etc, than NIBL. The later has better performance in dividend payout ratio, market value to book value, return on assets, return on deposit etc.
5. The average operating profit of NABIL is superior to NIBL and is relatively more fluctuating.
6. NABIL is more oriented toward discharging responsibility towards its shareholders than Nepal Indosuez Bank Ltd.
7. NABIL is found paying more attention toward the achievement of national objectives.

So, from the shareholders and governments point of view NABIL is performing much better than NIBL.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology may be defined as a systematic process i.e. adopted by the researcher in studying a problem with certain objective in view. So, a research methodology indicates a step-by-step process to meet reliable solution for certain problem.

Research Methodology may be defined as the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis interpretation and reporting of information about various facets phenomenon under study. It is the process of arriving at the solution of the problem through the planned and systematic dealing with collection analysis and interpretation of facts and figure.

Appropriate choice of research methodology is important for making the research study meaningful and more scientific. Therefore, appropriate methodology has been followed to meet the purpose objectives of the study. So, the methodologies of this research include the research design, the population and sample, nature and source of data, data collection procedure and method of analysis. Various authors and writers have defined research methodology in no. of ways. Some of the definitions are as following. "Research is scientific and organized effort to investigate a specific problem that needs a solution. The process of investigation involves a series of well throughout activities of gathering recording, analyzing and interpreting data with the purpose of finding answer to the problem. This entire process by which, we attempt to solve problems or search the answer to questions is called research." (*Wolf and Pant; 2002; p 4*)

The term 'Research' refers to the systematic method consisting announcing the problem, formulating a hypothesis, collecting the facts or data analyzing the facts and reaching certain conclusion either in the forms of solution toward the concerned problems or certain generations for some theoretical formations (*C.R. Kothari; 2002; p-2*)

"A careful study or investigation, esp. in order to discover new facts or information." (*The Advanced Learners Dictionary, Oxford; 1989; p-1073*)

3.2 Research Design

Research Design is a conceptual structure with in which a research is conducted. It is a plan structure and strategy for investigation of the facts in order to arrive at conclusion. Thus, research design is plan to obtain the answer of research question through analysis of data. It is purposeful scheme of action proposal to be carried out in a sequence during the process of research. Generally, research design means definite procedures and techniques, which guideline profound ways for research ability. Research design helps researcher to enable him to keep track of action and to know whether he/she is moving in the right direction to achieve his goal or not.

Basically, the research design has two purpose the first one is to answer the research question or test the research hypothesis and other is to control variance (*Wolf and Pant; 2000; p-50*) P.V. Young, in her work 'Scientific social surveys and research pointed, Research design is the logical and systematic planning and directing of a place of research. (*P.V. Young; 1998; p-131*). It is very helpful for conducting research. It facilities smooth operation of research work there by making research as efficient as possible yielding maximum information with minimum expenditure of effort, time and resources. Generally the design which minimizes bias and maximizes the reliability of the data collected and analyzed is considered a good design. The design, which gives the smallest experimental error is supposed to be the best design in many investigations.

3.3 Population and Sample

The research topic is about financial performance analysis of the major banking institutions of Nepal are the members of population of the study.

When a researcher undertakes a research work, he is to decide basic things, what will be the scope of the study and what will be the population or universe? In general population or universe cab be defined as any collection of people, objects or events and data on which researcher one is interested. It varies with respect to research problem, purpose of study and nature of information to be processed. Population consists the no. of events and variables under the specific problem of investigation.

By the sample, it means the aggregate specification is grouped to facilitate researcher. In other words, it is the portion or sub part of the total population according certain logic. It is sub group of universe study is conducted right

then. A good sample selection of sub universe data, as small as selected data can be represented as large as the universe. Elements are selected in a manner that they are yielded almost all information about the whole data.

3.4 Nature and Sources of data

Research is a systematic study of raw data in a meaningful way. Therefore, the data are the core of descriptive research. Adequate data are required for the study from the different sources. Data received from the primary sources are the primary data and data from secondary sources are the secondary data. In this regard, there are two types of data collection, primary data collection and secondary data collection.

Primary data are the data that an individual collects himself/herself from the source. A primary source of data is the source from where first hand data are obtained. These data are retrieved by the process of group discussion, individual interview, document of the proposed organization, investigation, observation and so on. On the other hand, secondary data are stored data that were previously collected by another person for another purpose but also applied for present research. Secondary sources are auxiliary sources of data; they are publications, newspapers, magazines and websites for the recent age.

3.5 Data collection Technique

Data collection is the process of counting or enumeration or measurement together with the systematic of results. As the subject matter of the study is related with the core banking area. Secondary data as mentioned above were collected from annual reports of concerned banks, previous related studies and other newspaper magazines. Some basic journals and reports were directly collected from visiting the Nepal Rastra Bank. Internet surfing was also conducted for some basic information and financial data about the financial sector. Primary data required for the study are collected through contact research division of NRB branch office, Biratnagar with responsible personnel. It was taken as primary data and used in this study. A theoretical study of financial analysis was from the literature available in the library of Post Graduate Campus, Biratnagar, which are used in this study.

3.6 Method of Data Analysis

To analyze and interpret the financial data of sample banks, various financial and statistical tools and techniques have been used in the study that are suitable or appropriate according to the nature of the statement and data crafting

the analysis more effective and significant. This is an important part in research work. Therefore collected data from secondary source and primary source were presented in appropriate and suitable various forms like tables, diagram and figures. In most of the analysis five years recent data were presented. Basically, two types of tools are used to achieve the objective. The tools are financial and statistical.

Financial tools

Since the study is related to financial performance analysis, financial tools are more important. The help to identify the financial strengths and weaknesses of the organization. To evaluate the performance of any organization financial tools are very useful to determine the strengths and weakness of a financial sector as well as it is historical performance and current financial condition of NABIL and SBL. In spite of various tools a variable research has primarily stressed on ratio analysis as it is the most suitable table.

Statistical tools

Although various statistical tools were available to analyze and interpret the data, the researcher has selected following statistical tools which are most suitable and commonly used to obtain objectives of the study.

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

Where,

$$\bar{X} = \text{x-bar / mean}$$

$$\phi = \text{Sigma / the sum of the value.}$$

$$N = \text{no. of items.}$$

$$) \text{ S.D.} = \left(\frac{\sum X^2}{n} \right) - \left(\frac{\sum X}{n} \right)^2$$

$$) \text{ CV} = \frac{\phi}{\bar{X}}$$

Where,

Ω = Standard Deviation.

\bar{x} = Mean.

) Correlation coefficient (r) = $\frac{\Sigma xy}{\sqrt{(\Sigma x^2 \cdot \Sigma y^2)}}$

) Correlation of determination = r^2

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

In this chapter, the data collected from various secondary sources are presented, analyzed and interpreted by using the various financial and statistical tools. With the help those tools researcher aims reaching at meaningful conclusion. This analysis is based on the financial statement of the NABIL and SBL from the fiscal year 2061/62 to 2065/66. In order to find out the strength and weakness of those two banks in term of their financial performance various ratio, trend analysis, correlation analysis, regression analysis etc are computed.

4.2 Ratio Analysis

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as the indicated quotient of two mathematical expressions and as the relationship between two or more things. In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. Ratio provides clues to the financial position of a concern. There are the pointers or indicators of financial strength soundness position or weakness of an enterprises one can draw conclusion about the exact financial position of a concern with the help of ratios:

In this research work, ratio analysis of two JVBs i.e. NABIL and SBL has been grouped into following categories.

4.2.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. Short-term lenders such as suppliers and credits use liquidity analysis to assess the risk level and ability of a firm to meet its current obligation satisfying these obligations requires the use of the cash resources available as of the balance sheet data and the cash to be generated.

Different types of ratio have been used to measure the liquidity position of both JVBs which are as under.

1. Cash and Bank Balance to Total Deposit Ratio:

Cash and bank balance to total deposit ratio measures the availability of bank highly liquid funds to meet its unanticipated calls on different types of deposit. This analysis indicates the ability of banks fund to cover their current saving, call and other deposits.

Cash and bank balance to total deposit ratio of NABIL and SBL are presented by following table:-

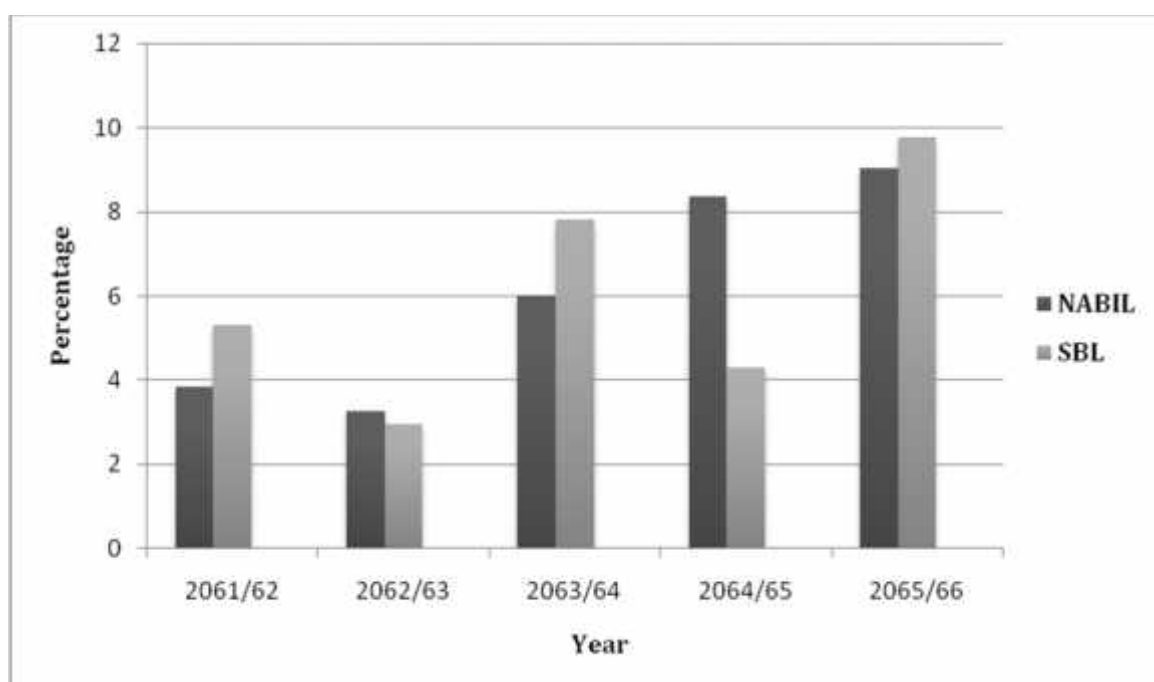
Table No. 4.1

Cash and Bank Balance to Total Deposit (00,000)

F/Y	NABIL			SBL		
	Cash and Bank Balance	Total Deposit	%	Cash and Bank Balance	Total Deposit	%
2061/62	5593.81	145866.09	3.83	1307.29	24619.23	5.31
2062/63	6302.39	193473.99	3.26	1159.46	39180.76	2.96
2063/64	13998.25	233422.85	6.00	5172.27	66250.79	7.81
2064/65	26711.41	319150.47	8.37	4374.25	101914.41	4.29
2065/66	33725.12	373482.56	9.03	15476.94	158547.98	9.76
Mean			6.09	Mean		6.03
S.D.			2.32	S.D.		2.45
C.V.			38.09	C.V.		40.63

Sources: Annual Report of NABIL and SBL

Figure no.: 1 Cash and bank balance to total deposit



The above table no.4.1 shows that the ratio of cash and bank balance to total deposit of two JVBs for fiscal year 2061/62 to 2065/66. Ratio percentage of NABIL is 3.83%, 3.26%, 6.00%, 8.37% & 9.03% and 5.31%, 2.96%, 7.81%, 4.29% & 9.76 % for the five year respectively. Average proportion of NABIL and SBL is 6.09% and 6.03% respectively. It shows that SBL is better utilization of its deposits and NABIL is strong liquidity position of firm. NABIL is less successful to utilize the fund of total deposit than SBL. C.V. of NABIL and SBL is 38.09% and 40.63% respectively. It indicates that NABIL is less risky than SBL or NABIL is more consists than SBL because NABIL is lowest C.V. than SBL.

2. Cash and Bank Balance to Current Assets Ratio

Cash and bank balance is the most liquidity from of current assets. Bank must keep cash and bank balance in its value to meet cash requirement of its call on time depositors and other official expenses.

Table of cash and bank balance to current assets of NABIL and SBL as below.

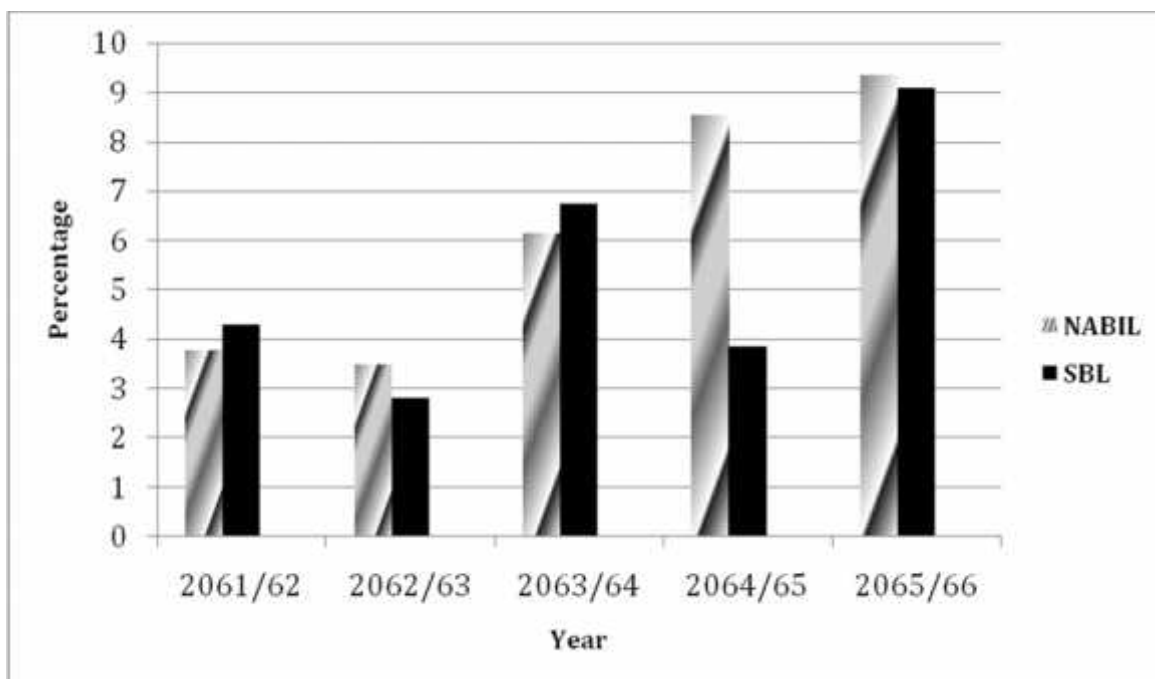
Table No. 4.2

Cash and Bank Balance to Current Assets (00,000)

F/Y	NABIL			SBL		
	Cash and Bank Balance	Current Assets	%	Cash and Bank Balance	Current Assets	%
2061/62	5593.81	148457.50	3.77	1307.29	30498.12	4.29
2062/63	6302.39	181338.15	3.48	1159.46	41090.49	2.82
2063/64	13998.25	228295.36	6.13	5172.27	76583.84	6.75
2064/65	26711.41	312418.32	8.55	4374.25	113299.46	3.86
2065/66	33725.12	360861.33	9.35	15476.94	170378.68	9.08
Mean			6.26	Mean		5.36
S.D.			2.40	S.D.		2.26
C.V.			38.34	C.V.		42.16

Sources: Annual Report of NABIL and SBL.

Figure no: 2 Cash and bank balance to current assets



The above table no. 4.2 shows that the cash and bank balance to current assets of two JVBs for fiscal year 2061/62 to 2065/66. Percentage of NABIL is 3.77%, 3.48%, 6.13%, 8.55% & 9.35% and SBL is 4.29%, 2.82%, 6.75%, 3.86% & 9.08%. Average proportion of NABIL and SBL is 6.26% and 5.36% respectively. It shows that NABIL is maintaining higher cash balance than SBL. C.V. of NABIL & SBL is 38.34% & 42.16% respectively. So, NABIL is more consistent than SBL because of lowest C.V. of NABIL.

3. Investment on Government Securities to Current Assets Ratio:

Investment on government securities to current assets ratio indicates that the proportion of investment on government securities of commercial bank out of total current assets.

This ratio is calculated and presented by following table:

Table No. 4.3

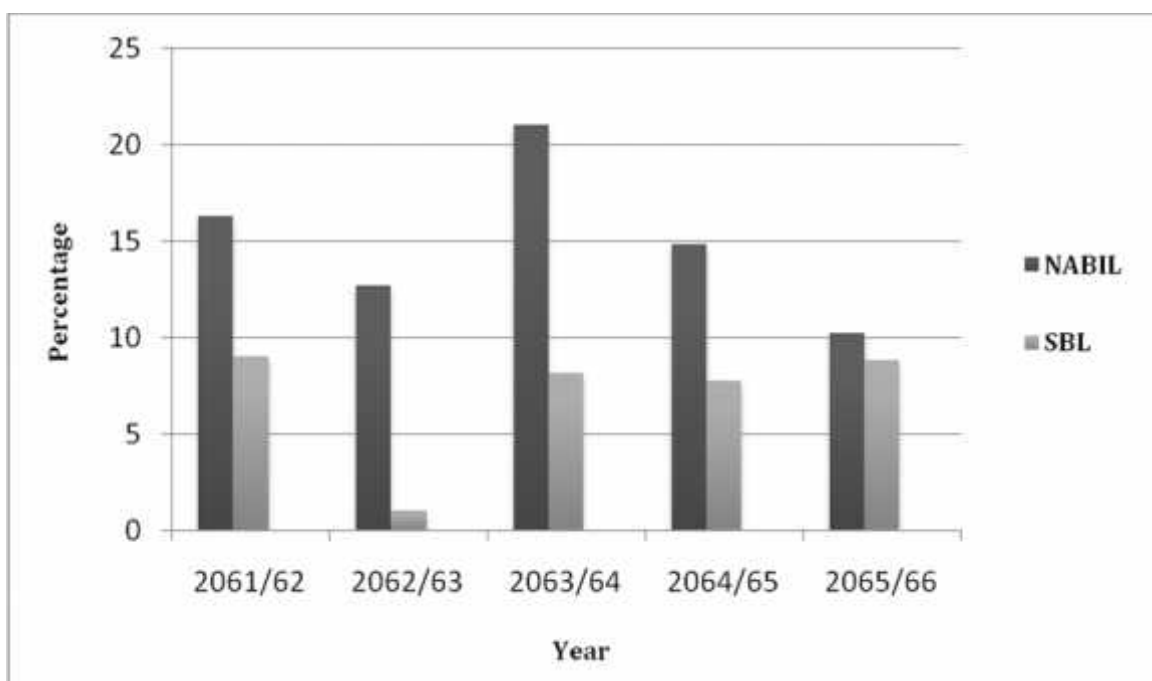
Investment on Government Securities to Current Assets (00,000)

F/Y	NABIL			SBL		
	Invest. on Govt. securities	Current Assets	%	Invest. on Govt. securities	Current Assets	%
2061/62						
2062/63						
2063/64						
2064/65						
2065/66						

2061/62	24184.31	148457.50	16.29	2762.70	30498.12	9.06
2062/63	23014.63	181338.15	12.69	432.65	41090.49	1.05
2063/64	48083.49	228295.36	21.06	6257.48	76583.84	8.17
2064/65	46468.83	312418.32	14.87	8840.84	113299.46	7.80
2065/66	37061.03	360861.33	10.27	15047.03	170378.68	8.83
Mean			15.04	Mean		6.98
S.D.			3.64	S.D.		3.00
C.V.			24.20	C.V.		42.98

Sources: Annual Report of NABIL and SBL.

Figure no: 3 Investment on government securities to current assets.



The above table no. 4.3 presents investment to government securities to current assets of both JVBs for f/y 2061/62 to 2065/66. Percentage of NABIL is 16.29%, 12.69%, 21.06%, 14.87% & 10.27% and SBL is 9.06%, 1.05%, 8.17%, 7.80% & 8.83%. Average proportion of NABIL is 15.04% and SBL is 6.98%. It means NABIL is most liquidity than SBL because NABIL has highest proportion than SBL. C.V. of NABIL AND SBL is 24.20% and 42.98% respectively. It shows that NABIL is more consistent in government securities to current assets than SBL.

4. Current Ratio

Current ratio indicates the availability of current assets against current liabilities. This ratio is applied to test the solvency as well as determining short term financial strength of the commercial bank.

The following table presents the current ratio both JVBs

Table No. 4.4

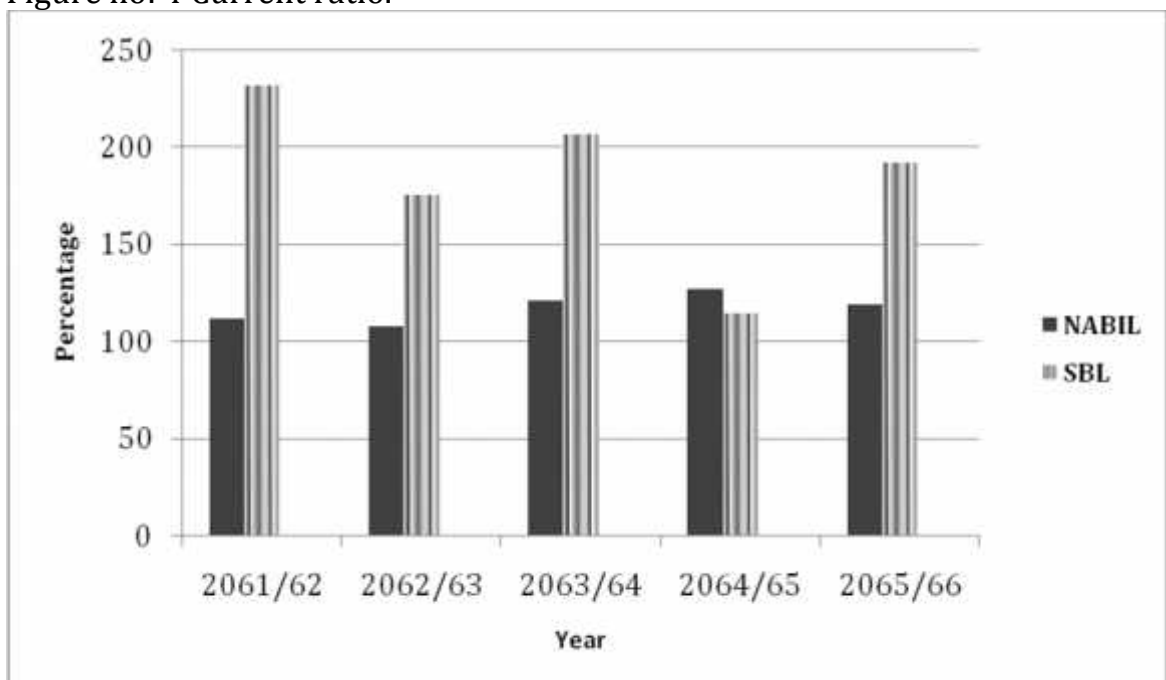
Current Ratio

(00,000)

F/Y	NABIL			SBL		
	Current Assets	Current liabilities	%	Current Assets	Current liabilities	%
2061/62	148457.50	133108.49	111.53	30498.12	13167.09	231.62
2062/63	181338.15	16826.81	107.73	41090.49	23406.53	175.55
2063/64	228295.36	188785.82	120.93	76583.84	37083.99	206.51
2064/65	312418.32	246314.74	126.84	113299.46	99222.70	114.19
2065/66	360861.33	304454.44	118.53	170378.68	88715.58	192.05
	Mean		117.11	Mean		183.98
	S.D.		6.79	S.D.		39.46
	C.V.		5.80	C.V.		21.45

Sources: Annual Report of NABIL and SBL.

Figure no: 4 Current ratio.



The above table no 4.4 shows the current ratio of NABIL and SBL for fiscal year 2061/62 to 2065/66. NABIL is 111.53%, 107.73%, 120.93%, 126.84% & 118.53% and SBL is 231.62%, 175.55%, 206.51%, 114.19% & 192.05% for the five years. Average proportion of NABIL and SBL is 117.11% and 183.98%. Higher percentage indicates better maintain of current ratios. So, SBL has been able to maintain safety margin to protect the interest of creditors because it has highest ratio than NABIL. C.V. of current ratio of NABIL and SBL is 5.80% & 21.45% respectively. There is more fluctuation in proportion of SBL than NABIL because SBL has more C.V. than NABIL.

4.2.2 Activity Ratio

Activities ratio are employed to evaluate the efficiency with which the firm manage and utilize its assets. These ratios are also called turnover ratio because they indicates the speed with which assets are being converted or turned over into assets. An activity ratio indicates how efficiently the firm uses its assets or deposit amount a different type of activity ratio has been calculated as under.

1. Loan and Advance to Total Deposit ratio:

This ratio examines to what extent commercial banks are able to utilize the depositor's fund to earn profit by providing loan and advance.

The following table presents the loan and advance to total deposit of NABIL and SBL.

Table No. 4.5

Loan and Advance to Total Deposit (00,000)

F/Y	NABIL			SBL		
	Loan and Advanced	Total Deposit	%	Loan and Advanced	Total Deposit	%
2061/62	105861.70	145866.09	72.57	25707.76	24619.23	104.42
2062/63	129225.43	193473.99	66.79	37891.23	39180.76	96.71
2063/64	155457.79	233422.85	66.60	62225.87	66250.79	93.92
2064/65	213650.53	319150.47	66.94	93355.87	101914.41	91.60

2065/66	275899.33	373482.56	73.87	133286.22	158547.98	84.07
Mean			69.35	Mean		94.14
S.D.			3.19	S.D.		6.64
C.V.			4.60	C.V.		7.05

Sources: Annual Report of NABIL and SBL

Figure no: 5 Loan and advance to total deposit.

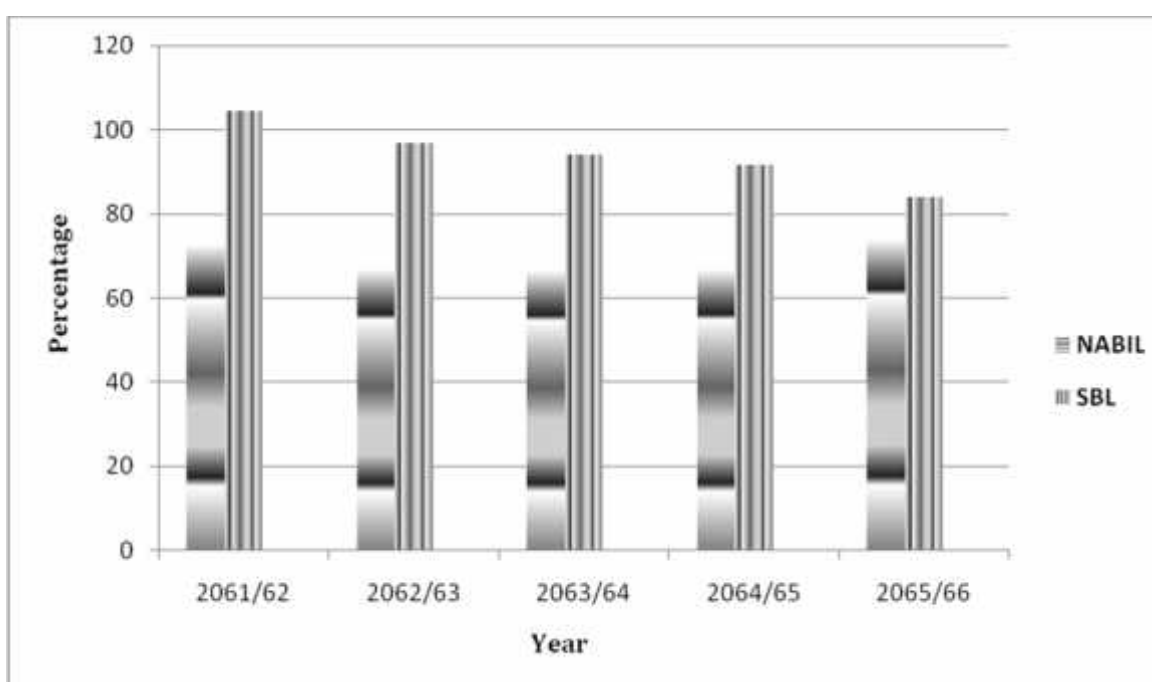


Table no. 4.5 shows that the percentage of loan and advance to total deposit of two JVBs for fiscal year 2061/62 to 2065/66. Percentage of NABIL is 72.57%, 66.79%, 66.60%, 66.94%, & 73.87%, and percentage of SBL is 104.42%, 96.71%, 93.92%, 91.60%, & 84.07%. Average ratio of NABIL and SBL is 69.35% and 94.14% respectively. Here, average proportion of SBL is greater than NABIL. It indicates that SBL is better utilization of total deposit for investing in loans and advance than NABIL. C.V. of NABIL and SBL is 4.60% & 7.05% respectively. It indicates that NABIL is more consistent in loan and advances to total deposit than SBL because NABIL has lowest C.V. than SBL.

2. Loan and Advance to Fixed Deposit

This analysis measure the proportion of fixed deposit used for investing loans and advances. Loans and advance are the primary source of income and the most profitable of all the assets of the bank. So, utilization of fixed deposit in loans and advance show the greater performance.

Following table shows the percentage of loan and advance to fixed deposit of NABIL and SBL

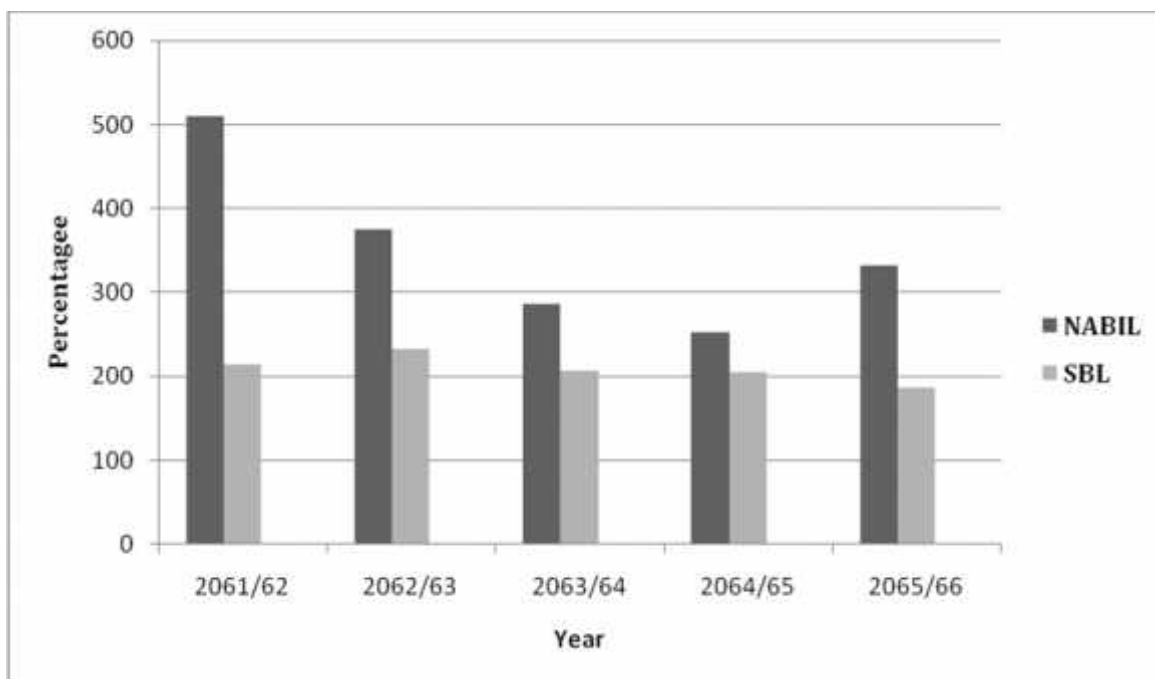
Table No. 4.6

Loan and Advanced to Fixed Deposit (00,000)

F/Y	NABIL			SBL		
	Loan and Advanced	Fixed Deposit	%	Loan and Advanced	Fixed Deposit	%
2061/62	105861.70	20785.35	509.30	25707.76	11965.05	214.86
2062/63	129225.43	34490.94	374.66	37891.23	16320.91	232.16
2063/64	155457.79	54351.89	286.02	62225.87	30225.56	205.87
2064/65	213650.53	84640.86	252.42	93355.87	45627.23	204.61
2065/66	275899.33	83107.08	331.98	133286.22	71582.00	186.20
	Mean		350.88	Mean		208.74
	S.D.		89.35	S.D.		14.96
	C.V.		25.46	C.V.		7.17

Sources: Annual Report of NABIL and SBL.

Figure no: 6 Loan and advanced to fixed deposit.



The above table no 4.6 shows the percentage of loans and advance to fixed deposit of NABIL & SBL. In fiscal year 2061/62 to 2065/66 percentage of NABIL is 509.30%, 374.66%, 286.02%, 252.42%, & 331.98%, and SBL is 214.86%, 232.16%, 205.87%, 204.61% & 186.20%. Average proportion of NABIL is 350.88%, & SBL is 208.74%. NABIL has utilized proficiently its fixed deposit in investing loans and advance than SBL. C.V. of NABIL is 25.46% and SBL is 7.17%. It indicates lower C.V. of SBL is more consistent in utilizing the fixed deposit in loans and advance than NABIL.

3. Total Investment to Total Deposit

This ratio shows the relationship between investment and total deposit to determine extend to which total deposit are used in investment for generating revenue of the bank.

It is calculated and presented as below.

Table No. 4.7

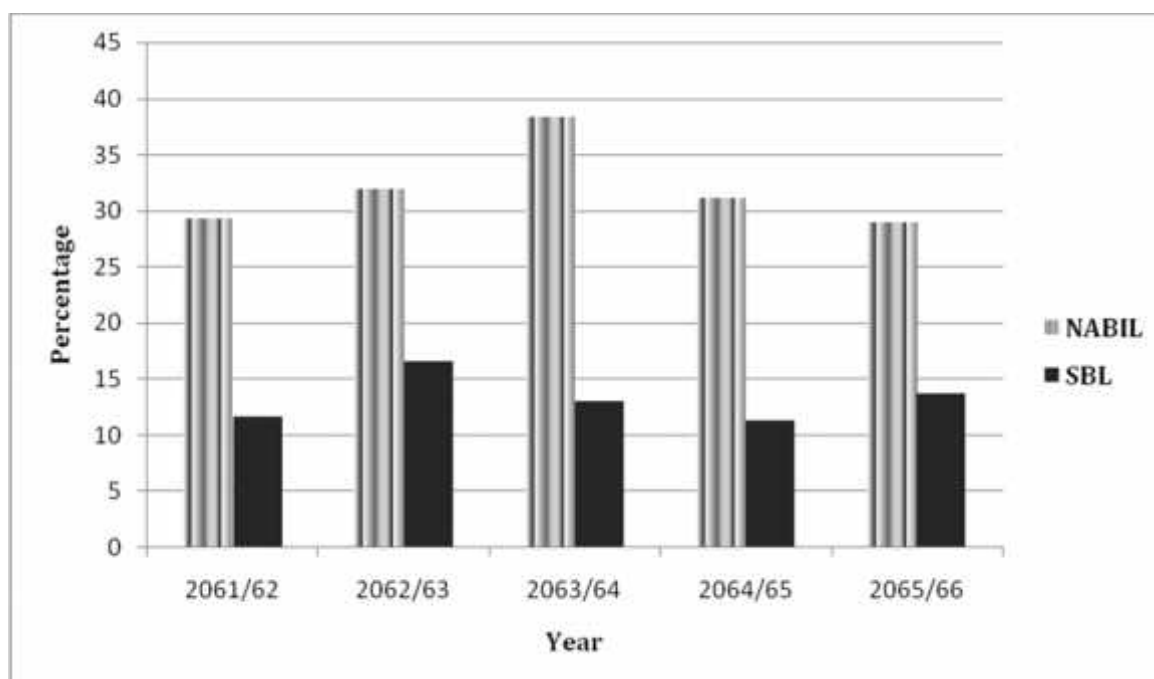
Total Investment to Total Deposit (00,000)

F/Y	NABIL			SBL		
	Total Investment	Total Deposit	%	Total Investment	Total Deposit	%

2061/62	42755.28	145866.09	29.31	2866.23	24619.23	11.64
2062/63	61785.33	193473.99	31.93	6509.79	39180.76	16.61
2063/64	89453.11	233422.85	38.32	8651.89	66250.79	13.06
2064/65	99397.71	319150.47	31.14	11500.95	101914.41	11.28
2065/66	108263.79	373482.56	28.99	21764.25	158547.98	13.73
Mean			31.94	Mean		13.26
S.D.			3.38	S.D.		1.90
C.V.			10.58	C.V.		14.33

Sources: Annual Report of NABIL and SBL.

Figure no: 7 Total investment to total deposit.



The above table no. 4.7 shows that the total investment to total deposit percentage of NABIL & SBL for f/y 2061/62 to 2065/66. Percentage of NABIL & SBL is 29.31%, 31.93%, 38.32%, 31.14%, & 28.99%, and SBL is 11.64%, 16.61%, 13.06%, 11.28%, & 13.73%. Average percentage of NABIL is 31.94% and SBL is 13.29%. NABIL is highest percentage than SBL. It indicates that NABIL has utilized its total deposits for investment purpose more efficiently than SBL. C.V. of NABIL and SBL is 10.58% & 14.33% respectively. C.V. of NABIL is less than SBL. So, it shows that the NABIL is more consistent in mobilizing total deposit on investment than SBL.

4.2.3. Leverage Ratio

Leverage ratio is also known as capital structure ratio. It measures the long term solvency, leverage ratio show how much of fund are financial by debt and examine the prospects for future financing.

Leverage ratio shows the proportion debt and equity used in financing the bank assets. The different type of debt and equity can be maintained in overall cost of funds of the bank in one hand and maximizes the wealth of the shareholders and stock prices in the market on the other hand. The ratio which are used to test the long term solvency of the banks as follows.

1. Debt-Equity ratio

The relationship between long term debt and owners equity is known as debt equity ratio. It is popular measure of the long term financial solvency of the bank.

It is calculated and presented as below.

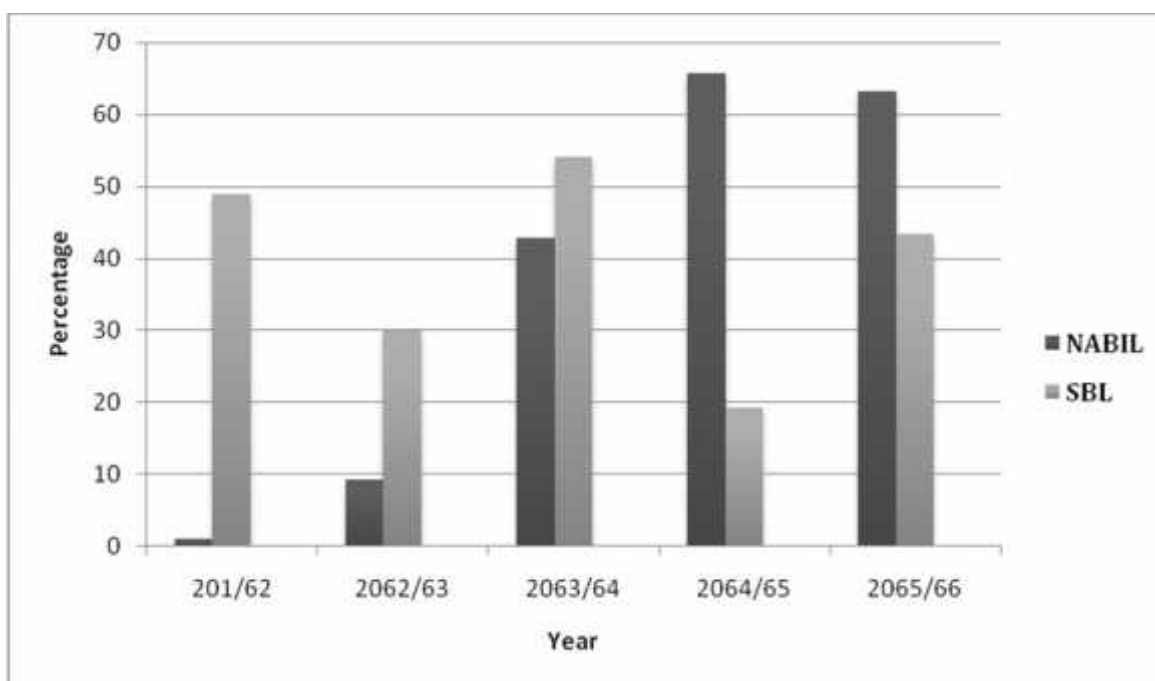
Table No. 4.8

Debt-Equity Ratio (00,000)

F/Y	NABIL			SBL		
	T. Debt (LTD)	Net Worth	%	T. Debt (LTD)	Net Worth	%
2061/62	170.63	16576.37	1.03	1900.00	3878.89	48.98
2062/63	1732.02	18749.94	9.24	1811.50	6031.41	30.03
2063/64	8825.73	20570.49	42.90	4300.00	7931.10	54.18
2064/65	1600.00	24371.99	65.65	2051.33	10683.46	19.20
2065/66	19813.05	31302.41	63.30	5553.70	12787.45	43.43
Mean			36.42	Mean		39.16
S.D.			26.87	S.D.		12.82
C.V.			73.79	C.V.		32.74

Sources: Annual Report of NABIL and SBL.

Figure no: 8 Debt-equity ratio.



The above table no.4.8 indicates that debt equity ratio of NABIL and SBL for fiscal year 2061/62 to 2065/66. The ratio of NABIL is 1.03%, 9.24%, 42.90%, 65.65%, & 63.30%, and SBL is 48.98%, 30.03%, 54.18%, 19.20%, & 43.43%. Average proportion of NABIL is 36.42% and SBL is 39.16%. It shows that SBL's creditors claim more than those owners and NABIL owners claim more than those creditors. C.V. of NABIL is 73.79% and SBL is 32.74%. So, that SBL is more consistent than NABIL because SBL has lowest C.V. than NABIL.

2. Total Debt Ratio

This ratio is calculated to know what proportion of total assets have been financed by outsider's fund.

The following table presents the percentage of NABIL & SBL.

Table No. 4.9

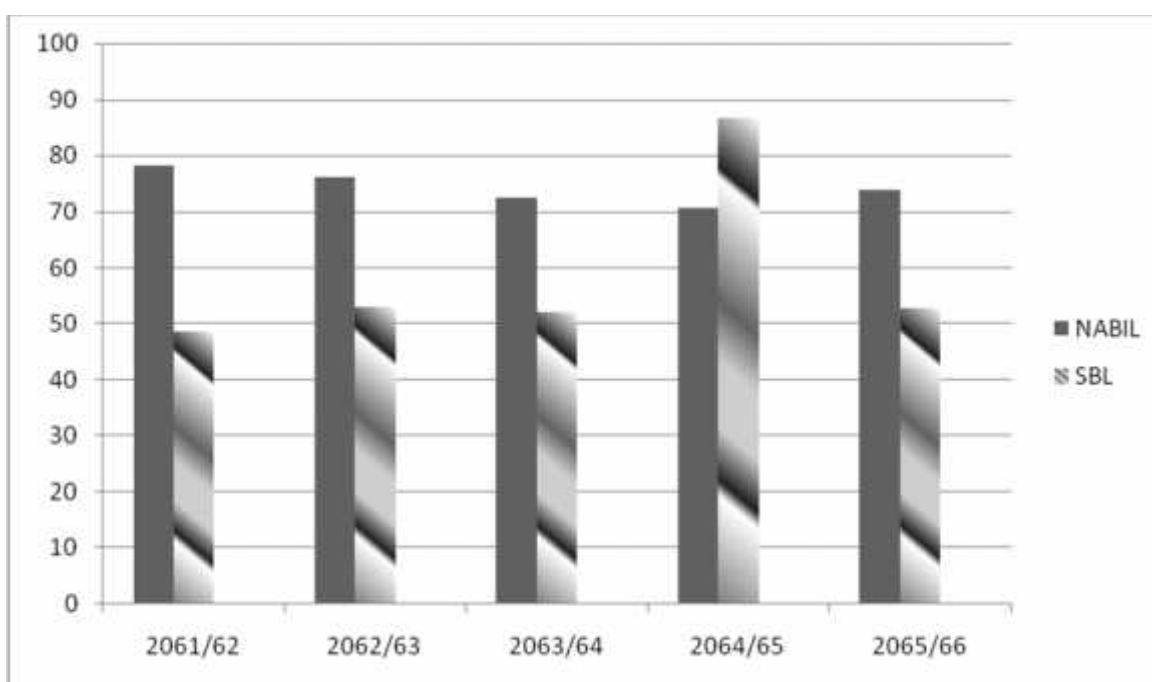
Total Debt Ratio (00,000)

F/Y	NABIL			SBL		
	T. Debt	T. Assets	%	T. Debt	T. Assets	%
2061/62	133279.12	170640.82	78.11	15067.09	30911.03	48.74

2062/63	170058.83	223299.71	76.16	25218.03	47569.35	53.01
2063/64	197611.55	272533.93	72.51	41383.99	79546.64	52.02
2064/65	262314.74	371327.59	70.64	101274.03	116683.56	86.68
2065/66	324267.49	438673.98	73.92	94269.28	178817.50	52.72
Mean			74.27	Mean		58.63
S.D.			2.63	S.D.		14.11
C.V.			3.54	C.V.		24.07

Sources: Annual Report of NABIL and SBL.

Figure no: 9 Total debt ratio.



The above table 4.9 shows that total debt ratio of two JVBs for f/y 2061/62 to 2065/66. Percentage of NABIL is 78.11%, 76.16%, 72.15%, 70.64%, & 73.94%, and SBL is 48.74%, 53.01%, 52.02%, 86.68%, & 52.72%. Average proportion of NABIL is 74.27% and SBL is 58.63%. High debt ratio shows that the claim of creditors is much higher than those of owners. So, NABIL creditors claim much higher than those owners, SBL creditors claim less than those owners. C.V. O of total debt ratio of NABIL & SBL is 3.54% and 24.07% respectively. It shows that NABIL is more consistent than SBL because NABIL has lowest C.V. than SBL.

4.2.4 Profitability Ratio

Profitability ratio measures the success of the firm in earning a net return on sales or investment. It also determines whether the firm will be conclude over a long period of time or is going out of business. There are various types of profitability ratio are calculated to measure the operating efficiency of business concern out of them some important ratio have been described in this study which are as follow:

1. Return on Net Worth

This ratio is an important measurement from the owner's point of view. It measures the returns on owner's fund.

The ratio is calculated and presented by following table.

Table No. 4.10

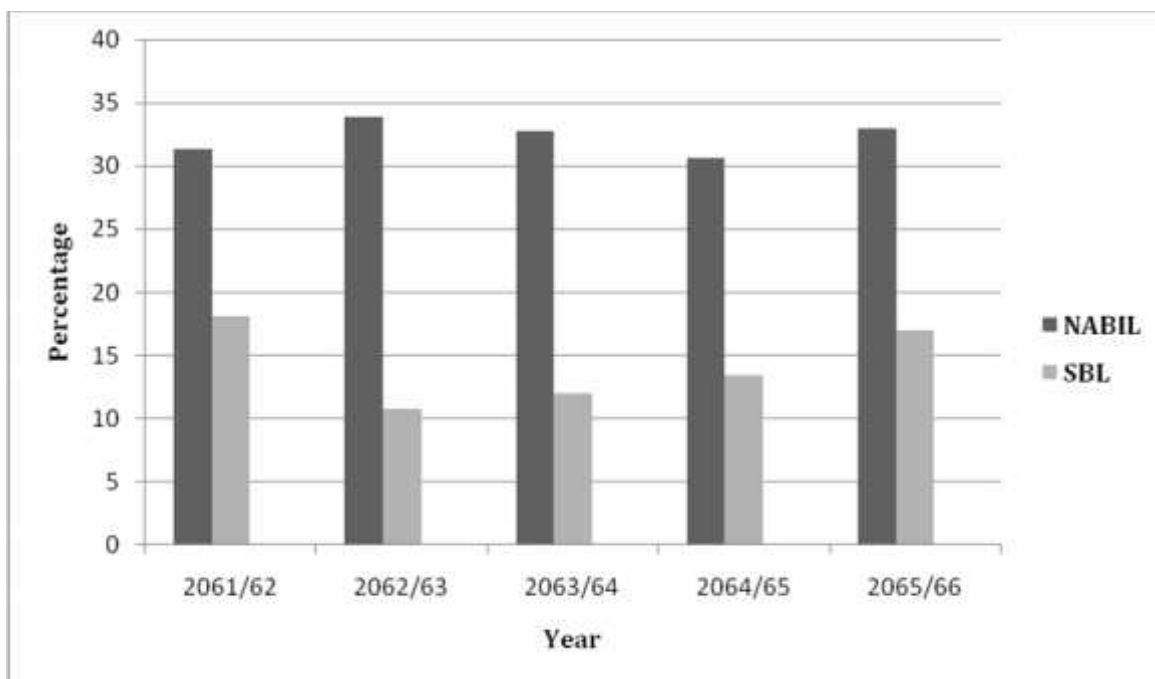
Return on Net Worth

(00,000)

F/Y	NABIL			SBL		
	NPAT	Net Worth	%	NPAT	Net Worth	%
2061/62	5201.11	16576.37	31.38	702.82	3878.89	18.12
2062/63	6352.64	18749.94	33.88	652.52	6031.41	10.82
2063/64	6739.61	20570.49	32.76	953.06	7931.10	12.02
2064/65	7464.67	24371.99	30.63	1431.71	10683.46	13.40
2065/66	10310.52	31302.41	32.94	2179.24	12787.45	17.04
Mean			32.32	Mean		14.28
S.D.			1.16	S.D.		2.84
C.V.			3.59	C.V.		19.93

Sources: Annual Report of NABIL and SBL.

Figure no: 10 Return on net worth.



The above table no. 4.10 shows the return on net worth of NABIL is 31.38%, 33.88%, 32.76%, 30.63%, & 32.94%, and SBL is 18.12%, 10.82%, 12.02%, 13.40%, & 17.04%. Average proportion of NABIL and SBL is 32.32% & 14.28% respectively. It shows that NABIL has utilized its shareholder's equity more efficiency in profit generating purpose than SBL. C.V. of NABIL and SBL is 3.59% & 19.93% respectively in this percentage. Lower C.V. of NABIL is more consistent to earn return on its shareholder's equity than SBL.

2. Return on Total Assets.

The ratio establishes the relationship between net profit and total assets.

It can be presented by following table:

Table No. 4.11

Return on Total Assets

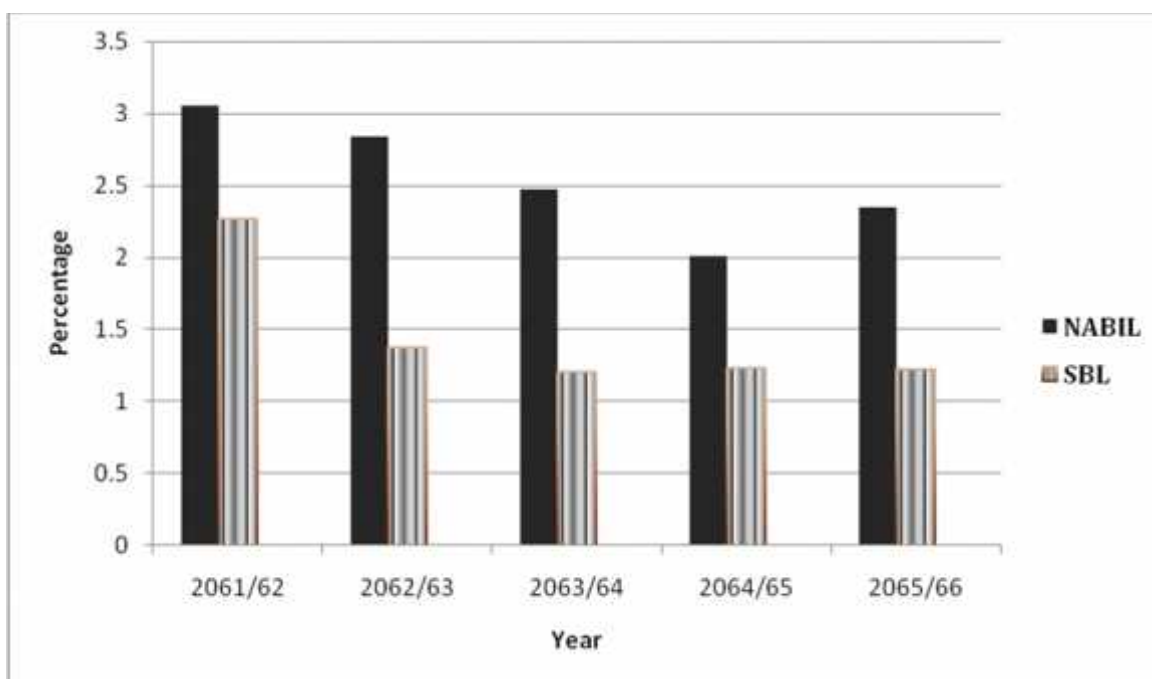
(00,000)

F/Y	NABIL			SBL		
	NPAT	T. Assets	%	NPAT	T. Assets	%
2061/62	5201.11	170640.82	3.05	702.82	30911.03	2.27

2062/63	6352.64	223299.71	2.84	652.52	47569.35	1.37
2063/64	6739.61	272533.93	2.47	953.06	79546.64	1.20
2064/65	7464.67	371327.59	2.01	1431.71	116683.56	1.23
2065/66	10310.52	438673.98	2.35	2179.24	178817.50	1.22
Mean			2.54	Mean		1.46
S.D.			0.37	S.D.		0.41
C.V.			14.57	C.V.		28.08

Sources: Annual Report of NABIL and SBL.

Figure no: 11 Return on total assets.



The above table no. 4.11 shows the return on total assets of two JVBs for f/y 2061/62 to 2065/66. Percentage of NABIL is 3.05%, 2.84%, 2.47%, 2.01%, & 2.35%, and SBL is 2.27%, 1.37%, 1.20%, 1.23% & 1.22%. Average percentage of NABIL & SBL is 2.54% & 1.46% respectively, NABIL is higher than SBL. So, NABIL is utilized its assets more efficiently in profit generating purpose than SBL. C.V. return on assets of NABIL is 14.57% & SBL is 28.08% in during the study period. It shows that lower C.V. of NABIL is more consistent to earn profit on its assets than SBL.

3. Return on Total Deposit Ratio.

This ratio gives clear vision ascertains whether total deposit is being properly utilized or not.

Return on total deposit is tabulated as follows.

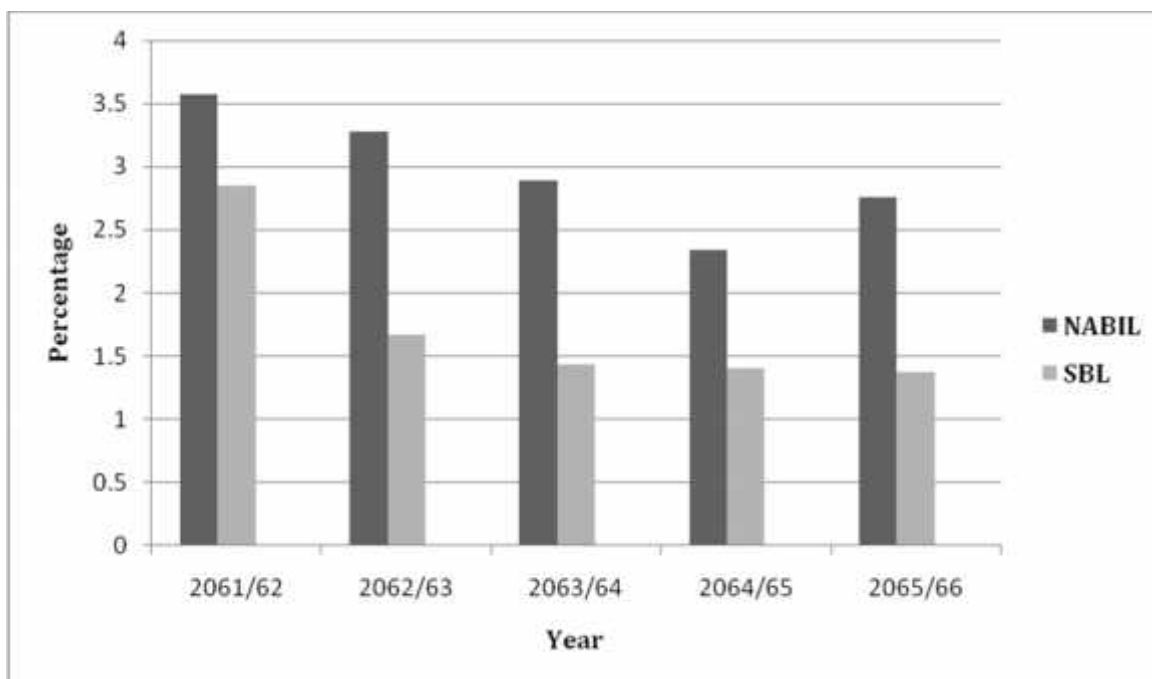
Table No. 4.12

Return on Total Deposit (00,000)

F/Y	NABIL			SBL		
	NPAT	Total Deposit	%	NPAT	Total Deposit	%
2061/62	5201.11	145866.09	3.57	702.82	24619.23	2.85
2062/63	6352.64	193473.99	3.28	652.52	39180.76	1.67
2063/64	6739.61	233422.85	2.89	953.06	66250.79	1.44
2064/65	7464.67	319150.47	2.34	1431.71	101914.41	1.40
2065/66	10310.52	373482.56	2.76	2179.24	158547.98	1.37
	Mean		2.97	Mean		1.75
	S.D.		0.43	S.D.		0.56
	C.V.		14.48	C.V.		32.00

Sources: Annual Report of NABIL and SBL.

Figure no: 12 Return on total deposit.



The above table no. 4.12 shows the return on total deposit of NABIL and SBL for f/y 2061/62 to 2065/66. Percentage of NABIL is 3.57%, 3.28%, 2.89%, 2.34% & 2.76% and SBL is 2.85%, 1.67%, 1.44%, 1.40% & 1.37%. Average percentage of NABIL is 2.97% and SBL is 1.75%. Here, NABIL has highest percentage than SBL. So, NABIL is more efficient to utilize its total deposit for profit earning purpose than SBL. C.V. of NABIL is 14.48% and SBL is 32.00%. It shows that NABIL is more uniform to earn its deposit than SBL.

4. Return on Total Investment

This ratio is relationship between net profit after tax and total investment.

The following table represented the return on total investments of both JVBs.

Table No. 4.13

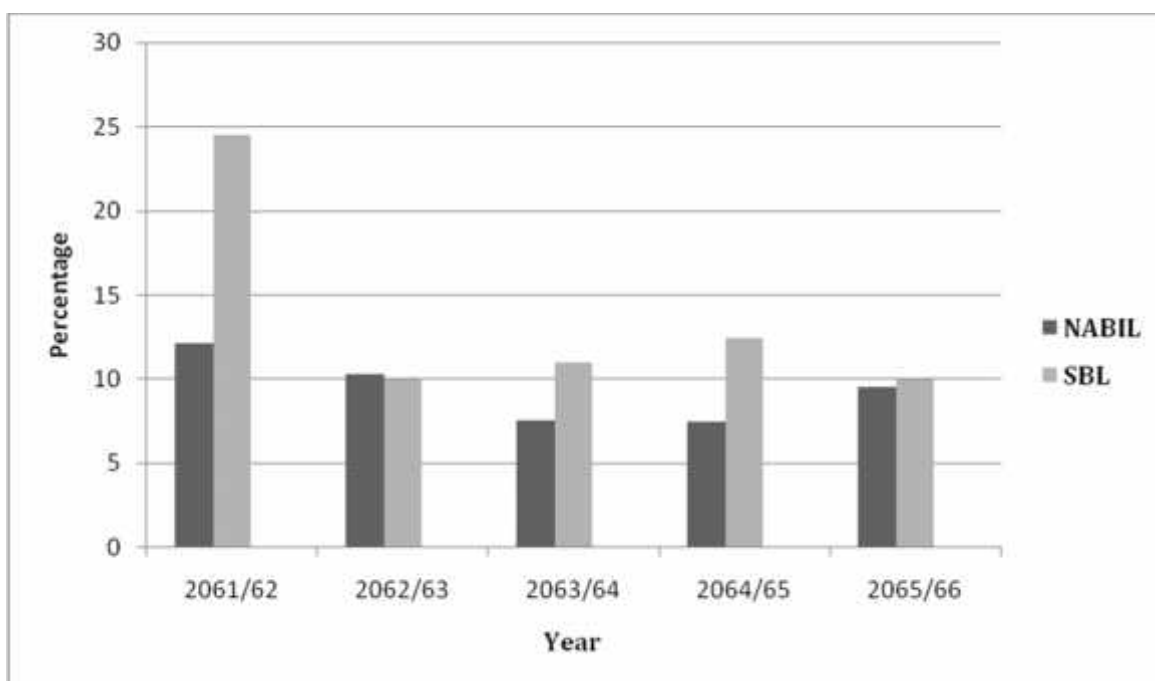
Return on Total Investment

(00,000)

F/Y	NABIL			SBL		
	NPAT	Total Investment	%	NPAT	Total Investment	%
2061/62	5201.11	42755.28	12.16	702.82	2866.23	24.52
2062/63	6352.64	61785.33	10.28	652.52	6509.79	10.02
2063/64	6739.61	89453.11	7.53	953.06	8651.89	11.02
2064/65	7464.67	99397.71	7.51	1431.71	11500.95	12.45
2065/66	10310.52	108263.79	9.52	2179.24	21764.25	10.01
	Mean		9.40	Mean		13.60
	S.D.		1.76	S.D.		5.53
	C.V.		18.72	C.V.		40.66

Sources: Annual Report of NABIL and SBL.

Figure no: 13 Return on total investment.



The above table no.4.13 shows the return on total investment of NABIL & SBL for fiscal year 2061/62 to 2065/66. Percentage of NABIL is 12.16%, 10.28%, 7.53%, 7.51% & 9.52% and SBL is 24.52%, 10.02%, 11.02%, 12.45 & 10.01%. Average proportion of return of investment on NABIL & SBL is 9.40% & 13.60% respectively. SBL has higher average return in total investment than NABIL. It means, SBL is more efficient to invest its fund for profit generating purpose than NABIL. C.V. of NABIL is 18.72% and SBL is 40.66%. It means NABIL is more consistent or uniform than SBL because of lowest C.V.

5. Earnings per Share (EPS)

EPS measures the earning available to an equity shareholder's on per share basis. The earning which is eventually available for equity shareholder's can be retained wholly or partially.

The following table represents the EPS of both JVBS.

Table No. 4.14

Earnings per Share

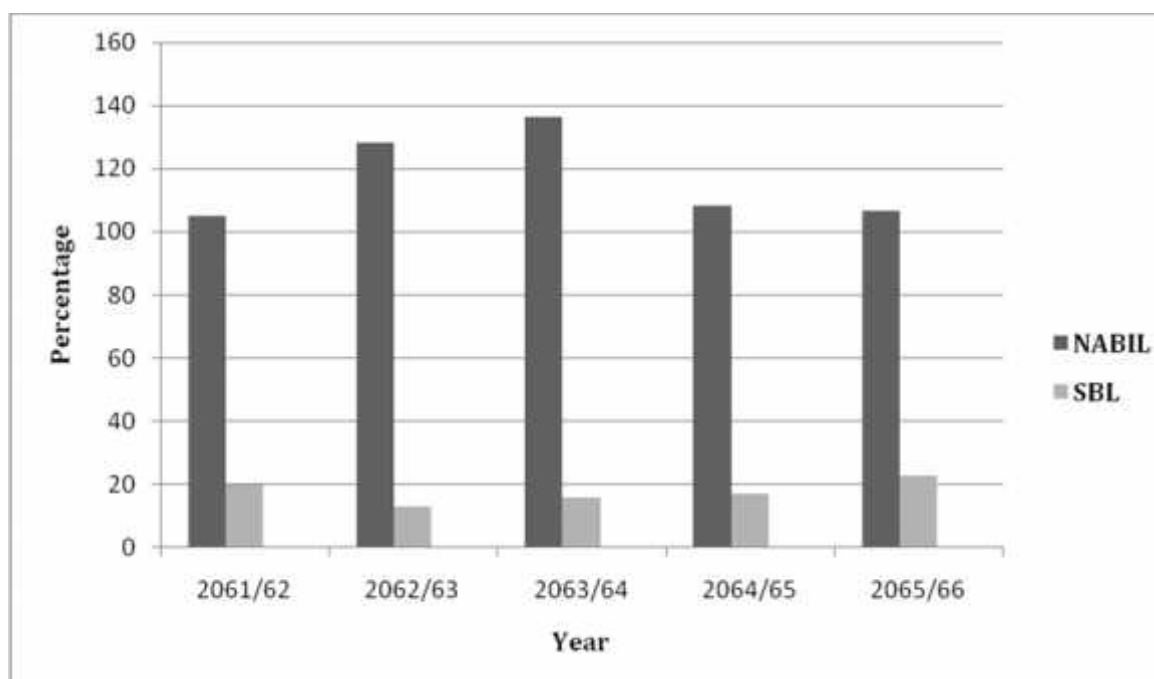
(00,000)

F/Y	NABIL			SBL		
	NPAT	T. no. of Com.	%	NPAT	T. no. of Com.	%

		Share			Share	
2061/62	5201.11	49.1654	105.15	702.82	35.00	20.08
2062/63	6352.64	49.1654	128.43	652.52	50.00	13.05
2063/64	6739.61	49.1654	136.25	953.06	60.00	15.88
2064/65	7464.67	68.9216	108.31	1431.71	82.80	17.29
2065/66	10310.52	96.5747	106.76	2179.24	95.22	22.89
Mean			116.98	Mean		17.84
S.D.			12.82	S.D.		3.39
C.V.			11.84	C.V.		19.00

Sources: Annual Report of NABIL and SBL.

Figure no: 14 Earnings per share.



The above table no.4.14 shows the earning per share of NABIL and SBL for fiscal year 2061/62 to 2065/66. EPS of NABIL is Rs. 105.15, 128.43, 136.25, 108.31 & 106.76 and SBL is Rs. 20.08, 13.05, 15.88, 17.29 & 22.89. Average EPS of NABIL is Rs. 116.98 and SBL is Rs. 17.84 from the above table EPS of NABIL has been increase gradually over the year except in f/y 2064/65 & 2065/66. EPS of SBL is also increase except in f/y 2062/63. NABIL has higher profitability on per share basis than SBL because NABIL's EPS is highest than SBL. C.V. of NABIL and SBL is 11.84% & 19.00% respectively. It indicates that NABIL is more consistent than SBL because of lowest C.V. of NABIL.

4.2.5 Other Ratio and Indicators.

Other ratio and indicators which are useful to measure the financial performance of NABIL and SBL are briefly described as below.

1. Operating expenses to Net Interest

Operating expenses to net interest measures the proportion of net interest spent for operating expenses.

The following table represents the operating expenses to net interest

Table No. 4.15

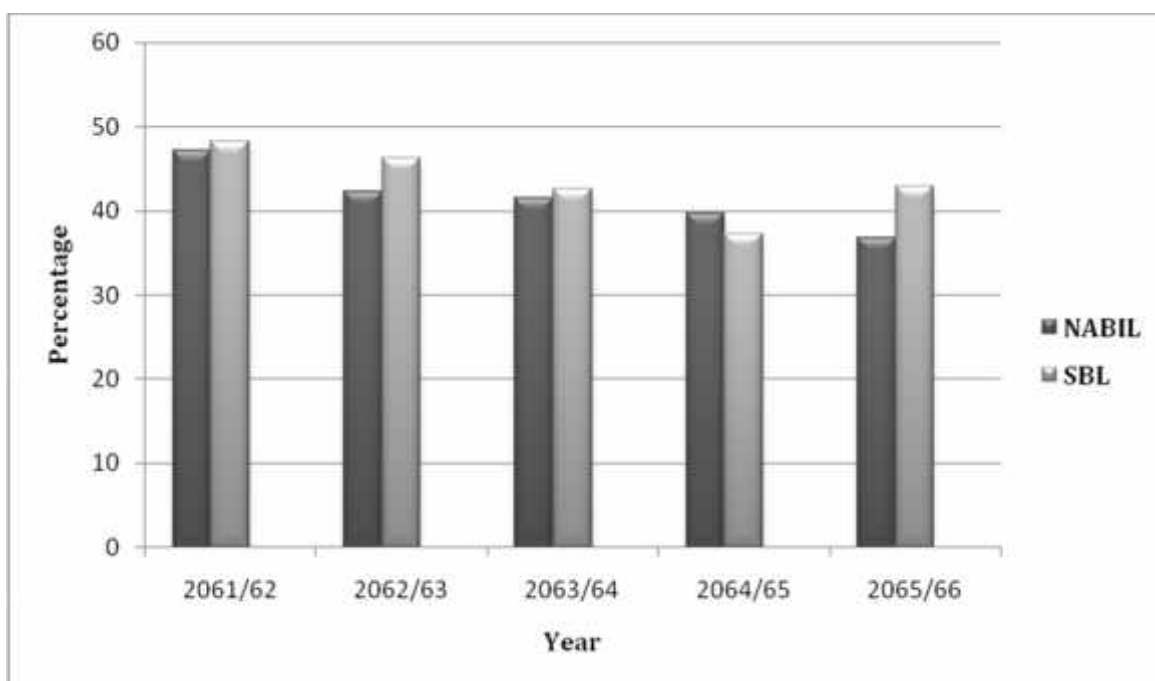
Operating Expenses to Net Interest

(00,000)

F/Y	NABIL			SBL		
	Operating Expenses	Net Interest	%	Operating Expenses	Net Interest	%
2061/62	3898.15	8252.02	47.24	511.99	1062.04	48.21
2062/63	4024.77	9528.38	42.24	702.12	1518.51	46.24
2063/64	4283.44	10320.48	41.50	893.42	2098.13	42.58
2064/65	4836.59	12202.61	39.64	1197.28	3216.83	37.22
2065/66	6050.59	16452.06	36.78	1942.02	4519.63	42.96
	Mean		41.48	Mean		43.44
	S.D.		3.44	S.D.		3.75
	C.V.		8.29	C.V.		8.63

Sources: Annual Report of NABIL and SBL.

Figure no: 15 Operating expenses to net interest.



The above table no. 4.15 shows the operating expenses to net interest percentage of NABIL and SBL for f/y 2061/62 to 2065/66. Operating expenses to net interest percentage of NABIL is 47.24%, 42.24%, 41.50%, 39.64%, & 36.78%, and SBL is 48.21%, 46.24%, 42.58%, 37.22%, & 42.96%. Average proportion of NABIL is 41.48% and 43.44% of SBL. It shows that NABIL operational efficiency than SBL. C.V. of NABIL is 8.29% and 8.63%. It indicates that NABIL is more uniform than SBL.

2. Interest Paid to Interest Earned

This ratio shows the proportion of interest expenses paid out of interest income.

This ratio of JVBs is presented below.

Table No. 4.16

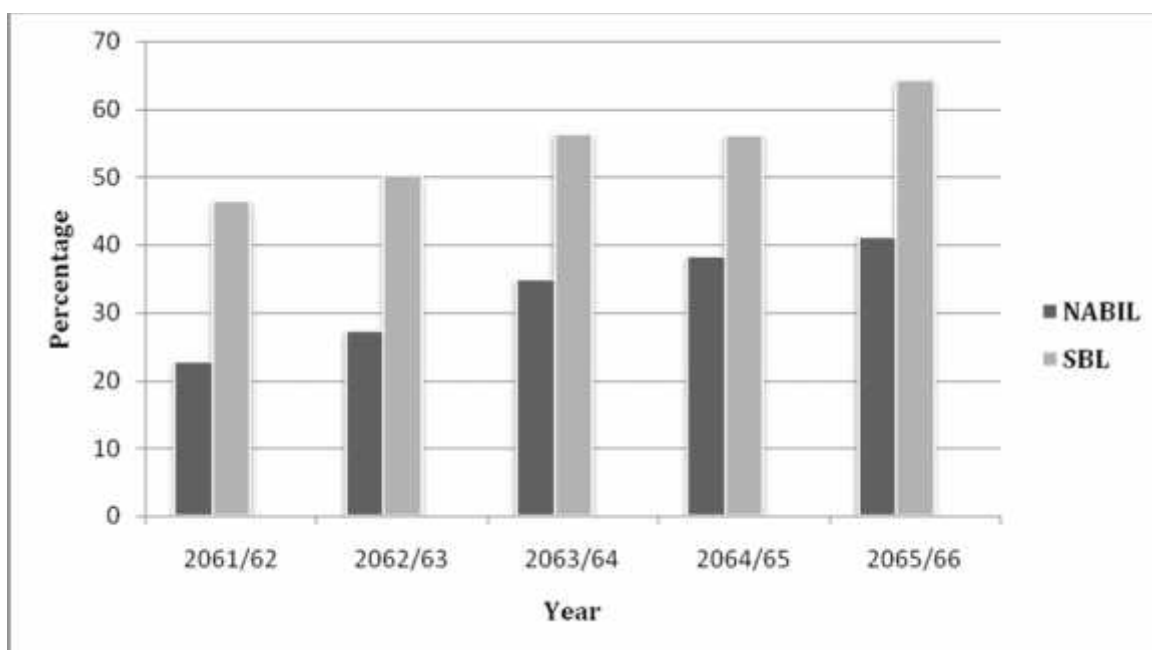
Interest Paid to Interest Earned (00,000)

F/Y	NABIL			SBL		
	Interest Paid	Interest Earned	%	Interest Paid	Interest Earned	%
2061/62	2433.45	10687.47	22.79	919.81	1981.85	46.41

2062/63	3571.61	13099.99	27.26	1537.09	3055.60	50.30
2063/64	5557.10	15877.58	35.00	2717.11	4815.24	56.43
2064/65	7584.36	19786.97	38.33	4081.89	7278.72	56.08
2065/66	11532.80	27984.86	41.21	8136.19	12655.82	64.29
Mean			32.92	Mean		54.70
S.D.			6.88	S.D.		6.08
C.V.			20.90	C.V.		11.12

Sources: Annual Report of NABIL and SBL.

Figure no: 16 Interest paid to interest earned.



The above table no. 4.16 shows the interest paid to interest earned of NABIL and SBL for f/y 2061/62 to 2066/66. Percentage of NABIL is 22.79%, 27.26%, 35.00%, 38.33% & 41.21%, and SBL is 46.41%, 50.30%, 56.43%, 56.08%, & 64.29%. Average percentage of NABIL is 32.92% and SBL is 54.70%. It shows that NABIL has lowest percentage than SBL. It means SBL pays more interest to its depositors than NABIL. C.V. of NABIL & SBL is 20.90% and 11.12% respectively. It shows that SBL has lower fluctuation of interest paid to interest earned than NABIL.

3. Interest Earned to Total Investment

This ratio measures the percentage of interest earned from its total investment.

Table of interest earned to total investment of NABIL and SBL as below.

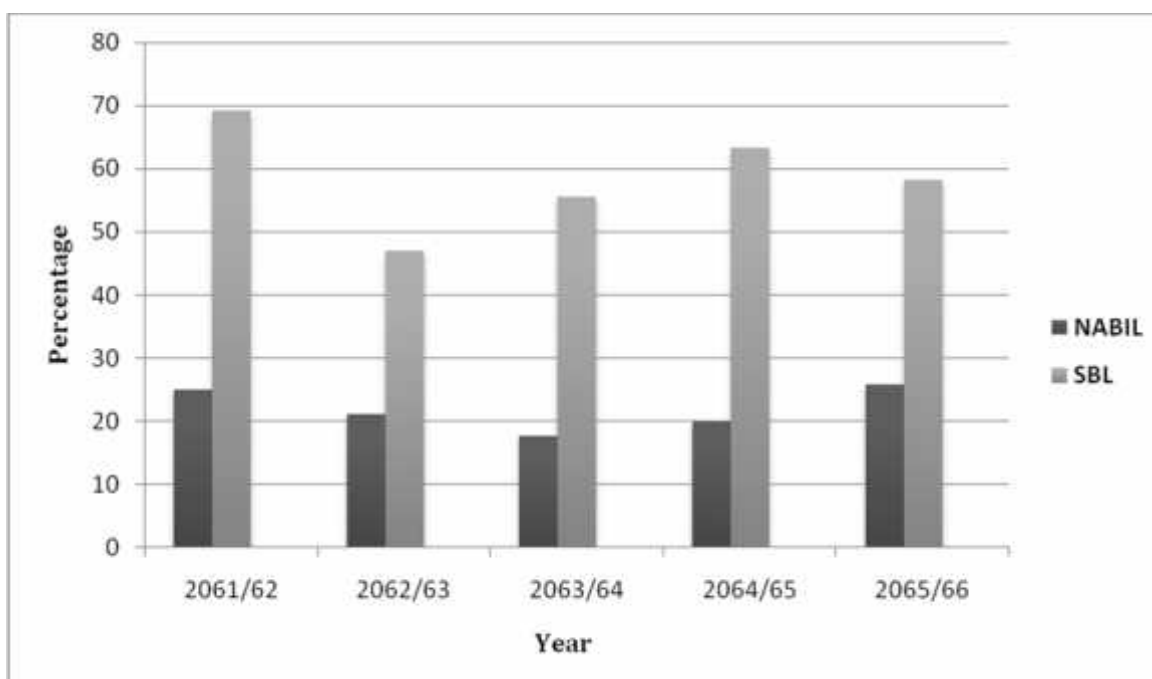
Table No. 4.17

Total Interest Earned to Total Investment (00,000)

F/Y	NABIL			SBL		
	Interest Earned	Total Investment	%	Interest Earned	Total Investment	%
2061/62	10687.47	42755.28	25.00	1981.85	2866.23	69.14
2062/63	13099.99	61785.33	21.20	3055.60	6509.79	46.94
2063/64	15877.58	89453.11	17.75	4815.24	8651.89	55.66
2064/65	19786.97	99397.71	19.91	7278.72	11500.95	63.29
2065/66	27984.86	108263.79	25.85	12655.82	21764.25	58.15
	Mean		21.94	Mean		58.64
	S.D.		3.06	S.D.		7.45
	C.V.		13.95	C.V.		12.70

Sources: Annual Report of NABIL and SBL.

Figure no: 17 Total Interest earned to total investment.



The above table no 4.17 shows the total interest earned to total investment percentage of NABIL and SBL for fiscal year 2061/62 to 2065/66. It shows the percentage of NABIL is 25.00%, 21.20%, 17.75%, 19.91%, & 25.85%, and SBL is 69.14%, 46.94%, 55.66%, 63.29% & 58.15% respectively. Average proportion of NABIL IS 21.94% and SBL is 58.64%. SBL has higher percentage than NABIL. So, it indicates SBL has able to earn more interest on its investment. C.V. of NABIL and SBL is 13.95% and 12.70% respectively. It shows that SBL is more consistent to earn interest on its investment than NABIL.

4. Price Earnings Ratio (P/E Ratio)

The ratio indicates the investor's judgment about the bank's performance.

P/E ratio of both selected banks is presented as below.

Table No. 4.18

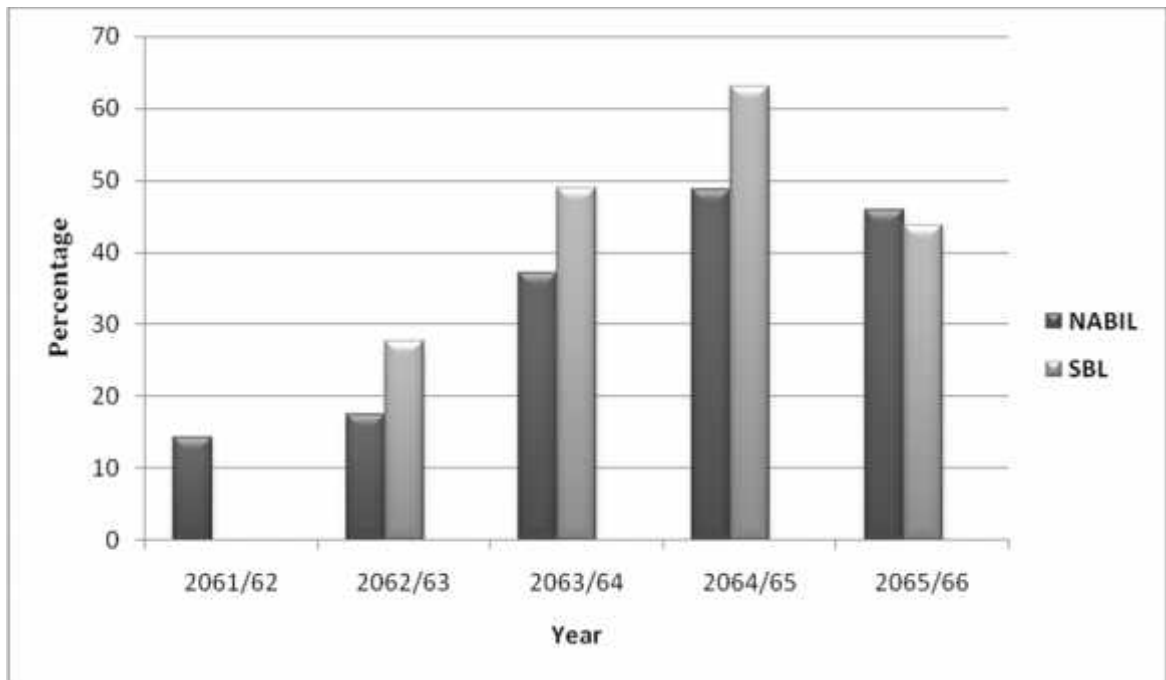
Price Earnings Ratio

(00,000)

F/Y	NABIL			SBL		
	MVPS	EPS	%	MVPS	EPS	%
2061/62	1505	105.15	14.31	-	20.08	-
2062/63	2240	128.43	17.44	360	13.05	27.59
2063/64	5050	136.25	37.06	778	15.88	48.99
2064/65	5275	108.31	48.70	1090	17.29	63.04
2065/66	4899	106.76	45.89	1000	22.89	43.69
	Mean		32.68	Mean		45.83
	S.D.		14.28	S.D.		12.68
	C.V.		43.70	C.V.		27.67

Sources: Annual Report of NABIL and SBL.

Figure no: 18 Price earnings ratio



The above table no. 4.18 shows the P/E ratio of NABIL and SBL for f/y 2061/62 to 2065/66. Percentage of NABIL is 14.31%, 17.44%, 37.06%, 48.70%, & 45.89% and SBL is 27.59%, 48.99%, 63.04%, & 43.69%, (only four years). Average percentage of NABIL is 32.68% and SBL is 45.83%. SBL is higher P/E ratio than NABIL. So, market has positively judged in performance of SBL. C.V. of NABIL is 43.70% and SBL is 27.67%. This indicates that SBL is more consistent than NABIL.

4.3 Trend Percentage Analysis

Trend percentage analysis is also known as trend ratio is an analytical device, which examine whether the financial position a firm is improving or deteriorating over the years.

In this study, this tool is used to find out the direction of change of major activities such as deposit, net worth, investment and net profit. In comparison to first year (base year) of study growth trend of activities for four successive years can calculation.

In this section different types of trend percentage analysis are presented which are as follows:-

1. Trend of Total Deposit.
2. Trend of Net Worth.
3. Trend of Total Investment.
4. Trend of Net Profit.

4.3.1 Trend of Total Deposit

Total deposit trend of NABIL and SBL has been presented as under.

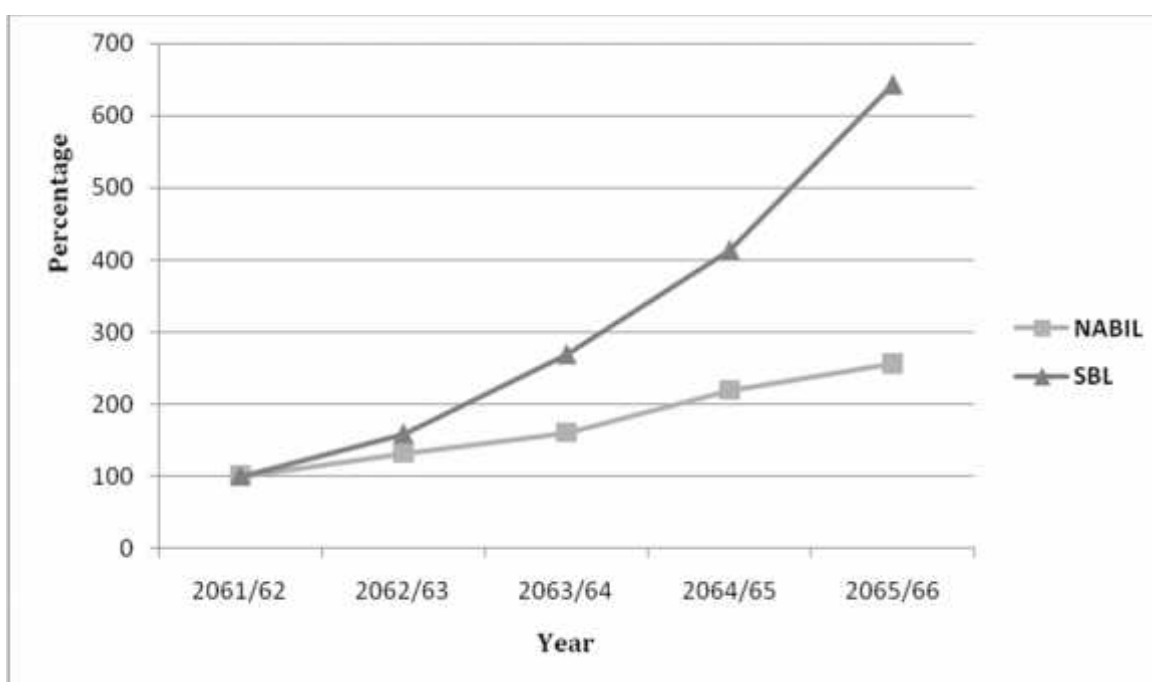
Table no. 4.19

Trend of Total Deposit (00,000)

F/Y	NABIL		SBL	
	Total Deposit	Trend line (%)	Total Deposit	Trend line (%)
2061/62	145866.09	100.00%	24619.23	100.00%
2062/63	193473.99	132.64%	39180.76	159.15%
2063/64	233422.85	160.03%	66250.79	269.01%
2064/65	319150.47	218.80%	101914.41	413.96%
2065/66	373482.56	256.04%	158547.98	644.00%

Sources: Annual Reports of NABIL and SBL.

Figure no: 19 Trend of Total deposit of NABIL and SBL.



The above table no. 4.19 shows the trend percentage of total deposit of two JVBS from 2061/62 to 2065/66. The total deposit in comparison to the base year i.e. 100% for 5 successive year of NABIL is 132.64%, 160.03%, 218.80% & 256.04% and SBL is 159.15%, 269.10% 413.96% & 644.00% respectively. According to the above graph there is increasing trend of total deposit of NABIL and SBL. SBL trend line increasing ratio is more than NABIL. It indicates that SBL can successful in collecting that deposit.

4.3.2 Trend of Net Worth

Trend of net worth of NABIL and SBL is presented as below.

Table no. 4.20

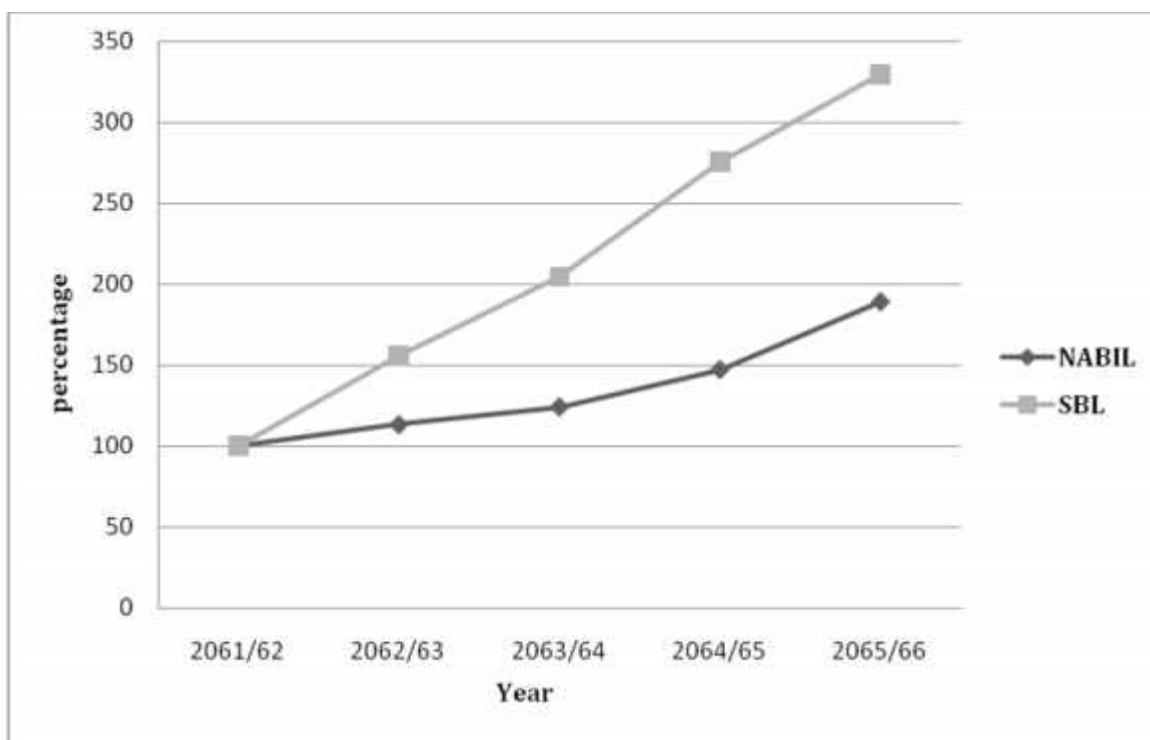
Trend of Net Worth (00,000)

F/Y	NABIL		SBL	
	Net Worth	Trend line (%)	Net Worth	Trend line (%)
2061/62	16576.37	100.00%	3878.89	100.00%

2062/63	18749.94	113.11%	6031.41	155.49%
2063/64	20570.49	124.10%	7937.10	204.62%
2064/65	24371.99	147.03%	10683.46	275.43%
2065/66	31302.41	188.84%	12787.45	329.67%

Sources: Annual Reports of NABIL and SBL.

Figure no: 20 Trend of net worth of NABIL and SBL.



The above table no. 4.20 highlights the net worth trends of two JVBs from fiscal year 2061/62 to 2065/66. Net worth in comparison to the base year i.e. 100% for 5 successive year of NABIL is 113.11%, 124.10%, 147.03%, & 188.84% and SBL is 155.49%, 204.62%, 275.43% & 329.67% respectively. It shows that net worth trend of both banks are increasing comparing between NABIL and SBL, higher trend line of SBL show it is better than NABIL.

4.3.3 Trend of Total Investment.

Trend of total investment of NABIL and SBL is presented as below:-

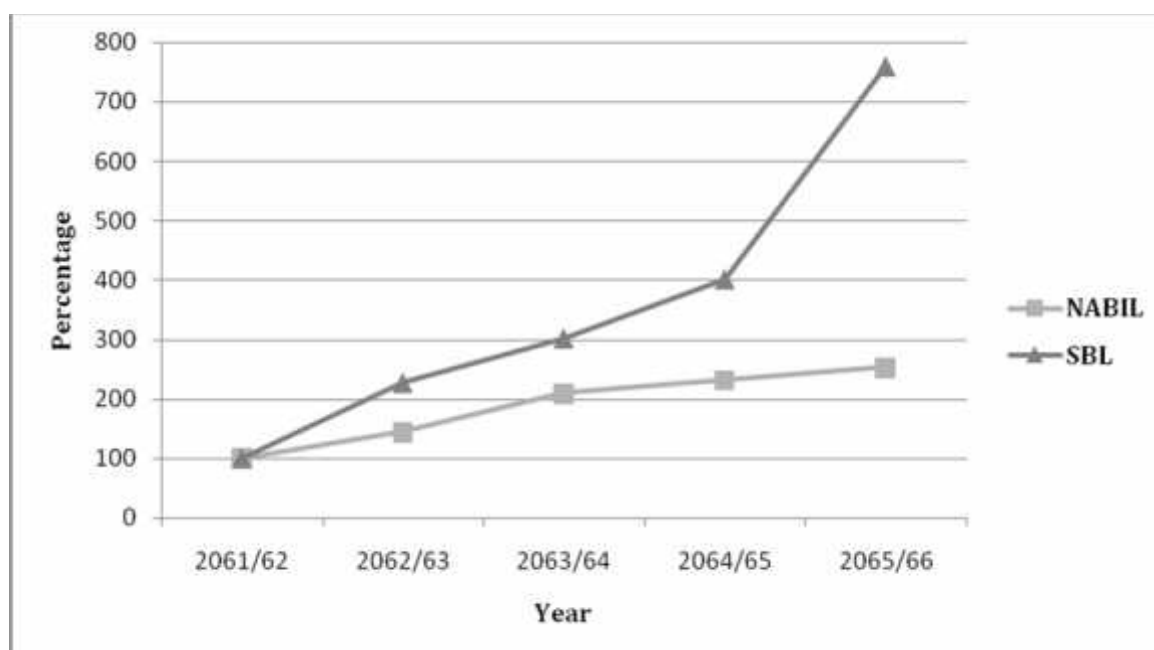
Table no. 4.21

Trend of Total Investment (00,000)

F/Y	NABIL		SBL	
	T. Investment	Trend line (%)	T. Investment	Trend line (%)
2061/62	42755.88	100.00%	2866.23	100.00%
2062/63	61785.33	144.51%	6509.79	227.13%
2063/64	89453.11	209.22%	8651.89	301.86%
2064/65	99397.71	232.48%	11500.95	401.26%
2065/66	108263.79	253.22%	21764.28	759.33%

Sources: Annual Reports of NABIL and SBL.

Figure no: 21 Trend of total investment of NABIL and SBL



The above table no. 4.21 shows total investment trend line of two selected JVBs for the fiscal year 2061/62 to 20625/66. Total investment in comparison to the base year i.e. 100% for the 5 successive years of NABIL is 144.51%, 209.22%, 232.48% & 253.22% and SBL is 227.13%, 301.86%, 401.26% & 759.33% respectively. Trend line of SBL is increasing than NABIL. Since, investment of available resources is one of the major functions of commercial

bank to earn maximum income. Higher trend line of investment of SBL indicates that SBL is improving its investment more efficiency than NABIL.

4.3.4 Trend of Net Profit

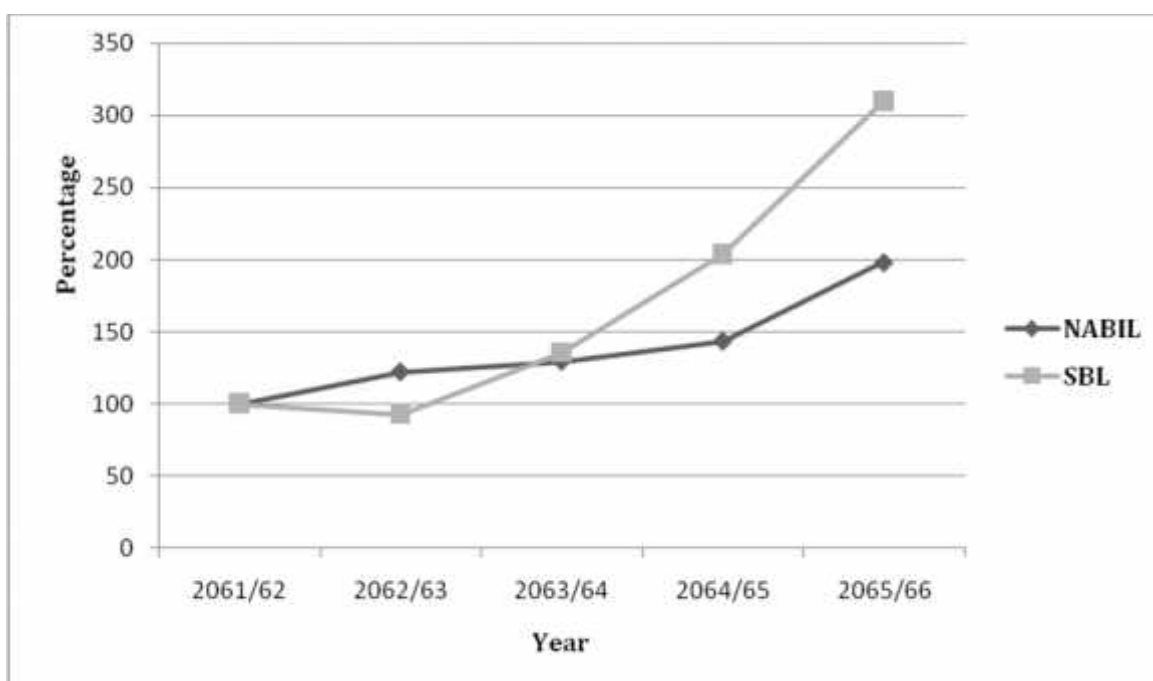
Trend of net profit of NABIL and SBL is presented as below.

Table no. 4.22
Trend of Net Profit (00,000)

F/Y	NABIL		SBL	
	Net Profit	Trend line (%)	Net Profit	Trend line (%)
2061/62	5201.11	100.00%	702.82	100.00%
2062/63	6352.64	122.14%	652.52	92.84%
2063/64	6739.61	129.58%	953.06	135.61%
2064/65	7464.67	143.52%	1431.71	203.71%
2065/66	10310.52	198.24%	2179.24	310.07%

Sources: Annual Reports of NABIL and SBL.

Figure no: 22 Trend of net profit of NABIL and SBL.



The above table no. 4.22 highlights the trend of net profit of two selected JVBs from the fiscal year 2061/62 to 2065/66. It shows that NABIL is in increasing trend where as SBL is decrease also. NABIL has increased to 198.24%, SBL is decrease in 92.84% in f/y 2062/63 and increasing thereafter.

4.4 Correlation Coefficient Analysis

Correlation coefficient analysis measures the relationship between two or more variables. It helps us analyzing the co variation between two or more variables. It is denoted by 'r' coefficient always lies in +1 to -1. When r will be +1 there will be perfect positive correlation between two variables. When r will be -1, there will be perfect negative correlation between two variables. When r will be 0 there will be no correlation between two variables. In this study, to find the relationship between the following variables:-

1. Correlation between total deposit and total investment.
2. Correlation between interest earned and interest paid.
3. Correlation between interest earned and operation profit.

4.4.1 Correlation between total deposit and total investment.

a) Calculation correlation between total deposit and total investment of NABIL.

Table no. 4.23

(00,000)

F/Y	Total Deposit (X)	Total Invest. (Y)	$x=(x-\bar{x})$	$y=(y-\bar{y})$	x^2	y^2	xy
2061/62	145866.09	42755.28	-107213.1	-37575.8	11494648811.60	1411937739.57	4028613714.45
2062/63	193473.99	61785.33	-59605.20	-18545.7	3552779867.04	343943359.40	1105420753.69
2063/64	233422.85	89453.11	-19656.34	9122.07	386371702.20	83212161.08	179306509.42
2064/65	319150.47	99397.71	66071.28	19066.67	4365414040.83	363537904.89	1259579292.23
2065/66	373482.56	108263.8	120403.37	27932.75	14496971507.30	780238522.56	3363197233.36
Total	$\phi x =$ 1265396.1	$\phi y =$ 401655.2			$\phi x^2 =$ 34296185928.90	$\phi y^2 =$ 2982869687.50	$\phi xy =$ 9577684484.31

Source: Annual report of NABIL.

Here,

$$\begin{aligned}\bar{x} &= \frac{\Sigma x}{n}, \\ &= \frac{1265395.96}{5}, \\ &= 253079.19\end{aligned}$$

$$\begin{aligned}\bar{y} &= \frac{\Sigma y}{n}, \\ &= \frac{401655.22}{5}, \\ &= 80331.04\end{aligned}$$

We know,

$$\begin{aligned}\text{Correlation coefficient (r)} &= \frac{\Sigma xy}{\sqrt{(\Sigma x^2 \cdot \Sigma y^2)}} \\ &= \frac{9577684484.31}{\sqrt{34296185928.90} \times \sqrt{2982869687.05}} \\ &= \frac{9577684484.31}{185192.29 \times 54615.65} \\ &= \frac{9577684484.31}{10114397293.30} \\ &= 0.947\end{aligned}$$

$$\text{Correlation of determination (r}^2\text{)} = (0.947)^2 = 0.897$$

b) Calculation correlation between total deposit and total investment of SBL.

Table no. 4.24

(00,000)

F/Y	Total Deposit (X)	Total Invest. (Y)	x=(x- \bar{x})	y=(y- \bar{y})	x ²	y ²	xy
2061/62	24619.23	2866.23	-53483.40	-7392.40	2860474075.56	54647577.76	395370686.16
2062/63	39180.76	6509.79	-38921.87	-3748.84	1514911964.29	14053801.35	145911863.13
2063/64	66250.79	8651.89	-11851.84	-1606.74	140466111.40	2581613.43	19042825.40

2064/65	101914.41	11500.95	23811.78	1242.32	567000866.80	1543358.98	29581850.53
2065/66	158547.98	21764.28	80445.35	11505.65	6471454336.62	132379981.90	925576041.23
Total	$\Sigma x =$ 390513.17	$\Sigma y =$ 51293.14			$\Sigma x^2 =$ 11554307355.20	$\Sigma y^2 =$ 205206333.40	$\Sigma xy =$ 1515483266.44

Source: Annual report of SBL.

Here,

$$\bar{x} = \frac{\Sigma x}{n},$$

$$= \frac{390513.17}{5},$$

$$= 78102.63$$

$$\bar{y} = \frac{\Sigma y}{n},$$

$$= \frac{51293.14}{5},$$

$$= 10258.63$$

We know,

$$\begin{aligned} \text{Correlation coefficient (r)} &= \frac{\Sigma xy}{\sqrt{(\Sigma x^2 \cdot \Sigma y^2)}} \\ &= \frac{1515483266.44}{\sqrt{11554307355.20 \times 205206333.40}} \\ &= \frac{1515483266.44}{107490.96 \times 14325.02} \\ &= \frac{1515483266.44}{1539810151.81} \\ &= 0.984 \end{aligned}$$

$$\text{Correlation of determination (r}^2\text{)} = (0.984)^2 = 0.968$$

From the above calculation, it shows that correlation of coefficient between total deposit and total investment of NABIL and SBL is 0.947 and 0.984 respectively. So, there is highly positive correlation between total deposit and total investment of two banks.

If we calculate the coefficient of determination is 0.897 of NABIL, it indicates 89.70% change in dependent variable (total investment) is due to

change in independent variable (total deposit). Similarly coefficient of determination of SBL is 0.968; it indicates 96.80% change in dependent variable (total investment) is due to change in independent variable (total deposit).

4.4.2 Correlation between Interest Earned and Interest Paid.

a) Calculation correlation between interest earned and interest paid of NABIL.

Table no. 4.25

(00,000)

F/Y	Interest earned (X)	Interest paid (Y)	$x=(x-\bar{x})$	$y=(y-\bar{y})$	x^2	y^2	xy
2061/6 2	10687.47	2435.45	-6799.90	-3700.81	46238640.01	13695994.6 6	25165137.9 2
2062/6 3	13099.99	3571.61	-4387.38	-2564.65	19249103.26	6577429.62	11252094.1 2
2063/6 4	15877.58	5557.10	-1609.79	-579.16	2591423.84	335426.31	932325.98
2064/6 5	19786.97	7584.36	2299.60	1448.10	5288160.16	2096993.61	3330050.76
2065/6 6	27984.86	11532.8 0	10497.49	5396.54	110197296.3 0	29122643.9 7	56650124.6 8
Total	$\phi x =$ 87436.87	$\phi y =$ 30681.3 2			$\phi x^2 =$ 183564623.6 0	$\phi y^2 =$ 51828488.1 7	$\phi xy =$ 97329733.4 6

Source: Annual report of NABIL.

Here,

$$\bar{x} = \frac{\sum x}{n},$$

$$= \frac{87496.87}{5},$$

$$\bar{y} = \frac{\sum y}{n},$$

$$= \frac{30681.32}{5},$$

$$= 17487.37$$

$$= 6136.26$$

We know,

$$\begin{aligned} \text{Correlation coefficient (r)} &= \frac{\Sigma xy}{\sqrt{(\Sigma x^2 \cdot \Sigma y^2)}} \\ &= \frac{97329733.46}{\sqrt{183564623.60 \times 51828488.17}} \\ &= \frac{97329733.46}{13548.60 \times 7199.20} \\ &= \frac{97329733.46}{97539081.12} \\ &= 0.9979 \end{aligned}$$

$$\text{Correlation of determination (r}^2\text{)} = (0.9979)^2 = 0.9958$$

b) Calculation correlation between interest earned and interest paid of SBL.

Table no. 4.26

(00,000)

F/Y	Interest earned (X)	Interest paid (Y)	$x=(x-\bar{x})$	$y=(y-\bar{y})$	x^2	y^2	xy
2061/6 2	1981.85	919.81	-3975.60	-2558.61	115805395.3 6	6546485.13	10172009.9 2
2062/6 3	3055.60	1537.09	-2901.85	-1941.33	8420733.42	3768762.17	5633448.46
2063/6 4	4815.24	2717.11	-1142.21	-761.31	1304643.68	579592.92	869575.89
2064/6 5	7278.72	4081.89	1321.27	603.47	1745754.41	364176.04	797346.81
2065/6 6	12655.82	8136.19	6698.37	4657.77	44868160.66	21694821.3 7	31199466.8 3
Total	$\phi x =$	$\phi y =$ 17392.0			$\phi x^2 =$	$\phi y^2 =$	$\phi xy =$

	29787.23	9			72144687.54	32953278.70	48671847.91
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Source: Annual report of SBL.

Here,

$$\begin{aligned}\bar{x} &= \frac{\sum x}{n}, \\ &= \frac{29787.23}{5}, \\ &= 5957.45\end{aligned}$$

$$\begin{aligned}\bar{y} &= \frac{\sum y}{n}, \\ &= \frac{17392.09}{5}, \\ &= 3478.42\end{aligned}$$

We know,

$$\begin{aligned}\text{Correlation coefficient (r)} &= \frac{\sum xy}{\sqrt{(\sum x^2 \cdot \sum y^2)}} \\ &= \frac{48471847.91}{\sqrt{72144687.54 \times 32953278.70}} \\ &= \frac{48471847.91}{8493.80 \times 5740.49} \\ &= \frac{48471847.91}{48758590.55} \\ &= 0.9982\end{aligned}$$

$$\text{Correlation of determination (r}^2\text{)} = (0.9982) = 0.9964$$

The above calculation shows the correlation coefficient between interest earned and interest paid of NABIL and SBL. Correlation coefficient between interest earned and interest paid of NABIL is 0.9979 and SBL is 0.9982. It indicates that there is highly positive correlation between interest earned and interest paid of NABIL and SBL.

If we calculate the coefficient of determination is 0.9958 of NABIL and 0.9964 of SBL. It indicates 99.58% change in dependent variable (interest paid) is due to change in independent variable (interest earned) of NABIL and

99.64% change in dependent variable (interest paid) is due to change in independent variable (interest earned) of SBL.

4.4.3 Correlation between Interest Earned and Operating Profit

a) Calculation correlation between interest earned and operating profit of NABIL.

Table no. 4.27

(00,000)

F/Y	Interest Earned (X)	Operating Profit (Y)	$x=(x-\bar{x})$	$y=(y-\bar{y})$	x^2	y^2	xy
2061/62	10687.47	7964.22	-6799.90	-2996.21	46238640.01	8977274.36	20373928.38
2062/63	13099.99	9532.67	-4387.38	-1427.76	19249103.26	2038498.62	6264125.67
2063/64	15877.58	10376.08	-1609.79	-584.35	2591423.84	341464.92	940680.79
2064/65	19786.97	11227.13	2299.60	266.70	5288160.16	71128.89	613303.32
2065/66	27984.86	15702.04	10497.49	4741.61	110197296.30	22482865.39	49775003.56
Total	$\sum x = 87436.87$	$\sum y = 54802.14$			$\sum x^2 = 183564623.60$	$\sum y^2 = 33911232.19$	$\sum xy = 77967041.71$

Source: Annual report of NABIL.

Here,

$$\bar{x} = \frac{\sum x}{n},$$

$$= \frac{87436.87}{5},$$

$$= 17487.37$$

$$\bar{y} = \frac{\sum y}{n},$$

$$= \frac{54802.14}{5},$$

$$= 10960.43$$

We know,

$$\begin{aligned}
 \text{Correlation coefficient (r)} &= \frac{\Sigma xy}{\sqrt{(\Sigma x^2 \cdot \Sigma y^2)}} \\
 &= \frac{77967041.71}{\sqrt{183564623.60 \times 33911232.19}} \\
 &= \frac{77967041.71}{13548.60 \times 5823.33} \\
 &= \frac{77967041.71}{78897968.84} \\
 &= 0.9882
 \end{aligned}$$

$$\text{Correlation of determination (r}^2\text{)} = (0.9882)^2 = 0.9765$$

b) Calculation correlation between interest earned and operating profit of SBL.

Table no. 4.28

(00,000)

F/Y	Interest Earned (X)	Operating Profit (Y)	$x=(x-\bar{x})$	$y=(y-\bar{y})$	x^2	y^2	xy
2061/6 2	1981.85	777.02	-3975.60	-1025.08	115805395.36	1050789.00	4075308.05
2062/6 3	3055.60	1006.93	-2901.85	-795.17	8420733.42	632295.33	2307464.06
2063/6 4	4815.24	1530.10	-1142.21	-272.00	1304643.68	73984.00	310681.12
2064/6 5	7278.72	2341.41	1321.27	539.31	1745754.41	290855.28	712574.12
2065/6 6	12655.82	3355.03	6698.37	1552.93	44868160.66	2411591.59	10402099.72
Total	$\phi x =$	$\phi y =$			$\phi x^2 =$	$\phi y^2 =$	$\phi xy =$

	29787.2 3	9010.49			72144687.54	4459515.20	17808127.0 8
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Source: Annual report of SBL.

Here,

$$\begin{aligned}\bar{x} &= \frac{\sum x}{n}, \\ &= \frac{29787.23}{5}, \\ &= 5957.45\end{aligned}$$

$$\begin{aligned}\bar{y} &= \frac{\sum y}{n}, \\ &= \frac{9010.49}{5}, \\ &= 1802.10\end{aligned}$$

We know,

$$\begin{aligned}\text{Correlation coefficient (r)} &= \frac{\sum xy}{\sqrt{(\sum x^2 \cdot \sum y^2)}} \\ &= \frac{17808127.08}{\sqrt{72144687.54 \times 4459515.20}} \\ &= \frac{17808127.08}{8493.80 \times 2111.76} \\ &= \frac{17808127.08}{17936842.83} \\ &= 0.9928\end{aligned}$$

$$\text{Correlation of determination (r}^2\text{)} = (0.9928)^2 = 0.9857$$

The above calculation show the correlation coefficient between interest earned and operating profit of NABIL and SBL is 0.9882 and 0.9928 respectively. It indicates that there is highly positive correlation between interest earned and operating profit of NABIL and SBL.

If we calculate the coefficient of determination is 0.9765 and 0.9857 of NABIL and SBL respectively. It indicates 97.65% change in dependent

variable (operating profit) is due to change in independent variable (interest earned) of NABIL and 98.57% change in dependent variable (operating profit) is due to change in independent variable (interest earned) of SBL.

4.5 Regression Analysis

Regression analysis used to describe the average relationship between two variables is known as simple linear regression analysis. In this study, an attempt is made to find the degree of relationship between total deposit and total investment.

4.5.1 Regression equation between total deposit and total investment.

a) Calculation of regression equation between total deposit and total investment of NABIL.

Table No. 4.29

(00,000)

F/Y	Total Deposit (X)	Total Investment (Y)	X ²	XY
2061/62	145866.09	42755.28	21276916211.8	6236545520.45
2062/63	193473.99	61785.33	37432184806.5	11953854318.5
2063/64	233422.85	89453.11	54486226902.1	20880399877.5
2064/65	319150.47	99397.71	101857022501	31722825863.4
2065/66	373482.56	108263.79	139489222624	40434637444.5
Total	$\phi X =$ 1265395.96	$\phi Y =$ 401655.22	$\phi X^2 =$ 354541573045	$\phi XY =$ 111228263024

Sources: Annual Report of NABIL.

Here,

N = 5,

$$\phi X = 1265395.96,$$

$$\phi Y = 401655.22$$

$$\phi X^2 = 354541573045,$$

$$\phi XY = 111228263024$$

We know, the simple regression equation Y on X is

$$Y = a + bx$$

From above calculation we can get,

$$a = 9655.18, \quad b = 0.2793$$

Regression equation,

$$Y = 9655.18 + 0.2793x$$

b) Calculation of regression equation between total deposit and total investment of SBL.

Table No. 4.30

(00,000)

F/Y	Total Deposit (X)	Total Investment (Y)	X ²	XY
2061/62	24619.23	2866.23	606106485.79	70564375.60
2062/63	39180.76	6509.79	1535131954.17	255058519.64
2063/64	66250.79	8651.89	4389167175.62	573194547.49
2064/65	101914.41	11500.95	103865546965.60	11721125533.68
2065/66	158547.98	21764.28	25137461962	3450682630.15
Total	$\phi x =$ 390513.17	$\phi y =$ 51293.14	$\phi X^2 =$ 42054414543.10	$\phi XY =$ 5521612606.56

Sources: Annual Report of SBL.

Here,

N = 5,

$\phi X = 390513.17,$

$\phi Y = 51293.14$

$\phi X^2 = 42054414543.10,$

$\phi XY = 5521612606.56$

We know, the simple regression equation Y on X is

$$Y = a + bx$$

From above calculation we can get,

$$a = -0.639, \quad b = 0.1314$$

Regression equation,

$$Y = -0.639 + 0.1314x$$

The above calculation shows that $a = 9655.18$ & $b = 0.2793$ of NABIL and $a = -0.639$ & $b = 0.1314$ of SBL, which indicates if total deposit increase by 9655.18 lakhs than total investment increase by 0.2793 lakhs of NABIL, if total deposit decrease by 0.639 lakhs than total investment increase by 0.1314 lakhs of SBL.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

This study of financial statement of analysis of NABIL and SBL for fiscal year 2061/62 to 2065/66. This study is organized into five sections which are Introduction, Review of Literature, Research Methodology, Presentation and Analysis of data and Summary, Conclusion and Recommendation.

The first chapter of this study is 'Introduction'. This heading deals with the background of the study, development of banking system in Nepal, concept of commercial banks, briefly profile of NABIL and SBL, problems of banking in Nepal, focus of the study, statement of problem, objectives of the study, need, significance, limitation and organization of the study.

The second chapter of this study is 'Review of Literature'. This chapter covers introduction, conceptual review, concept of financial performance, financial statement, financial statement analysis, objective, need, and significance of financial statement analysis, review of research tools financial and statistical tools, review of previous studies.

The third chapter of this study is 'Research Methodology'. This chapter deals introduction, research design, population and sample, nature and sources of data, data collection technique, method of data analysis.

In the fourth chapter, the data required for the study is presented, analyzed and interpreted by using various tools and techniques. It is the core portion of the study.

In fifth and final chapter consists of the summary of the four earlier chapters. This chapter briefly explains the findings of the study and attempts

to offer various suggestions and recommendation for the improvement of the future performance of NABIL & SBL.

Available secondary data are analyzed using various statistical and financial tools. Summary of analysis is presented below:-

Liquidity Ratio

This ratio analysis shows that short term solvency of the NABIL and SBL. It also shows the short term capability of the fund.

Average cash and bank balance to total deposit of NABIL & SBL is 6.09% & 6.03%. C.V. of NABIL is 38.09% & C.V. of SBL is 40.63%. Similarly, cash and bank balance to current assets of NABIL and SBL is 6.26% & 5.36% respectively. C.V. of NABIL is 38.34% & SBL is 42.16%.

As regards investment on government of securities to current assets the average proportion of NABIL is 15.04% and SBL is 6.98%. The C.V. of NABIL is 24.20% and SBL is 42.98% during the study period. Average current ratio of NABIL is 117.11% and SBL is 183.98%. C.V. of NABIL is 5.80% and SBL is 21.45% respectively.

Activity Ratio

This analysis is made to understand whether the funds of NABIL and SBL have been used efficiently in the business activities or not, the research aims to analyze the activity analysis of these two banks and compare which of these two banks is ahead in utilizing available funds during the study period.

The percentage of loans and advances to total deposit of both banks i.e. NABIL and SBL are 69.35% & 94.14% respectively and the C.V. of NABIL is 4.60% and C.V. of SBL is 7.05%.

As regards loans and advances to fixed deposit the average proportion of NABIL is 350.88% and that of SBL is 208.74%. The C.V. of NABIL is 25.46% and SBL is 7.17% during the study period.

Proportion of total investment to total deposit is calculated to know what percentage of deposit is being utilized by the both banks. The average

proportion of total deposit of NABIL is 31.94% and where as corresponding proportion of SBL is 13.26%. The C.V. of NABIL is 10.58% and the C.V. of SBL is 14.33%.

Leverage Ratio

This analysis shows the proportion of debt and equity used in financing the both bank's assets. Leverage ratio is used to test the long term solvency of the banks. There are two headings in this analysis they are debt-equity ratio and total debt ratio. The average proportion of debt-equity ratio in case of NABIL is 36.42% and SBL is 39.16% and the C.V. of NABIL is 73.79% and SBL is 32.74%. Similarly, total debt ratio of NABIL is 74.27% and SBL is 58.63%. C.V. of NABIL and SBL is 3.54% and 27.04% respectively.

Profitability Ratio

Profit is the main objective of the business organization. Profitability shows the overall efficiency of the business. This ratio analysis earning power of these banks (i.e. NABIL & SBL).

Profitability ratio of the bank is classified into following heads namely (I) return on net worth (II) return on total assets (III) return on total deposit (IV) return on total investment and (V) earnings per share.

Average proportions of profitability ratio under these heading in case of NABIL are 32.32%, 2.54%, 2.97%, 9.40% & Rs. 116.98 respectively during the study period and in case of SBL corresponding proportion are 14.28%, 1.46%, 1.75%, 13.60% & Rs. 17.84 respectively.

The C.V. of NABIL under these headings are 3.59%, 14.57%, 14.48%, 18.72% & 11.84% respectively and corresponding proportion of SBL are 19.93%, 28.08%, 32.00%, 40.66% & 19.00% respectively.

Other Ratio and Indicators

Other ratio and indicator which are useful to measure the financial performance of NABIL and SBL are briefly summarized as below.

The average operating expenses to net interest of NABIL is 41.48% and SBL is 43.44% and C.V. of both NABIL and SBL is 8.29% & 8.63% respectively. Similarly, average proportion of interest paid to interest earned of NABIL is 32.92% and SBL is 54.70% and C.V. of NABIL is 20.90% and C.V. of SBL is 11.12%. Average percentage of interest earned to total investment of NABIL

and SBL is 21.94% & 58.64%. C.V. of NABIL and SBL is 13.95% & 12.70% respectively during the study period. Price earnings ratio of NABIL and SBL is 32.68% & 45.83% respectively. C.V. of NABIL is 43.70% and SBL is 27.67%.

Trend Percentage Analysis

Trend analysis shows the percentage change in several successive years. It shows the direction of change, it may be positive or negative change.

(I) Trend of total deposit.

Growth trend of total deposit in comparison for first year (base year) for four successive years of NABIL are 132.64%, 160.03%, 218.80% & 256.04% and in case of SBL are 159.15%, 269.10%, 413.96% & 644.00% respectively.

(II) Trend of net worth.

The trend of net worth shows whether the net worth is improving or declining over four successive years. In comparison to base year value, net worth for four successive year of NABIL are 113.10%, 124.10%, 147.03% & 188.84% in case of SBL it is 155.49%, 204.62%, 275.43% & 329.67% during the study period.

(III) Trend of total investment.

Trend of investment shows the percentage change of total investment in comparison to base year for four successive years are 144.51%, 209.22%, 232.48% & 253.22 in case of NABIL and in case of SBL it is 227.13%, 301.86%, 401.26% & 759.33%.

(IV) Trend of net profit.

All business activities are directed towards profit making objective. The trend of net profit shows the change pattern of net profit is comparison to the base year for four successive years. In case of NABIL it is 122.14%, 129.58%, 143.52% & 198.24% and in case of SBL it is 92.84%, 135.61%, 203.71% & 310.07% during the study period.

Correlation Analysis

Correlation analysis shows the degree of relationship between the relevant variables. Result of correlation analysis is as follows.

(I) Correlation between total deposit and total investment.

According to the study of correlation between total deposit and total investment, it is revealed that the correlation coefficient between total deposit and total investment in case of NABIL is 0.947 and coefficient of determination is 89.70% and in case of SBL corresponding correlation & coefficient of determination is 0.984 & 96.80% respectively during the study period.

(II) Correlation between interest earned and interest paid.

On the basis of correlation analysis between interest earned and interest paid of NABIL & SBL, we can find that the correlation between interest earned and interest paid & coefficient of determination between interest earned and interest paid in case of NABIL is 0.9979 & 99.58% and in case of SBL corresponding correlation and coefficient of determination is 0.9982 & 99.64% respectively during the study period.

(III) Correlation between interest earned and operating profit.

After the study of correlation analysis between interest earned and operating profit of NABIL & SBL. It is found that the correlation coefficient between interest earned and operating profit in case of NABIL is 0.9882 and coefficient of determination is 97.65% and in case of SBL corresponding coefficient of correlation and coefficient determination respectively are 0.9928 & 98.57%.

Regression Analysis

Regression analysis used to describe the average relationship between two variables is known as simple linear regression analysis.

(I) Regression equation between total deposit and total investment.

On the basis of regression analysis of NABIL & SBL between total deposit and total investment. It show regression equation of NABIL is $y = 9655.18 + 0.2793x$ regression equation of SBL is $y = -0.639 + 0.1314x$.

5.2 Conclusion

On the basis of analysis made in previous chapter following conclusion is drawn.

a) While making analysis of the liquidity ratio analysis of the both banks the following conclusion are drawn.

Liquidity analysis reveals that overall liquidity position of both banks. Cash and bank balance to total deposit, there is no different between NABIL & SBL. Both banks are regular maintained their cash and bank balance. Cash and bank balance to current assets of NABIL is silently more than SBL; it shows that NABIL is maintaining higher cash and bank balance than SBL. On the basis investment on government security to current assets; NABIL is two times more than SBL. On proportion of current assets NABIL invest more amount on government security. Thus, NABIL is more liquidity than SBL. Current ratio of both banks is less than its standard. Comparatively, NABIL's current ratio is less than SBL. SBL has been able to maintain safety margin to protect the invest of creditors than NABIL.

b) While making activity ratio following findings are drawn.

I) Loans and advance to total deposit ratio of SBL is more than NABIL. It found that SBL is better utilization of total deposit for investing in loans and advance than NABIL.

II) NABIL is using comparatively more fixed deposit in granting loans and advances than that of SBL. It means NABIL use its long term deposit to earn more interest from loans and advance.

III) NABIL's deposit utilization capacity is higher than SBL because proportion of total investment to total deposit of NABIL is two times more than SBL.

c) While making analysis of leverage of the both banks the following conclusion is drawn:-

On the basis of debt equity ratio, its shows that SBL's creditors claim more than those owners and NABIL's owners claim more than those creditors. After study total debt ratio, it shows that the NABIL's creditors claim much higher than those owners, SBL's creditors claim less than those owners.

d) While making profitability ratio analysis the following finding is drawn.

I) On the basis of return on net worth. NABIL is two times more than SBL. It indicates that NABIL is able to utilize its shareholders money in income generating purpose more efficiently than that of SBL.

II) Return on total assets of the both banks is significantly different. On the basis of mean return of NABIL has higher proportion than SBL.

III) Two banks are more or less similar on the average return on total deposit. But NABIL has more than SBL. NABIL is efficient to utilize its total deposit for profit earning purpose than SBL.

IV) SBL's return on total investment is more than NABIL. Thus, SBL is more efficient to invest its fund for profit generating purpose than NABIL.

V) NABIL has much more earning per share than that of SBL. This means NABIL is a strong and superior bank than SBL from ordinary shareholder's point view.

e) While making other ratio and indicators the following finding is drawn.

I) After study of operating expenses to net interest of NABIL & SBL, it has been found NABIL's operational efficiency is better than SBL's.

II) On the basis of interest paid to interest earned ratio of NABIL & SBL. It shows that SBL pays more interest to its depositors than NABIL.

III) On the basis of interest earned to total investment ratio of NABIL & SBL, we found that SBL is able to earn more interest on its total investment.

IV) After study of P/E ratio, we found that SBL's P/E ratio is higher than NABIL. So, SBL is better than NABIL.

f) While making analysis of trend following finding is drawn.

I) As regards total deposit trend, the rate of increasing trend of SBL is higher than that of NABIL. Though both banks have increased the volume of total deposit.

II) As regards the overall trend of net worth of four successive years, the trend of SBL has comparatively higher than that of NABIL.

III) In terms of total investment trend of SBL is higher than that of NABIL. But both banks are in increasing trend in every successive year.

IV) The overall trend of net profit is comparatively better in case of SBL in every successive year than that of NABIL.

g) While analyzing the correlation between the variables, the following findings are drawn:-

I) After analyzing the correlation analysis between total deposit and total investment, there is highly positive correlation between two variables. In order to measure the degree of change dependent variable (i.e. total investment) due to change in independent variable (i.e. total deposit). Value of coefficient of determination is calculated. On the basis of coefficient of determination it is found that a change in total deposit brings about 89.70% changes in total investment of NABIL & 96.80% of SBL.

II) The correlation between interest earned and interest paid, it seen that there is highly positive correlation between two variables. In order to measure the degree of change on dependent variable (i.e. interest paid) due to change in independent variable (i.e. interest earned). Value of coefficient of determination it can be concluded that when there is change in interest earned it brings 99.58% change in interest paid of NABIL and 99.64% change in interest paid of SBL.

III) After calculating the correlation between interest earned and operating profit indicates that there is highly positive correlation between two variables. In order to measure the degree of change on dependent variable (i.e. operating profit) due to change in independent variable (i.e. interest earned). Value of coefficient of determination is calculated. On the basis of coefficient of determination it can be concluded that when there is change in interest income it brings 97.65% change in operating profit of NABIL and 98.57% change in operating profit of SBL.

h) On the basis of regression analysis of NABIL & SBL between total deposit and total investment, it shows that if total deposit is increase 9655.18 lakh than total investment is increase by 0.2793 lakh of NABIL. SBL's total deposit is decrease by 0.639 lakh than total investment is increase by 0.1314 lakh.

5.3 Recommendation

On the basis of analysis and interpretation of data following suggestion are made for the improvement in the operation of concerned banks.

I) Current ratio of both banks is less than standard. NABIL's current ratio is comparatively less than SBL's. So, it has been suggested that NABIL has to increase its current assets.

II) Activity ratio shows that NABIL has good utilization of their deposit. But SBL has not good utilization of its deposit. So, it is suggested to invest more on loan and advances.

III) Debt equity ratio of SBL is higher than NABIL. So, it is suggested that SBL should attempt to decrease the debt proportion on its capital structure.

IV) Return on shareholder's equity of SBL is lower return. So, it is suggested to invest in productive sector yielding high return on shareholder's equity.

V) SBL has comparatively low average proportion of other profitability ratio. So, it is suggested that SBL should invest in productive sector to increase the degree of profit.

VI) NABIL is earning interest at lower growth rate in comparison to its investment. So, it is suggested to change their investment policy and adopt such policy in which it can earn maximum interest.

VII) At last, these two selected JVBs are profit-oriented organizations and they should not forget their responsibility to their customers, society and nation. So, they provide their activities in village side to economic development.

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Appendix - A
Nabil Bank Limited
Five Years Consolidated Balance Sheet

(Rs. in 00,000)

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
<u>Assets</u>					
A) Cash Balance	1463.53	2378.19	2704.07	5114.27	6743.95
B) Balance with NRB	3897.05	3183.59	11134.15	18294.71	26485.96
C) Balance with Banks/ Financial Institution	233.23	740.61	160.03	3302.43	495.21
D) Money at call & short notice			5635.33	19523.61	5528.89
E) Investment:	8684.28	17349.02	89453.11	99397.71	108263.79
a) Government Security		61785.330	48083.49	46468.83	37061.03
b) Share & Debenture	42755.28	23014.63	2869.57	3232.36	3549.31
c) Others	24184.31	352.25	38610.03	49964.43	68137.72
d) Provision	4430.87	38439.70	(109.98)	(267.91)	(484.27)
	14164.35	(21.25)			
F) Loan, Advance & Bills Purchased:	(24.25)		155457.79	213650.53	275899.33
a) Loans & Advances		129225.43		211598.53	274317.72
b) Bill Purchase & Discounted	105861.70	126816.66		2052.00	158.16
		2408.77			
			2868.95	5980.39	6609.89
G) Fixed Assets (Net): Gross Block	3612.35	3190.86	6042.17	9559.79	9979.00
Less: Depreciation	6112.77	(2975.17)	(3173.22)	(3579.40)	(3369.10)
H) Non Banking Assets	(2500.42)	0.00	0.00	0.00	0.00
I) Other Assets:	0.00		5120.50	6063.94	8646.96
a) Interest Receivable		1078.63	1078.63	918.07	1537.14
b) Misc. Current Assets	4133.40	1884.91	2169.85	5128.20	6360.74
c) Other	2086.71	3439.29	26.80	17.67	749.08
	1923.68	122.48			
	123.00				
Total Assets	170640.82	223299.71	272533.93	371327.59	438673.98

(Rs. in 00,000)

Particular	2061/62		2063/64	2064/65	2065/66
<u>Capital & Liabilities</u>					
A) Share Capital	4916.54	4916.54	4916.54	6892.16	9657.47
B) Reserve & Surples	11659.83	13833.40	15653.95	17479.83	21644.94
General Reserve	8470.00	9750.00	9835.00	11335.00	13405.00
Proposed Bonus Share	0.00	0.00	1966.62	2756.86	4828.74
Capital Reserve	0.74	0.74	0.74	0.74	0.74
Other Reserve & Fund	2511.28	3306.28	1110.78	1120.78	2084.51
Accumulated profit/loss	299.82	334.38	1133.82	1625.45	571.95
Exchange fluctuation fund	378.00	442.00	557.00	754.00	754.00
C) Debenture & Bonds	0.00	0.00	0.00	2400.00	3000.00
D) Borrowing	170.63	1732.02	8825.73	13600.00	16813.05
Internal / Local					12918.05
Foreign					3895.00
E) Deposits & Other	145866.09	193473.99	233422.85	319150.47	373482.56
Saving	70263.34	87707.59	101873.54	121599.66	146204.07
Fixed	20785.35	34490.94	54351.89	84640.86	83107.08
Current	27991.85	29105.90	33952.40	52843.68	54805.33
Call deposits	23413.29	38511.60	39616.33	55634.41	84382.71
Other	3412.26	3657.96	3628.68	4431.86	4983.35
F) Bills Payable	854.20	1126.07	835.15	2384.22	4631.39
G) Proposed & Unclaimed dividend	3612.21	4350.84	5094.18	4373.73	3613.25
H) Income Tax Liabilities	153.45	346.05	0.00	387.77	805.32
I) Other Liabilities	3407.89	3520.80	3785.53	4659.41	5029.00
Total Liabilities	170640.82	223299.71	272533.93	371327.59	438673.98

Nabil Bank Limited
Five Years Consolidated Profit & Loss Account

(Rs. in 00,000)

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Interest Income	10687.47	13099.99	15877.58	19786.97	27984.86
Interest Expense	2435.45	3571.61	5557.10	7584.36	11532.80
Net Interest Income	8252.02	9528.38	10320.48	12202.61	16452.06
Commission & Discount	1283.77	1382.94	1506.09	1593.20	1796.93
Other operating Income	564.41	828.98	875.75	943.59	1441.64
Exchange Income	1848.79	1854.84	2099.26	1964.87	2519.19
Total Operating Income	11948.99	13595.14	14801.58	16704.27	22209.82
Staff Expenses	1995.16		2401.61	2629.08	3398.98
Other operating expenses	1902.99	2197.81	1881.83	2207.51	2651.58
Exchange Loss	0.00	1826.96	0.00	0.00	0.00
Operating Profit before Provision for Possible Losses	8050.84	0.00	10518.14	11867.68	16159.26
Provisional for possible Losses	86.62	9570.37	142.06	640.55	457.22
Operating Profit	7964.22	37.70	10376.08	11227.13	15702.04
		9532.67			
Non operating Income/Expenses	0.48		52.81	40.84	21.90
Provision for possible Losses write back	44.54	7.35	109.26	111.00	106.18
Profit from Regular Activities	8008.24	77.29	10538.15	11578.97	15830.12
		9617.31			
Income/(Expenses) from Extra ordinary Activities	411.56		407.37	399.91	435.21
Profit from All Activities	8419.80	260.74	10945.52	1978.88	16265.33
	841.98	9878.05	995.05	1088.99	478.67
Provision for Staff Bonus	2376.71	898.00	3210.86	3425.22	4476.14
Provision for Income Tax		2627.41			
Net Profit/ (Loss)	5201.11	6352.64	6739.61	7464.67	10310.52

Appendix - B
Siddhartha Bank Limited
Five Years Consolidated Balance Sheet

(Rs. in "00,000")

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
<u>Assets</u>					
A) Cash Balance	334.59	649.77	1304.43	1490.07	2709.46
B) Balance with NRB	456.37	488.31	3805.64	2702.19	9849.81
C) Balance with Banks/ Financial Institution	516.33	21.38	62.20	181.99	2917.57
D) Money at call & short Notice	224.71	1000	2294.46	5847.36	4848.40
E) Investment:	2866.23	6509.79	8651.89	11500.95	21764.28
a) Government Security	2762.70	432.65	6257.48	8840.84	15047.03
b) Share & Debenture	3.53	3.53	153.52	162.32	166.07
c) Others	100.00	6073.62	2240.89	2497.79	6551.18
d) Provision	0.00	0.00	0.00	0.00	0.00
F) Loan, Advance & Bills	25707.76	37891.23	62225.87	93355.98	133286.22
Purchased: a) Loans & Advance		37550.66	61464.01		121922.50
b) Bill Purchase & Discounted		340.56	761.82		1262.72
G) Fixed Assets (Net): Gross Block	302.17	396.92	466.67	723.98	1721.58
Less: Depreciation	564.40 (262.23)	616.24 (219.32)	790.21 (323.52)	116.26 (438.68)	2305.01 (583.43)
H) Non Banking Assets	7.20	4.80	101.73	0.00	0.00
D) Other Assets:	495.66	607.15	633.76	881.03	1720.19
a) Interest Receivable	142.68	166.35	18.83	58.25	170.75
b) Misc. Current Assets	279.32	378.08	467.80	7.04	7.47
c) Other	73.66	62.71	147.13	815.74	1541.96
Total Assets	30911.03	47569.35	79546.64	116683.56	178817.50

(Rs. in "00,000")

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
<u>Capital & Liabilities</u>					
A) Share Capital	3500.00	5000.00	6000.00	8280.00	9522.00
B) Reserve & Surplus	378.89	1031.41	1937.10	2403.46	3265.45
General Reserve	140.56	271.07	461.68	748.02	1183.85
Proposed Bonus Share	0.00	0.00	900.00	1242.00	1428.30
Capital Reserve	0.00	0.00	0.00	0.00	0.00
Other Reserve & Fund	235.60	748.72	561.91	365.55	404.88
Accumulated profit/loss	0.00	0.00	0.00	11.22	181.67
Exchange fluctuation fund	2.73	11.63	13.52	36.66	66.74
	0.00	0.00	0.00	0.00	2277.70
C) Debenture & Bonds	1900.00	1811.50	4300.00	2051.33	3276.00
D) Borrowing					
Internal / Local					
Foreign					
	24619.23	39180.76	66250.79	101914.41	158547.98
E) Deposits & Other	5256.55	11284.64	18816.64	26222.43	34456.89
Saving	11965.05	16320.91	30225.56	45627.23	71582.00
Fixed	857.72	822.91	1508.19	2030.39	2957.38
Current	6209.13	10295.52	14932.57	27215.84	48414.09
Call Deposits	330.77	456.78	767.83	818.51	1137.61
Other	4.29	0.00	0.00	158.84	178.77
F) Bills Payable					
G) Proposed & Unclaimed dividend	0.00	0.00	47.37	65.37	75.17
	170.83	11.13	52.03	111.55	48.46
H) Income Tax Liabilities	337.79	535.55	959.36	1698.60	1625.97
I) Other Liabilities					
Total	30911.03	47569.35	79546.64	116683.56	178817.50

Siddhartha Bank Limited
Five Years Consolidated Profit & Loss Account

(Rs. in 00,000)

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Interest Income	1981.85	3055.60	4815.24	7278.72	12655.82
Interest Expense	919.81	1537.09	2717.11	4081.89	8136.19
Net Interest Income	1062.04	1518.51	2098.13	3216.83	4519.63
Commission & Discount	75.53	137.75	201.78	214.54	325.48
Other operating Income	79.82	97.01	186.59	312.94	463.54
Exchange Income	71.71	120.51	142.46	274.87	386.82
Total Operating Income	1289.10	1873.78	2628.96	4019.18	5695.47
Staff Expenses	203.01	260.87	336.21	482.47	793.85
Other operating expenses	308.98	441.25	557.21	714.81	1148.17
Exchange Loss	0.00	0.00	0.00	0.00	0.00
Operating Profit before Provision for Possible Losses	777.02	1171.66	1735.54	2821.90	3753.45
Provisional for possible Losses	0.00	164.73	205.44	480.49	398.42
Operating Profit	777.02	1006.93	1530.10	2341.41	3355.03
Non operating Income/Expenses	0.00	0.03	0.36	5.06	0.00
Provision for possible Losses write back	193.70	0.00	0.00	40.13	88.57
Profit from Regular Activities	970.72	1006.96	1530.46	2386.78	3443.60
Income/(Expenses) from Extra ordinary Activities	0.00	0.00	0.00	0.00	88.57
Profit from All Activities	970.72	1006.96	1530.46	2386.78	3355.03
Provision for Staff Bonus	97.07	91.54	139.13	216.98	305.00
Provision for Income Tax	170.83	262.90	438.27	738.09	870.79
Net Profit/ (Loss)	702.82	652.52	953.06	1431.71	2179.24

