CHAPTER - I
INTRODUCTION

1.1 GENERAL BACKGROUND

Nepal is a landlocked country in South Asia with a per capita national income of US$484 in 2008(Central Bureau of Statistics, Government of Nepal, 2009). The country is surrounded by two Asian emerging giant economies; Republic of India in the South, East and West and People's Republic of China in the North. The poverty line is 31% of the population in Nepal (Government of Nepal, 2004). Presently, the country is politically transformed to a Federal Democratic Republic, and is in the process of transforming the structure of the state. The political transformation was initiated after the year 2006 Broad Peace Agreement. Before that, the internal political conflict which encompassed over a decade seriously affected Nepalese economic and social environment.. It is estimated that Nepal had annually lost 2.1% GDP during the conflict. During this period, a large number of domestic financial institutions retreated from remote and rural areas of the country due to security concerns, which led to magnify inequality for accessing financial services. The country has now entered a period of New Nepal, and is striving to meet the people’s heightened expectation in this new context.

Nepal is a developing country and is striving to develop and modernize its economy rapidly on rational and socially desired footings with almost one-third of its population living below the poverty line. Agriculture is still the backbone of the Nepalese economy, providing a livelihood for over three-fourths of the population and accounting for 40 percent of GDP. Although, the country has one of the lowest levels of per capita income in the world, Nepal has considerable scope for exploiting its potential in hydropower and tourism, areas of recent foreign investment interest. Prospects for foreign trade or investment in other sectors will remain poor because of the small size of the economy, its technological backwardness, its remoteness, its landlocked geographic location, its civil strife, and its susceptibility to natural disaster. During the fiscal year 2008/09, the country's economy portrayed the following:

- The Gross Domestic Growth (GDP) at producer's prices grew by 4.9 percent in the F/Y 2008/09 compared to a growth of 6.1 percent in the previous year.

- The annual average consumer inflation increased to 13.2 percent in the F/Y 2008/09 from the level of 7.7 percent in the F/Y 2007/08. It was mainly driven by the significant rise in the prices of food and beverages items.

- The fiscal situation remained broadly stable in the F/Y 2008/09, despite the political transition phase of the economy. The fiscal deficit stood at only 1.9 percent of GDP as against the estimate of 3.9 percent in the budget of 2008/09. The limited foreign borrowing and prudent debt management also helped to reduce public debt to 41.1 percent of GDP in the review year from 44.1 percent in the previous year.

- In the F/Y 2008/09, the external sector depicted a mixed performance. Although there was an increase in exports, there was a significant growth in trade deficit as the growth rate of imports was relatively much higher. Owing to the sharp rise in remittances, both the current account and the balance of payments posted a surplus in the review year. Consequently, there was a rise in foreign exchange reserves that facilitated the maintenance of exchange rate and external stability.

- The ratio of exports to imports declined to 23.6 percent in the F/Y 2008/09 from 26.7 percent in the preceding year, this demonstrates the declining import financing capacity of exports. The share of India in Nepal's total trade went down to 58.2 percent in the review year from 64.3 percent in the previous year.

- Total foreign exchange reserves of the banking system amounted to Rs. 279.99 billion as at mid-July 2009, an upsurge by 31.7 percent compared to the figure of the previous year. This level of reserves was adequate for financing merchandize imports of 12 months and merchandize and service imports of 9.8 months.

- Overall, in terms of the macroeconomic performance, the Nepalese economy displayed a mixed performance in the F/Y 2008/09. Real GDP posted a lower growth compared to the previous year the annual average inflation remained high. While the trade deficit expanded, the current account and the balance of payments remained in surplus primarily due to the significant remittance inflows.

(NRB, Current Macroeconomic Situation, Based on Annual Data of 2008/2009 and Economy report 2008/2009.)

In a country like Nepal, banking consciousness is lacking as well as majorities of the people are economically and financially immobile. So, the country is facing great problem to get economic prosperity. Sustainable economic growth requires intermediary channels for efficient allocation of funds. Through intermediary channels such as financial institutions and financial markets, funds should be efficiently channeled from depositors and investors to borrowers in need of funding, for example, to expand their business or buy a house. By mobilizing the scattered idle resources from the savers, intermediary channels pools up the funds in a sizable volume in order to feed the fund requirement of productive sector of the economy. The role played by financial institutions and financial markets in this process is referred to as the function of financial intermediation. Financial institutions as important financial intermediary channels need to maintain sound business operations. Financial institutions need to better satisfy various financial demands of customers and enhance profitability by continually improving the ways in which they manage risks and their business operations and to remain as the major contributing factors to the growth of the nation’s economy, they themselves have to have sustainable existence and growth of themselves for which profitability is a must.

Profitability is a derivation of the term profit, which explains the ability to make the profit. Profit is primary a measuring rod of a success of a business enterprises. Profit is essential for the survival of the business. It is the difference between revenue generated and expenses occurred over the period of time but the term profit has several different interpretations. It is a basic test of the performance of any business concern. Without profit a firm could not attract the outside capital. Moreover, the owners and creditors would become concerned about the company's future and attempt to recover their funds. Owner creditors and management pay close attention for boosting profit due to the great importance placed on earning the market place.

Profitability is a technical term, used to compare performances analysis of different trading systems or different investments within one system. This is computed for each system or investments being compared over the same period long enough to include significant "ups" and "downs". So analysis of the profitability of the business is very essential which can be used to measure the overall efficiency of the business. Profitability of the business can be analyzed through the financial analysis which refers to the assessment of the viability and stability of the business.

Profitability of a company is usually reflected by income statement. A properly conducted profitability analysis provides invaluable evidence concerning the earnings potential of a company and the effectiveness of management. While analyzing profitability different profitability ratios are calculated. Profitability ratios provide a definitive evaluation of the overall effectiveness of management based on the returns generated on sales and investment. The most widely used profitability measurements are profit margin on sales, return-on-investment ratios, and earnings per share.

1.2 BANKING IN NEPAL

In the context of Nepal, the history of modern banking system is not very lengthy. This becomes explicit when one compares Nepalese banking system with the banking system of other countries of the world but this doesn't mean that there was the complete absence of banking activities in Nepal in ancient period. The banking in the form of money leading can be traced back in the reign of Gun Kam Dev towards the end of eighth century. According to the historical evidence in 723 Gun Kam Dev, the King of Kathmandu, had borrowed money to rebuild and to rule Kathmandu.

Another historical example as to the pre-modern banking system is found when Rana Prime minister Randip Singh was administering Nepal in 1880 AD. During his regime one financial institution name by 'Tejarath Adda' was establish to give loan facilities to the governmental staff and to afford loan facilities to the public in general in the term of 5% interest. 'Tejarath Adda' may be regarded as the father of modern banking institution in Nepal. During the Prime Minister ship of Juddha Shamsher in 1994 B.S. the 'Tejarath Adda' was replaced by a commercial bank, 'Nepal Bank Ltd.'. which marked the beginning of the new era in the history of modern banking in Nepal. Nepal Rastra Bank was established in 2012 B.S. to do the function of a central bank. Rastriya Banijya Bank, as a second commercial bank, was established in 2022 B.S.

After the establishment of Nepal Arab Bank Ltd. in 2041 B.S. under the commercial bank act 2031, with the allocation of 50% share of Emirates Bank Ltd., Dubai, 20% share of Nepalese financial institutions and 30% share of general public, the new phase of development of the commercial bank started. Nepal Indosuez Bank Ltd. (now Nepal Investment Bank) emerged in 2042 BS. as the second and Nepal Grindlays Bank Ltd. (now Standard Chartered Bank Nepal Ltd.) established in 2043 B.S. as the third joint venture bank in the country.

After that, there was a gradual increase in the number of joint venture commercial banks in Nepal. Now, there are 26 commercial banks, 73 development banks, 78 finance companies, 17 micro credit development banks, 16 saving and credit cooperatives (limited banking) and 47 NGOs in operation at present *(NRB, List of banks and non-bank financial institution as of Mid-July, 2009).* The open and liberal policy in the financial sector has helped in establishment of commercial and financial institutions in the country.

1.3 COMMERCIAL BANKS

Commercial banks are those banks, which perform all kinds of banking functions covering accepting deposits, advancing loans, credit creations and agency functions. Their main objective is to earn maximum profit. In Nepal, commercial banks play vital role by providing different facilities and services. They also provide services like collection of bills and cheques, safe keeping of valuables, financial advising etc. to their customers. Thus, the main objective for the establishment of commercial bank is to help to develop the business sector, industrial sector & agricultural sector. Hence, this type of bank provides loans to such sectors at a very reasonable interest rate. However, at present a bank performs numerous functions that generate income for the bank. The key success of a commercial bank lies in its ability to raise funds & use it for investing purpose, acting as an intermediary between debtors & creditors.

In order to operate the commercial banks incorporated in Nepal, various laws have been consolidated. Commercial Bank Act 2031 B.S. (1947 A.D.) has also been amended quite several times in accordance to the need. After 1955, HMG/N & NRB permitted the establishment of other Commercial Banks, Finance Companies, Gramin Bikas Banks, Co-operative Societies & NGO's.

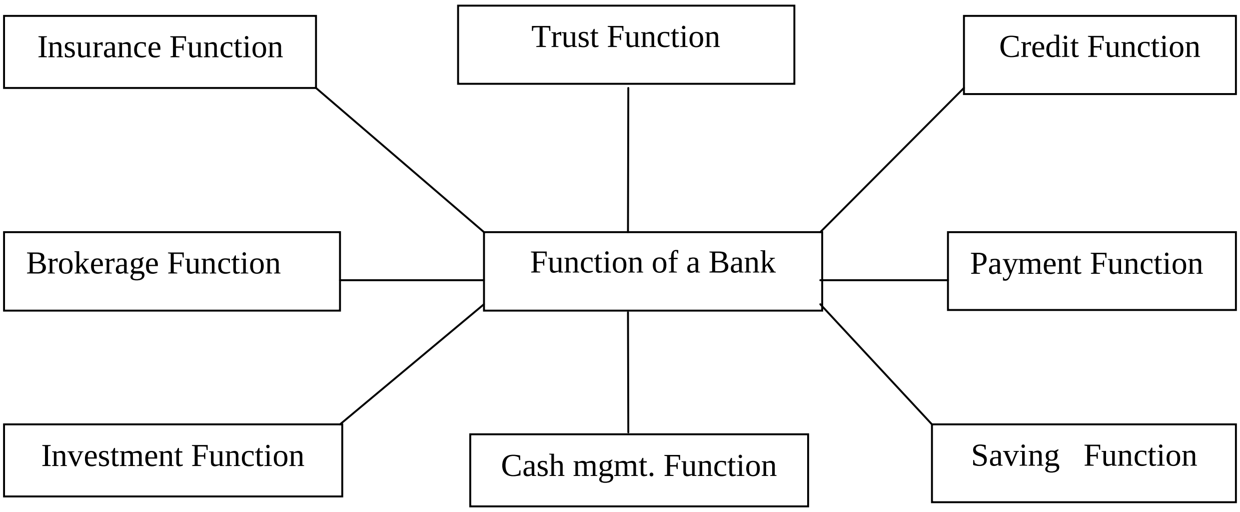
1.3.1 FUNCTIONS OF COMMERCIAL BANK

Commercial Bank is said to be the financial wheel of an economic system. Nepal Commercial Bank Act 2031 B.S. has defined commercial bank as stated earlier and it has also emphasized on their functions. The major functions of commercial bank are as follows.

- to accept custody of the funds with or without interest and open fixed account and saving accounts in the name of depositions.
- to supply loans (short-term debt as well as long term debts whatever necessary for trade and commerce) or make investment.
- to help to issue shares and debentures of any company or any others corporate body, guarantee or underwrite such shares or debentures and undertake any agency business but not become a managing agent.
- to conduct transactions in bonds, provisionary notes or bills of exchange foreign exchange relating to commerce or corporation as are redeemable within the kingdom.
- to grant overdraft.
- to issue letter of credit, draft and traveler's cheque.
- to remit or transit fund to different place within or outside the kingdom.
- to purchase, sell or accept the securities of H.M.G.

The vital functions performed by a full banking service institution today are summarized in the figure below**:**

Fig 1: Function of Bank



Beside this, the commercial bank arranges the amount of foreign exchange required by various organization and travelers. Moreover, foreign trade transactions are facilitated through the issuance of letter of credit. Bank also provides locker facilities to the customers to keep valuable ornaments and documents. Bank also makes payments, pays and collects rent, rates and tax; pay insurance premium, etc. on behalf of its clients. In case of joint venture commercial bank, it issues internationally valid credit cards, ATM cards, tele-banking etc. Beside, bank has many more functions and roles in the development of national economy.

1.3.2 ROLE OF COMMERCIAL BANK

Commercial bank plays vital role by providing different facilities and services. The important roles of commercial bank are as follows:

a) Capital formation
b) Monetization of economy
c) Price stability
d) Control in interest rate

e) Availability of credit
f) Development of neglected and deprived sectors
g) Promotion of saving
h) Implementation of monitory policy
i) Long term loan
j) Transfer of funds

1.4 BRIEF INTRODUCTION OF NEPAL BANK LIMITED

Nepal Bank Limited, the first commercial bank of Nepal, was established in November 15, 1937 A.D. Nepal Bank Limited is the pioneer financial institution of Nepal. From the very inception and its creation, Nepal Bank Ltd, came in the form of public and private partnership. Out of 2500 equity shares of Rs.100 face value, 40% was subscribed by the government and the remaining i.e. 60% was offered for the subscription to private investor.
The bank stands its operation with the authorized capital of Rs.10 million with only 10 shareholders when the bank first started. In that era, very few understood or had confidence in this new concept of formal banking. Rising equity shares were not easy and mobilization of deposits even more difficult. This was evident when the bank floated equity shares worth Rs.25, 00,000, but could raise only Rs.8, 42,000. At present, it has an authorized capital of Rs.1, 000 million and the issued capital of Rs.500 million and paid up capital of Rs.380.4 million. The inception of the bank helped to remove dual currency system and circulating the Nepalese currency throughout the country gradually.

During the past 7 decades, the bank experienced many ups and downs, but it has remained the leading financial institution in Nepal. It has helped vastly in by accumulating the scattered money in small amount in each and every nook and corners of the country and granting loans and advances in various ways.

At present the bank is operating 99 branches in all over the country with 3318 staffs. The bank plays great role to develop the economic condition of country by providing different facilities and services to their customers like collection of bills and cheques, safe keeping of valuables, financial advising etc.

1.5 BRIEF INTRODUCTION OF RASTRIYA BANIJYA BANK

Rastriya Banijya Bank (RBB), the fully government owned bank and commonly accredited as the people's Bank in Nepal, established in January 23,1966, has completed glorious 44 years of it's service. The Bank's slogan "It's your own Bank" signifies the importance of RBB in the socio-economic development of the country. Since its establishment, RBB has remained an indispensable financial institution of the Nepalese society and economy.

Although RBB ranks No.1 position in terms of total deposits and in terms of loan/investment portfolio, the Bank's performance has been irregular in past years necessitating the government of Nepal to contract a team of 19 banking professionals to restructure the Bank with financial assistance of the World Bank and DFID. The new Management Team, of whom 16 are Chartered Accountants, joined RBB in January, 2003 under a two year contract and in January 2005, the Team was extended for an additional year until December, 2007. Key elements of the Team are expected to be retained for an additional period until the restructuring is sustainable.

RBB has Nepal's most extensive banking network with over 125 branches. Through its branch network, RBB has been contributing to Nepal's economic development by providing banking services throughout the country.

RBB has many correspondent arrangements with major international banks all over the world that facilitate trade finance, bank-originated personal funds transfers and inter-bank funds transfer via SWIFT. In a bid to promote remittance business, RBB works with Western Union and International Money Express, two leading person-to-person funds transfer networks.

In addition RBB runs various programmes i.e. banking with the Poor, Micro Credit project for Women etc. to enhance the living standard of people as per the govt. directives.

As well, RBB actively delivers various government programs to people living in remote parts of the country; these programs are intended to raise living standards. .

1.6 STATEMENT OF THE PROBLEM

Commercial Banks play vital role in economic growth of the country. As being a commercial institution, a commercial bank must make profit out of its operation for its survival and fulfillment of its responsibilities. The major activities of the commercial banks include mobilization of resources, which involves cost, and profitable deployment of the resources, generating income. The excess return income over expenses is the main source of profit to the bank. In case the bank fails to generate sufficient returns on the resources deployed, it makes a drain on the company's resources and country's resources as well.

Till the early 1980s, the financial sector was not opened up for private sector. Only two commercial banks - Rastriya Banijya Bank and Nepal Bank Limited, that are government controlled, are functioning in Nepal. The economic reforms initiated by the Government more than one and half decade ago have changed the landscape of several sectors of the Nepalese economy. The Nepalese banking industry is no exception. As a result of this policy, large number of banks and financial institutions mushroomed across the country. Both the government owned and privately incorporated banks co-exist in Nepalese economy. However, the performance of the privately incorporated banks is doing better than those with the government control. Because of the tailor-made product and services provided by the private institutions, they have been able to perform significantly well in the market.

The last five years was also the period of financial sector reform and restructuring. Various programs related to strengthening of the NRB, the restructuring of the Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) and enhancing the capacity of the whole financial sector were implemented during this period. Under the financial sector reform program, human resource development and institutional restructuring of this bank were also carried out to make the regulation and supervision system effective. In addition, the policy of gradually phasing out the non-core activities of the bank has been adopted.

To improve the financial situation of the two government owned banks, NBL and RBB, by restructuring themselves, the management of these banks were handed over to the foreign consultants. After the foreign consultants took over the management, from the F/Y 2003/04 to mid- April 2007, RBB and NBL earned net profit of Rs 4.93 billion and Rs 4 billion respectively. In this period, RBB and NBL recovered Rs 10.64 billion and Rs 8.03 billion of their non-performing loan (NPL) in cash respectively. As a result, NPL, which is taken as an indicator of the financial health of the commercial banks, declined from 30.4 percent in mid-July 2002 to 14.1 percent. The NPL ratios of NBL and RBB, though improving, are still high. (NRB, Monetary Policy, 2007-08: 2)

In the period of reform and restructuring, these two banks (NBL and RBB) have gradually improved its performance, recovered drastically from the NPL as well as started increasing the level of net profit steadily. In this context, the comparative profitability analysis of NBL and RBB will provide an insight to the banks performance with respect to profitability.

1.7 FOCUS OF THE STUDY

Every country needs to give emphasis on upliftment of economic conditions. The upliftment of economic conditions of a nation needs mobilization of its own domestic resources through banking. But the financial situation of Nepalese banking sector is in a very poor condition. Apart from other measures required to improve their performance, the banking sector is expected to have better prospects with effective profit planning and control. So the main focus of this study is the financial performance and profitability analysis of commercial banks in the context of Nepal. Since profit is not only factor to analysis the financial performance, some other factors need to be considered while evaluating the profitability of Nepalese commercial banks. In this study, the profitability analysis of Nepal Bank Ltd. and Rastriya Banijya Bank was made comparatively.

1.8 OBJECTIVE OF THE STUDY

The specific objectives of the study are:

- To analyze the profit and loss trend and growth of the bank over the period.
- To evaluate the profitability and operating financial efficiency of Nepal Bank Ltd. and Rastriya Banijya Bank
- To compare and analyze fund based interest income with fee based income of Nepal Bank Ltd. and Rastriya Banijya Bank in light of interest earning assets.
- To provide suggestions and recommendations for the improvements of the overall profitability of the banks.
- To provide the information to investor, creditors, stakeholders.

1.9 SIGNIFICANCE OF THE STUDY

The profitability analysis is an effective managerial evaluation of performance. It studies the effect on the shareholders' return and risk. Consequently, the effect on market value of the share can be verified with profitability analysis. A proper profit planning considerably contributes to improve the overall financial performance and leads the organization toward success. In this study, an attempt was made for drawing the overall picture of the selected commercial banks of Nepal. Data of five fiscal years were presented systematically and analyzed.

This study will be helpful to management of the selected commercial banks of Nepal to make effective profit planning strategy for future. This also will be valuable for researcher, students who want to investigate into the profitability of the selected commercial banks of Nepal. It will also be important to the bank, investors and stakeholders concerned.

- The study will compel the management of Nepal Bank Ltd. and Rastriya Banijya Bank Ltd. for self assessment of what they have done in the past and provides guidance for their future plans and program.
- The study enlightens the shareholders, depositors, creditors, NRB, Tax office etc. about the financial performance of the bank

- The financial agencies including stock exchanges and stock traders interested in the performance of the bank as well as the customer, depositor and debtors can identify the better bank to deal with in terms of profitability, safety and liquidity.
- Policy makers, the government and NRB at the macro level will be benefited regarding the formulation of further policies to facilitate economic development of the country.

1.10 LIMITATION OF THE STUDY

This study is not free from certain limitations. The major limitations of the study are as follows:

- The study was concerned with Nepal Bank Ltd. and Rastriya Banijya Bank.
- The study was only to analyze profitability aspect. It ignored other aspects like assets management, risk management and other activities like investment policy of bank.
- The whole study was based on the data of 5 fiscal years period from the F.Y. 2062/63to 2066/67and conclusions were confined on the above period.
- This study was based on the financial statements like balance sheet, profit and loss account and cash flow statement which provided the quantitative information.

1.11 ORGANIZATION OF THE STUDY

The study report is classified into five different chapters which are briefly discussed as follows:

Chapter 1 – Introduction

The first chapter dealt with introduction of the study. It included introduction, general background, statement of the problem, objectives, significance, limitation of the study and organization of the study.

Chapter 2 – Review of Literature

The second chapter dealt with the review of literature which included review of related books, journals, articles and previous unpublished Master Level Dissertation etc.

Chapter 3 – Research Methodology

This chapter explained the research methodology used in the study. It included research design, population and sampling, types and source of data, data collection procedure, method of analysis and analytical tools used.

Chapter 4 – Data Presentation and analysis

Data presentation and analysis contained in the fourth chapter dealt with presentation of the data collected through various sources and analysis of data as well as major findings of the study.

Chapter 5 – Summary, conclusion and recommendations

This is the last chapter of the study covered the summary of the study. The main conclusions were drawn on the basis of analysis of data and some recommendations as well as suggestions were made on the basis of the study.

CHAPTER – II
REVIEW OF LITERATURE

2.1 PROFIT & PROFITABILITY

Generally profit is defined as the excess of revenue over cost. In other words, profit is the residual income, which is equal to sale proceeds minus costs. Profit is the resources left to the firm for future growth and expansion or reward to be distributed to the entrepreneurship in the form of dividends etc. In a simple term, profits mean the residual balance of earning expected to be available with the firm that is obtained after deducting entire expenses, costs, charges and provision from total revenue of a period of time.

It is lifeblood for each type of business. Every business organization should earn profits to survive and grow over the long period of time. Obviously, organization will have no future if it is unable to make reasonable profit from its operation. As a matter of fact, the overall efficiency of an organization is reflected in its profits. Profits to the managements are the test of efficiency and a measurement of control: to the owners, a measure of worth of their investment; to the creditors, the margin of safety to the employees; a source of fringe benefits to the Government, a measure of fixed paying capacity and the basis of legislative action; to customers, a hint to demand for better quality and price cuts; to a bank, less burden some source if finance existence and finally to the country, profit are index of economic progress. Thus, if an organization fails to make profit, capital invested erodes and if this situation prolongs it ultimately cease to exist.

Profit has been universally recognized and accepted as a measure of business efficiency. Thus, the larger the profits, the more efficiency and profitable the business organization is deemed to be. This criterion has the greater advantage that it provides a common standard of measuring the efficiency if different bank. Regarding this, Laxmi Narayan clearly states, “Profit is the simple, convenient and the most popular yardstick of jugging the efficiency of private and public business enterprises. Profit helps in judging the overall efficiency and is easy to calculate. Even through profit maximization, unlike private enterprise, is not objective of public enterprises, yet profit services as a well accepted criterion for the judging the overall efficiency of public enterprises too.” (Narayan, 1980 A.D.:260).

The profit is the ultimate measure of effectiveness. A profitable company is likely to offer not only security of employment but also promotion prospects, job opportunities and the intense personnel motivation that comes from being associated with success. John Argent observes, “Profit is the barometer of the success of business. It is, indeed, a magic eye that mirrors all aspects of entire business organizations including the quality output.” (Argent, 1968 A.D.:34)

The term “profitability” is composed of two words ‘profit’ and ‘ability’. It reflects the capacity of a business organization to earn profit. It is also referred to as ‘earning capacity’ or ‘earning power’ of the concern investment. Thus, the term profitability may be taken as the ability to earn profit. According to Howard and Upton, “The word profitability may be defined as the ability of a given investment to earn return on its use.”

It may be mentioned that the term ‘profitability’ is distinguished from the word profit. Profit refers to the absolute quantum of profit whereas profitability alludes to the ability to earn profit. The former is an absolute measure in itself while the latter is a relative one. According to W.M. Harper, the profitability is a relative measure. It indicates the most profitable alternative. The profit, on the other hand is an absolute measure. It indicates the overall amount of profit earned by transaction. As the profitability is the relative measure, it is used to judge the degree of operational efficiency of management. Furthermore, it is essentially employed to measure the relative efficiency of different trading systems or different investments within one system. In the profitability analysis, the profit making ability of an organization is measured in terms of size of investment in it or its sales volume. Such an analysis of profitability reveals how particularly such a position stand as a result of transactions made during the year. It is particularly interesting to the suppliers of funds who can evaluate their investment and take necessary decision thereon.

The state of profitability is a variable thing like the temperature and humidity of a day. The determination of profitability by an accountant or analyst is very much similar to temperature reading and study of humidity by a meteorologist. A meteorologist records the weather on daily basis with an intention to forecast its future prospects. Likewise, an analysis records yearly profit of a bank with a view to make prediction of the future prospects.

The purpose of profitability measurement is to see whether a bank has effectively used its resources to achieve its profitability objectives. The profitability objectives refer not to the maximum profit the business can produce but to the minimum it must produce. The minimum profit is the profit at the minimum rate required for the desired type of investment in the bank. However, there mustn't be enough profit to yield the capital in the market rate of return on money, which is already sunk in business, but also to provide additional capital needed to cover the cost of staying in business.

2.2 MEANING OF PROFIT

Profit, from Latin means "to make progress". It is defined in various ways. In economics, profit is the concept of reward of the entrepreneur for risk taking and management. In business operations, it is the gain from manufacturing; merchandising and selling operations after all expenses are met. Since profit is added to net worth, it may be measured by the increase in net worth over that of the previous accounting period. The amount of concern's profit thus may be determined not only through the profit and loss statement but also by the comparison of the earned surplus or net worth in the balance sheet which, however, is the residue of profits after dividends and any other appropriations and does not reveal details of sources of income and expenses, which are found in profit and loss account. In speculative transactions, profit is the excess of the net selling price over the costs (including all charges) of the security or commodities traded in. (Woelfel, 1999 A.D.: 540)

Profit is a motivating factor behind many managerial activities. Much has been written about the role (as opposed to the method of calculation) of profit. Profit plays three roles in the capitalistic society. Profit is the financial reward of risk taking;

profit is the financial reward for having monopoly power; profit is the financial reward for the efficient management. The promise of profit provides a strong incentive to owners and managers to act efficiently. "Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy through retained earning. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sectors." (Robinson, 1951 A.D.: 21-22)

Account and economics are two disciplines in which profit is viewed in different concept. Pure economic profit is the increase in wealth that an investor has from making an investment, taking into consideration all costs associated with that investment including the opportunity cost of capital. Accounting profit is the difference between retail sales price and the costs of manufacture. A key difficulty in measuring either definition of profit is in defining costs. Accounting profit may be positive even in competitive equilibrium when pure economic profits are zero.

In economics, a firm is said to be making an economic profit when its revenue exceeds the total (opportunity) cost of its inputs. According to Adam Smith (The father of economics), "Profit is the sum remaining after the payment of all wages (wage) in economics includes payments to officers of corporations, to proprietors, to partners and to farmers, as well as to what we today term(labor), and rent on the unimproved value of land, as the return to capital."

Profit in the accounting sense is the net figure of difference between all types of measurable revenues and all measurable costs. In accounting, profit is expressed only on explicit and measurable accounting terms and on the book value basis. However, in economics, profit is measured in the realizable terms. "Profit in the accounting sense is the excess of revenue receipts over the costs incurred in producing this revenue. This concept of profit is also known as residual concept. But, in economics, both implicit and explicit costs are deducted from total sales revenue in determining profits." (Cauvery, 1997 A.D.:.122-123) As a matter of fact over the years there has been quite an evolution as to what particular items should be deducted from gross income to arrive at an "accounting" profit. Thus, "accounting" profit is a concept of man-made legislation, of the courts, of the Security of Exchange Commission, of accounting organizations; a concept, which has always been in evolution. “Economic” profit on the other hand, is a concept of a natural law of economics, and like the law of gravitation has remained and will remain unchanged over the ages. However, the profit under discussion is concerned with accounting profit, which in a simple language, is the positive and fruitful difference between two revenues and total expenses over a period of time,

Multiple meaning of the word "profits" have always been troublesome. Accountants have made energetic efforts in recent years to discard the word for that purpose and to refer to the conventional concept as business income a natural term at avoids any overlap with economic theory. The most important points of difference between the economists and accountants are as follows:

1. The inclusiveness of costs i.e. what should be subtracted from revenue to get profit.
2. Meaning of depreciation
3. The treatment of capital gains and losses
4. The price level basis of valuation of assets and liabilities
5. Although there may be arguments in favor and against profit generating almost all firms require earning it. Their rate of earning differs from firm to firm and time to time.

2.3 THEORIES OF PROFIT

Economists have propounded several theories of profits to explain profits of entrepreneurs. Most of the theories are centered on the controversy about the role of the entrepreneur. In the following section some of the fundamental theories of profit have reviewed in brief.

1. Theory of Risk and Uncertainty Bearing:

It was F.B. Hawley who first developed the theory of risk bearing and concluded that profit is a reward of the entrepreneurs for bearing risks. But, the theory was picked up b Professor F.H. Knight who divided risk into insurable risk and uncertainties. Thus according to Knight, profit is a reward to the entrepreneur for his non-transferable function of bearing non-insurable risk and uncertainties.

2. **Dynamic Theory of Profit.**

   This theory was propounded by J.B. Clark. According to this theory, 'dynamic changes' in the economy are the basic causes of emergence of profits. There is no profit in the static economy as no changes take place. In a dynamic economy there are constant changes in population, capital, methods of production and industrial set up. These changes multiply wants of consumers, which earn profits to the entrepreneur.

3. **Innovation theory of profit.**

   Joseph Schumpeter singled out 'innovation' from the dynamic theory of profits and developed economy and innovation in the changing world gives rise to profits. In his views, the entrepreneur plays an important role of introducing innovation in an economy and profits are the rewards for his role as an innovator. The innovation could be changes or techniques that reduces cost of production or increases demand for the product.

2.4 NEED FOR PROFIT

Profit is necessary for the following reasons:

1. **Measurement of Performance:**

   Profit is only factor to measure the management efficiency, productivity and performance. Profit is the most widely used yardstick to see what really is to be achieved and where the firm is to go in the future.

2. **Premium to cover costs of staying in Business.**

   Business environment is full of risks and uncertainties. to grasp the globally changing technologies, to stay in the market uncertainties, to replace and acquire assets and enhancing business scope etc. require a profit margin.

3. **Ensuring Supply of Future Capital**

   Profit is necessary to plough back in the investments like innovations, business expansion and self-financing. It also attracts investors for further investment.

4. **Return to the investors**

   Shareholders provide equity capital to the business because they expect the entity will provide return to their funds at least equal or above market rate of return. To maintain the shareholders expectation, it is most important that a firm should earn sufficient profit so that it can distribute dividends.

2.5 PROFITABILITY OF COMMERCIAL BANKS

Banks today are under great pressure to perform to meet the objectives of their stockholders, employees, depositors, and borrowing customers, while somehow keeping government regulators satisfied that the bank's policies, loans, and investments are sound." (Rose, 1991 A.D.:155) The majority of the needs of the stakeholders are related with the profitability of the banks. For example, in case the bank earns profits, the investors get dividends, employees get bonus, government gets benefits in the form of taxes etc. Thus, the foremost objective of the banks is the profit maximization. As other types of business entity, commercial banks are also inspired by the profit.

The major source of funds of the bank is the public deposit. Commercial banks invest public deposits on those sectors where they can attain the maximum income or higher rate of return as the bank is liable to pay certain rate of interest to the public in their deposit. Hence the investment or granting of loan and advance by them are highly influenced by profit margin. Generally the profit of commercial bank depends upon the interest rate of the bank, volume of loan provided, time period of loan, and nature of investment in different securities. However, the bank at the same time has to ensure that their investment is safe from default.

Aspiration of profit to commercial banks seem reasonable as the bank has to cover all the expenses as interest to the depositors and other administrative costs, they should make payment in the form of dividend to the shareholders who contributed to build up the banks' capital and keep aside for the provision and reserves. For this the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligations, it will go ahead for investment.

A successful bank is one who invests must of its funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserve to meet day-to-day requirements of the depositors. After all the commercial bank is simply a business corporation organized for the purpose of maximizing the value of the shareholders wealth invested in the firm at an acceptable level of risk. So bank has to make a crucial decision regarding a mixture of liquidity and profitability cause lower the liquidity higher the profitability and higher the liquidity lower the profitability and both are equally important, banks cannot afford to ignore any of them.

2.6 LIQUIDITY

In banking, liquidity is the ability to meet obligations when they come due without incurring unacceptable losses. In other words, the capacity of bank to pay cash against any upcoming obligations is called liquidity. Managing liquidity is a daily process requiring bankers to monitor and project cash flows to ensure adequate liquidity is maintained. Maintaining a balance between short-term assets and short-term liabilities is critical as the commercial banks have liability to the deposits collected and they immediately should give it in the time when the depositors asked.

Banking is the business of financial dealing whose major source of financing is the public deposit. Deposit accounts represent the primary funding in traditional commercial banks, and the loan portfolio represents the primary asset. The investment portfolio represents a smaller portion of assets, and serves as the primary source of liquidity. Investment securities can be liquidated to satisfy deposit withdrawals and increased loan demand. Banks have several additional options for generating liquidity, such as selling loans, borrowing from other banks, borrowing from a Central Bank and raising additional capital. Most banks are subject to legally-mandated reserve requirements intended to help banks avoid a liquidity crisis.

A large part of bank deposits are withdrawn on demand and hence the bank must be prepared with sufficient degree of liquidity of its assets. Once the confidence is lost in depositors' eye, they may withdraw all the deposits within the brief period when the bank is unable to generate adequate cash without incurring substantial financial losses since most of assets of the bank are attached in the loan and advances. Even the best bank can hardly survive in such a situation. Confidence depends upon the ability of bank to meet the readily demand for cash made by customers. Commercial banks maintain liquidity in all or any of the following forms:

1. Cash in self vault and in other banks-specially in NRB (First Line of Defense)
2. Overnight placements, moony at call or short notice or any other very short term placements (Second Line Defense)
3. Investment in marketable securities like government securities, which can be easily sold and readily convertible into cash (Third in of Defense)
   (Dahal & Dahal, 1996 A.D.: 41)

2.7 TRADE OFF BETWEEN PROFITABILITY AND LIQUIDITY

Profitability of commercial banks is highly dependant on the optimum utilization of available resources and invests the deposit collected in safe and profit generating assets like loan, and advances and investments. However, banks can not ignore the necessity of maintaining a portion of the deposits in their cash vault, or in the immediate approach like in the account of central banks or in any highly liquid assets like government treasury bills, other government bonds that can be easily sellable without loosing and further value.

A sound liquidity position of the bank satisfies the demand of the deposit holder, which maintains the goodwill of the banks. Since, banks are faithfully considered as the last resort for monetary needs of the public, the incapability of fulfilling their demands will loose the faith of the depositors/ public. Once any signaling effect is negatively attached in the perception of the depositors, they tend to doubt in the bank's dependability and that can consequent in the bank run. Further, banks must maintain the certain portion of deposits in the vault and in NRB.

However, liquid assets are almost all idle. They do not generate any profits. The cash in the vault meets any upcoming obligations immediately but banks will not be able to generate any returns in such a case. Further, banks do not get any interests or other returns in the accounts maintained in the central banks, NRB in Nepalese context.

Profitability and liquidity maintain a highly negative co-relation. Since both are equally important for commercial banks, banks cannot ignore any of them. So, the crucial decision for the management of the banks is to trade-off between them. The more liquidity the less will be the profitability and vice versa.

2.8 FINANCIAL STATEMENT OF A COMMERCIAL BANK

The financial statement of a commercial bank includes balance sheet, profit and loss account, cash flow statement and other relevant disclosures. Merely presenting the financial statement does not satisfy the aim of the study as financial statements are just of financial information to this analysis. Thus, the focus of the study will go to the analysis of the financial statements of the bank, especially on profitability of the bank. This will make some attempts to identify the financial position of the bank and to give necessary suggestions thereto.

2.8.1 Balance sheet

Balance sheet is not an account but it is a statement of assets and liabilities of business enterprises at the given date. It is a statement summarizing the financial position of the firm. The balance sheet is prepared at the end of accounting period. Bank's balance sheet is composed of shareholder's fund, borrowings, debentures and other liabilities and provision on the liabilities side and cash and bank balance, stock, debtors, loan and advances, branch accounts, investment and fixed assets on the assets side.

The brief explanation on accounting heads of the balance sheet is provided below:

A. Capital and Liabilities

1. Share Capital

The amount of paid up capital of the bank should be mentioned under this head. The amount received against calls made should be credited in this share capital account.

2. Reserves and Funds

This accounting head shall contain the amount of reserves appropriated from profit, as well as created through any other process and accumulated profit. Generally, this account shall be credited by debit to profit & loss appropriation account and utilization of such reserves shall be debited to the concerned reserve and fund accounts. The following account heads fall under this heading.

a) General reserve fund: This is a stationary reserve. Under this head, only the amount appropriated from profit as per Commercial Banking act shall be credited. Currently, 20% of the net proft should be transferred to this account. Distribution of dividend by utilizing this fund is restricted and approval of Nepal Rastra Bank shall be obtained for the use of this fund for any other purposes. (NRB, 2062 B.S.: 29).

b) Capital Reserve Fund: Profit on revaluation of assets and capital assets received in grant from other shall be accounted under this head.

c) Share Premium: This represents the amount of money collected on issue of shares in excess of its face value. The outstanding amount in this account shall not be considered eligible for distribution of dividends. However, it may be used for issue of bonus shares under approval of Nepal Rastra Bank.

d) Other Reserves: Funds and reserves, other than those mentioned above shall be included under this head.

e) Accumulated Profit/Loss: Under this head, the balance of the accumulated profit or loss as per shown in the Profit and Loss Appropriation account shall be shown.

3. Borrowing

The borrowed funds of the bank shall be disclosed under this head. Bank borrowings, placements, overnight placements, borrowing from central banks, foreign banks falls under this heading.

4. Deposits

The principal liability of a commercial bank is its deposits collected from general public, business and government agencies. Deposits received from the depositors as well as the interest payable on the deposits shall be credited to the account of the depositors. The deposit liabilities accepted by the bank shall be exhibited under this head.

5. Bills Payable

Under this head, the outstanding amounts pertaining to draft, telex transfer. Payment orders issued by one branch to another branch of the bank, as well as bills drawn on the bank by other local and foreign banks shall be accounted.

6. Other Liabilities

Other than the capital and liabilities mentioned above, all other liabilities of whatsoever mature shall be included under this heading. Any other accounting heads that could not be exhibited elsewhere may be included under this head as required.

B. Assets Side

1. Cash Balance

The most liquid assets held by any commercial bank is cash. This heading shall be used for showing the total amount of cash-in-vault, consisting of local and foreign currency. Since cash is the most liquid asset, it is used to cover deposit withdrawals, handle credit demands from customers, and to meet all regular and emergency expenses.

2. Balance with banks

The balances of amounts in non-interest bearing accounts maintained by the bank with Nepal Rastra Bank as well as with other local and foreign banks shall be exhibited under this head.

3. Money at call or short notice

The amount of all interest bearing placement with other banks with maturity of less than 7 days with stipulated condition for payment at call or at short notice (48 hours) shall be exhibited under this head.

4. Investments

As a line of defense to meet demands for cash and serve as a quick source of funds, banks invest certain proportion of funds in the liquid assets. These typically include holding of shorter-term government bonds like treasury bills, development bonds etc. and other securities purchased in the open market and readily convertible into cash in the financial market. Other forms of investment include investment in the shares and debentures of other companies. These investments are mainly made for their ability to generate income. The investments are to be valued at market price or cost price whichever is lower.

Commercial banks invest the funds to the shares, debenture and bond of the other company. They generally do so when there is excess of funds than required and there are no alternative opportunities to make investment in the profitable sector. Now-a-days the commercial banks of Nepal have purchased share and debenture of regional development bank, NIDC and other development banks etc. these type are mainly held for their income-generating power and for other advantage like tax shelter etc. The investments are to be valued at market price or cost price whichever is lower.

5. Loan Advances and Bill Purchased

This is a primary source of income and most profitable asset to a bank. The sum outstanding of all loans and advances extended to the customers as well as bills purchased and discounted bills less the amount of provisions made shall be exhibited. However, the loans extended to the staffs shall not be disclosed under this head and should be shown under other assets.

6. Fixed Assets

All assets of long-term nature owned by the bank (land & buildings, machinery, vehicles, office equipments etc) shall be accounted under this head and be exhibited in the balance sheet at written down value after deducting the depreciation from the total cost.

7. Other Assets

The heading shall be used for accounting of any other tangible or intangible assets, not mentioned above. Stationery stock, accrued interest on investment, accrued on loan, sundry debtors, assets in transit, non-banking assets, expenses not written off etc.

2.8.2 Profit & Loss Account

The bank's profit & loss account is composed of interest, administrative expenses, provision for possible losses, bonus provision, tax provision, investment provision, etc. as expenses and interest, discount, commission, charges etc, as incomes. The summary of the heads of account in the profit and loss account in the profit and loss account of a commercial bank is given below.

A. Expenses Side

1. Interest Expenses

Payment of interest on deposits accepted by the bank and on the borrowings is shown under this head. Interest is regularly expensed off for various deposits; inter bank borrowings, central bank borrowings and other external obligations.

2. Employee expenses

All expenses related to the employees of the bank for the specific period shall be included under this head. Expenses included are salary, allowances, pension, gratuity, training expenses, uniform expenses etc.

3. Office Overhead Expenses

All expenses related to the office overhead of the bank during the specific period shall be included under this head. Some of the expenses under this head are house rent, insurance, audit expenses, newspapers and magazines, advertisement etc.

4. Exchange loss

The negative balance in exchange fluctuation gain/loss account shall be exhibited under this head.

5. Non-Operating Expenses

These are the expenses that have no direct relationship with the operation of banking transaction. Some of the examples are loss on sale of investment and loss on sale of assets.

6. Bad debts written off

Where the bank has written off loans on account of being unrecoverable, such written off amount to the extent not covered by loan loss provision shall be charged to profit and loss account under this head.

7. Provision for Possible Loss

This is one of the most important heads of account related to the profitability of the bank. As per the directive of the Nepal Rastra Bank, the banks are required to make provision for loan losses. The provisions are to be made on the basis of the expiry dates on the principal amount of the loans and advances. As per the directive the provisions to be made is as follows.

Category	Provision required	Criteria
Pass	1%	due upto 3 months
Substandard	25%	due upto 3 - 9 months
Doubtful	50%	due for 9 months - 2 year
Loss	100%	due for more than 2 years

However, in case of bills purchased items, provision is to be provided at 1% if it stands due for 90 days and in case it remains due for more than 90 days 100% provision is required. (NRB, 2062 A.D.: 36)

8. Provision Staff Bonus

The amount of bonus set aside for payment to staffs is disclosed under this head. As per the Nepal Rastra Bank directives the bank is entitled to make provision for the staff bonus at 10% on the net profit after adjustment for loan loss provision.

9. Provision for Income Tax

The amount of income tax on net taxable profit for the period shall be determined through this head. Taxable profit has to be determined considering the allowable and disallowable expenses as per the prevailing income tax act and finance bill.

10. Net Profit

This figure represents the excess of total income over total expenses of the bank during the period.

B. Income side

1. Interest Income

This is the primary source of income of any commercial bank. Under this head the interest received from the customers on behalf of the loans and advances and on the investments of the bank is exhibited. However, Nepal Rastra Bank has established several criteria for he recognition as interest income.

- The interest income should be recognized on cash basis.
- The amount of interest accrued but not received, have to be credited to the interest suspense account.
- In cast of the interest accrued is realized within one month from the date of closure of fiscal year, such amount may be recognized in the income of the earlier fiscal year.
- The interest on loans and advances should not be recovered by overdrawing the borrower's current account or where overdraft limit has been extended by overdrawing such limit.

2. Commission and Discount.

The total amount of commission, service charges and discount earned by the bank from the transactions during the period shall be exhibited under this head. Some examples are commission on issue of guarantees, commission on issuance of L/C etc.

3. Exchange Gain

Banks deal with foreign currencies. Foreign currencies are remitted outwards and inward. Banks involve in trade while dealing this transaction. Banks make trading gain while selling and buying foreign currency stocks for their trade as well as banks gain from revaluation the stock whenever the exchange rates are in their favor. Both the trading gain and revaluation gain are exhibited under this head.

4. Non-Operating Income

Income or profit that has no direct relationship with the operation of banking transaction has to be recognized into profit and loss account under this head. These incomes are casual source of income and are not from regular course of business but from other sources where the business entity can be involved legally as prescribed by the directives if related government authority. Nepalese commercial banks are allowed to invest in the share of another entity like other commercial banks, rural development banks, financial institution and other government institutions. The investing bank receives dividend income and other income.

5. Other income

Receipts of all other income not specifically provided under the income heads as above shall be booked under this head e.g. rental income of safe deposit boxes, income from telex, service charge, renewal charges etc.

6. Net loss

The figure represents the excess of total expenses over total income of the bank during the period.

2.9 REVIEW OF THE RELATED STUDIES:

2.9.1 REVIEW OF JOURNALS AND ARTICLES

Bajracharya (2047 B.S.), “Rastriya Banijya Bank: A comparative performance study” published in Rajat Jayanti Smarika, RBB, 2047 states, "Despite the growth of commercial banks is not consistent, low growth of local banks and JVBs. The mobilization of rural savings is better in case of local banks. Credit expansion is decreased in local banks than JVBs. Credit deposit ratio is better in JVBs. Non performing loan is greater in local banks and profitability is greater in JVBs. Local banks are forced to open and continue their branches at rural areas therefore the competition among the local banks and JVBs is not healthy."

Dhungana (2053 B.S.), “Problem encountered by the Nepalese financial system”, NRB Samachar, Annual Publication, 2053 B.S., highlighted the major weakness of the banking sector, mainly of RBB and NBL. According to the writer, the financial sector is dominated by banking sector and which in turn, is dominated by two old government owned banks. These two banks constitute the largest component of total deposit of banking system. These two banks suffer from various problems, which results the unsound health of the banking industry of Nepal. The major weaknesses of these banks are.

- Concentration of loan to limited borrowers
- Large number of branches with limited transaction
- Inefficient staff and absence of manpower development and planning
- Poor supervision and follow up after credit disbursement
- Insufficient records and bookkeeping
- No application of modern banking equipments in bank branches

To improve the productivity and quality of banking sector the authorities have created a new environment given raise to JVBs.

Poudel (2053 B.S.), “Financial statement Analysis: An Approach to Evaluate Bank’s Performance”, NRB Samachar, Annual Publication, 2053 B.S., pointed on the importance of balance sheet and profit & loss account. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Interest received on loans and investments are the major components of income. Fees, commissions, discounts and service charges are other source of income. According to him the principle objective of analyzing financial statements are to identify liquidity, profitability and solvency of the bank. The other factors to be considered in analyzing the financial statements of banks are to assess to the capital adequacy ratio and liquidity position.

Demirgüç-Kunt and Harry Huizinga (1999 A.D.) in the journal, “World Bank Policy Research Working Paper No. 1900.” under the topic “Determinants of Commercial Bank Interest Margins and Profitability: Some International Evidence”, says that differences in interest margins and bank profitability reflect a variety of determinants: bank characteristics, macroeconomic conditions, explicit and implicit bank taxation, deposit insurance regulation, overall financial structure, and underlying legal and institutional indicators. A larger ratio of bank assets to gross domestic product and a lower market concentration ratio lead to lower margins and profits, controlling for differences in bank activity, leverage, and the macroeconomic environment. Foreign banks have higher margins and profits than domestic banks in developing countries, while the opposite holds in industrial countries. Also, there is evidence that the corporate tax burden is fully passed onto bank customers, while higher reserve requirements are not, especially in developing countries.

In the report and recommendation of the president of Asian Development Bank to the board of directors on a “Proposed loan and technical assistance grant to the Nepal for the corporate and financial governance project” published in 2000 A.D. clearly discussed on the financial difficulties of State-Owned Financial Institutions. The report states that all state-owned financial intermediaries face financial difficulties, although the extent of the problems is difficult to assess in the absence of reliable financial information. The poor performance can be attributed to deficiencies in governance, lack of commercial orientation and managerial skills, as well as inadequate policies. Financial record keeping and auditing are not of international standards. Internal monitoring, evaluation, and supervision are weak, as is the system of appraisal and follow-up on loans. The problems are most acute for the two government-controlled commercial banks, RBB and NBL, which dominate the banking system with about 70 percent of total assets. A recent international audit indicates that both banks suffer serious, critical shortfalls in all key areas, and that both are technically insolvent, with negative worth estimated at up to 7 percent of GDP. Although deposits are presumed to be implicitly guaranteed by the Government, a systemic banking or fiscal crisis could emerge if problems remain unaddressed. World Bank assistance in this area has been requested.

An article published in New Business Age, September 2004 A.D. entitled "All Banks in Profit", focused that in general all banks for the fiscal year 2003-2004 A.D. are bullish in their performance. During the year all the banks were in profit but in the previous year two commercial bank, NBL and RBB were in a loss of 202 million and 3246 million respectively. NBL, RBB, Siddhartha Bank, Laxmi Bank, Kumari Bank and Machapuchchre Bank have increased their operating profit in substantial amount. Also the old banks with huge losses in the previous years NBL and RBB have succeeded to improve their performance.

Dhungana (2005 A.D.), "Financial sector reform program (FSRP) in Nepal" RBB Newsletter Vol 6. September 2005, has concluded that Nepalese financial sector is being strengthened under the financial reform program. The expediting of the liberalization and privatization processes within the financial reform programs has succeeded to place the private sector rather than the government in charge of determining who gets credit and at what price. The FSRP has also been able to establish the system of prudential regulation and supervision design to restrain the private actors so that we can reasonably sure that their decisions will also be broadly in the general social interest. Many Acts are being promulgated to obtain and maintain a strong legal environment required for the system. It is also equally and important that the enforcement aspect in all respects plays a vital role, which is continuously improving. Within this reform program the two largest commercial banks NBL and RBB are being restructured, institutional building program are being lunched, greater autonomy and responsibility have been provided to the central bank, entry and exit norms are being prepared, laws are being prepared, laws are being prepared for the banking sector. These all are positive aspects to boost up the system. It has been widely recognized that less government involvement in the financial sector, a strong central bank, a strong banking environment, adequate banking services to the poor, adequate legal frame work and enforcement of law are six basic pillars for the development of the healthy financial architecture. The government has launched this program to eliminate financial problems. Except some aspects, the progress made within the FSRP seems are satisfactory.

Panthi (2005 A.D.), “The importance of human resource management”, RBB Newsletter Vol 6. September 2005, highlights that the human resources management always plays key role in a commercial bank like RBB where the banking services are only made by human skills. If the size of the employees is suitable and skillful, the optimum objectives of the bank will be nearer to achievement. The objectives of the profitability and the liquidity of the bank may be fulfilled if and only if its human resources are perfect in and suitable in quality. So, the selecting process of human resources should go through the straight way of identifying workforce requirement, Recruting-Selecting-Placement-Promotion-Appraising-Training and Retirement.

However, both banks said that they were also tightening their lending and are focusing on meeting the needs of their regular clients first

Shrestha, Prithiviman (2010.AD.) “Liquidity crunch Govt banks new lenders “An article published in eKantipur, July 06 2010 A.D has concluded that the liquidity crisis has the private sector banks especially, and borrowers are thronging government-owned banks as private banks have failed to provide credit.

Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL) are getting a rising number of applications for credit in recent days. The concerned banks' officials said they were facing pressure for additional credit from an increasing number of borrowers who used to deal with other banks. The liquidity situation of the government banks is relatively better compared to private ones although government banks also are facing pressure with no growth in deposits in recent months. Till mid-March, the liquidity-deposit ratio of commercial banks declined to 29.3 percent from 34.2 percent in mid-July 2009, showing the declining liquidity situation of the banks.

The rise of credit-deposit ratio to 90.2 percent during the fist eight months of the current fiscal from 81.2 percent in mid-July 2009 shows the shrinking liquidity situation.

An article published in Kantipur Daily, July 06, 2007 A.D., "Results of FSR are Encouraging: NRB Governor" the governor of Nepal Rastra Bank (NRB) Bijaynath Bhattarai has said that the achievements of financial sector reform programs till now are encouraging. He informed that reforms in Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL) have resulted in profits there. Till the end of 2006, NBL has earned operating profit of Rs 3.84 billion while RBB has earned operating profit of Rs 5.3 billion. Government had invited foreign management to look after these financially bankrupt state-owned banks. They were running in loss before the foreign management took over. Bhattarai said data will help better understand the importance of reforms. On Wednesday, senior political leaders had said the reforms were unsuccessful and said the foreign management should not be renewed. In the four year period, Rs 824.3 million and Rs 480 million have been spent on foreign management group in NBL and RBB, respectively.

An article published in New Business Age, August 2008 A.D., "Banks & Profit", highlights about the increase in reserve and surplus of all the banks with the exception of Nepal SBI, Global and NB Bank. Overall deposits in the banking sector have increased by 25 percent with increase in deposits of all the banks except Lumbini. Government banks such as RBB, NBL and ADB have the highest deposits followed by Nepal Investment Bank Ltd. (NIBL), Himalayan Bank Ltd. (HBL), Nabil Bank and SCBN. NIBL has surpassed the deposit of ADB in the current fiscal year 2007-08. Deposits in Laxmi, Siddhartha, Global and Citizens Banks have substantially increased by 43 percent, 55 percent, 142 percent and 295 percent respectively. There has been an increase in overall interest income because of overall increase in loans and advances. ADB, RBB, NBL, Nabil, NIBL, and HBL have the highest interest income. Among these banks, NBL has lowest loans and advances but have highest interest income. NBL, RBB, and NB Bank have negative capital adequacy ratio (CAR) but it has improved compared to last year in NBL and RBB while it deteriorated in NB Bank. NPL to total loan ratio of all these banks has reduced.

Laxmi, Siddhartha, Everest, Nabil, NIC, and SCBNL have the lowest NPL to total loan ratio while NB Bank, RBB, NCC Bank and Lumbini Bank have the highest ratio.

An article published in eKantipur , July 06 2010 A.D., “Crisis impact delayed here: IMF - International Monetary Fund (IMF) has said Nepal’s economy is experiencing a delayed impact of the global economic crisis.

The IMF’s Article IV report prepared by the IMF mission after its visit to Nepal in March, says, “After years of macroeconomic stability, Nepal’s economy is experiencing a substantial, albeit somewhat delayed, impact of the global crisis, which is exposing the country’s structural weaknesses.”
The IMF said external and financial sector risks have risen in Nepal. “External and financial sector risks have risen as evidenced by the significant deterioration of the current account, the reserve decline, wavering confidence, and banking sector liquidity stress,” states the IMF report.

Welcoming Nepal Rastra Bank’s measures to limit banks’ liquidity risk and exposure to the real estate sector, the IMF suggested not to add more financial institutions in the country. “Bank licensing policy needs to be tightened and financial sector consolidation facilitated,” the report added. The central bank has stopped entertaining applications for commercial bank licences since the past one year. However, it has been facing mounting pressure to open up the process.

With the government not able to appoint the chief executive of Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB), the IMF has asked Nepali authorities to proceed with the restructuring of these two banks. As of now, the central bank appointee is managing the NBL, while the tenure of the RBB chief executive is ending in mid-July. The IMF has also asked the authorities to expand regulatory oversight over savings and credit cooperatives. Around 6,000 savings and credit cooperatives in the country are said to be mobilising Rs 70 billion of deposits. A recent government study on 10 big savings and credit co-operatives revealed that they lacked transparency and were controlled by family members.

2.9.2 REVIEW OF THE PREVIOUS THESIS

Luintel, Nabin Kisor (2003 A.D.), conducted a study entitled "A Study on Financial Performance of Nepal Bank Limited", an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objectives of the study are:

- To measure the comparative financial strengths and weakness and to analyze the banks performance under priority sectors of government.
- To analyze income and expenditure areas
- To evaluate whether the bank is efficient to face the challenges and assist the government in the points outlined in the statement of the problems of this study.

The study pointed out the following findings in this study:

The bank seemed to be unable to utilize its high cost resources in high yielding investment portfolio. Due to the bank's failed in collecting earned interest and matured loan, it has suffered continues loss. Liquidity position of the bank is also not satisfactory during this study period. This study also found that bank has not followed any policy regarding long-term debts, total debts and total deposit ratios. This study concluded that the financial position of the NBL is worse during the study period due to its failure to utilize its inefficiency in risk management. The overall financial position of the bank is unsatisfactory during the study periods.

The study recommended that:

- Financial statements of the bank should be published regularly.
- While making any type of investment especially advancing of loan, proposal of loan should be seriously studied and the most important

factor is, securities against which loan is going to provided should be valued fairly and properly.

- The bank should place independent, professional bankers and board and in key management position.

Roy, Dilip (2003 A.D.), conducted the study entitled, “An Investment Analysis of Rastirya Banijya Bank in comparison with Nepal Bank Ltd.” , an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

The basic objectives of this study are:

- To evaluate investments of Rastriya Banijya Bank and compare it with investments of NBL and industrial average.
- To evaluate liquidity, activity and profitability ratios of RBB in comparison with NBL and industry average.
- To examine the loan loss provision of RBB and NBL.

The study concludes that:

- RBB has good deposit collection, enough loan and advance and small investment in government securities.
- RBB has comparatively better position regarding issues of loan and advance but it does not have good position regarding investment in securities of other company, off-balance sheet operation. Loan loss ratio states low quality of loan and advance.
- RBB needs to take initiative steps immediately in managing its assets for its existence in this competitive market.
- Though interest earning out of operating income of RBB is highest, the difference between interest earned to total working fund ratio and interest paid to total working fund ratio and interest paid to total working fund ratio of RBB is least. Thus profitability position of RBB is worst.

- RBB's fund collection and mobilization is satisfactory in comparison with other. RBB has poor loan and advance issued. Also RBB has high loan-loss provision and operating cost.
- RBB and NBL do not have significant relationship between outside assets and net profit, meanwhile industry has significant relationship between outside assets and net profit.

The study recommended that:

- RBB should enhance its investment in securities.
- RBB should seek true entrepreneurs and sectors to invest its limited funds of valuable depositors.
- RBB should enhance its off-balance sheet operation, remittance and other fee-based activities to increase its earnings.
- RBB should seek true entrepreneurs and sectors to invest its limited funds of valuable depositors.

Rayamajhi, Sachin Jung (2004 A.D.), conducted the study "Profitability of NB Bank with comparison to other JV Banks", an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objectives of the study are:

- To find out the profitability position of the JV banks and to disseminate quality information.
- To analyze the profit trend of JV Banks.
- To investigate the profit trend of NB Bank.
- To ascertain the comparative position of profitability of NB Bank with respect to other JV Banks.

The study recommends that:

- NB Bank Ltd. has always been at the top in cost of deposits. The high cost of deposits not only incurs additional interest expenses but have other indirect effects. The banks in order to make a return have to set interest rate on loan and advances at a higher level than the market. So, the risk of potential NPA's at a future is high.
- Interest payout ratio of NB bank is at 65%, the highest of the lot. In layman's terms it means that for interest income of Rs. 100, the interest expense is Rs.65, thus the contribution of profit is only Rs.35 while that of industry is Rs.50. So, the bank should look to maximize this ratio preferably by obtaining low cost funds.
- Credit deposit ratio of the bank stands at 85% in the year 2058/59. Although this is good from the profitability aspect, there could be potential problems of liquidity. So, the bank should look at lower this ratio either by increasing deposits or lowering credits.
- The net profits of NB Bank had registered significant growth in the early years posting increases upto 85%. However, EBL has followed slow and steady growth patterns, which seems to have paid off. So, rather than looking to achieve rapid growth it would be feasible to look to achieve and sustain steady rates of growth, thereby minimizing the risk of volatile environment.
- The correlation coefficient of profit of NB Bank and the average is mere 0.40. Although it means that both move in the same direction, the degree of coordination is not that high. So, if the industry performs really well, NB Bank too will be able to perform well but only to a limited extent. Thus, it is advisable to look for ways to increase the correlation with the industry so as to protect itself from industry risks.
- The risk inherent in the loans and advances is high. So, the complete dependence on the interest income is not an appropriate strategy. The contribution of interest income to total income in year 2058/59 is 76.35% while the rest contribute only one forth. So, the bank should look to increase the fee-based income as it provides safe and good returns.

Shrestha, Prem Krishna (2004 A.D.), completed the study “Profitability Analysis of Standard Chartered Bank Nepal Ltd. and NABIL Bank Ltd.” , an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objectives of the study are:

- To evaluate the soundness of profitability and operating efficiency of SCBNL and NABIL Bank Ltd.
- To compare and analyze fund base interest income with fee based income of SCBNL in comparison to NABIL Bank Ltd.
- To compare the cost of deposits of the two banks in regards with the profitability.

The study recommends that:

- The NABIL Bank has not adopted any cost management strategy to have control over its cost of funding. NABIL has paid very higher interest to deposits and other working funds than SCBNL. The cost management strategy would be ideal to reduce the various costs and increase the profitability.
- The bank should follow the strict investment policy to avoid the non-performing assets. It should increase investment in the government securities to trade off and stabilize the quality investment in commercial LDO.
- The fee-based activities of bank are found to be very profitable and important now a day in banking business. These are commission, discounts and fees. They yield higher return to a bank. NABIL Bank is not in the better position regarding the proportion of fee-based activities to loan and advances. It is recommended to enhance the off-balance operation, as it is very profitable and immediately realizable.
- The earning per share and dividend per share attracts the investors. The bank is also not generating sufficient return from the equity. So, higher

cash dividend strategy should be adopted for the better growth of shareholders' worth, NABIL Bank should increase its cash dividend.

- An emphasis should be given on planning, research and development for the proper planning and controlling purpose. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

Shrestha, Noora (2005 A.D.), completed the study entitled "A Comparative Study of the Financial Performance of Nepal Bank Ltd. and Rastriya Banijya Bank" , an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objectives of the study are:

- To analyze and to evaluate the financial performance of NBL and RBB.
- To examine the current financial problems in NBL and RBB.
- To analyze financial performance indicators.
- To evaluate the financial performance of each bank.
- To analyze the comparative financial position of these two banks.
- To highlight reform program in NBL and RBB.

The study concludes that the largest commercial bank in Nepal, RBB and NBL, have potentially important role to play in the economy to enhance the healthy competition. The political intervention, weak management, poor financial information system and ever-growing bad loans have tremendously impacted on financial health of these banks in the past. Recent auditing work revels a high negative net worth, weak internal control and information system and poor internal financial management. Thus it is advised to employ technical support to assist in developing a strategic plan for the implementation, such as, downsizing privatization, splitting merger, acquisition, etc. In same way, technical support has been expected to implement any strengthening work identified by the reform proposal. The present ownership structure of NBL and RBB will be gradually change by their privatization and entry of new reputed, fit and proper private sector banks and financial institutions.

The study recommended that:

- The major problem is seen in loan recovery department of both the banks, due to which the banks are facing loss in the study period. Thus the department should introduce new methods of recovery of loans than those of routine methods. On the contrary, the departments that provide loans should also be careful and must do enough feasibility study before providing loans.

- Both the banks have high level of negative net worth. So a capital plan needs to be worked out and the shareholders of these banks need to inject the capital to the level required by the regulatory authority.
- The influence of government and political situation in banking sector affects the overall activities of the banks. So government must be aware of this fact and policy must be development to improve the current situation of NBL and RBB.
- Since the RBB is not maintaining the adequate liquidity position, the bank is suggested to increase its current assets.
- It is suggested to RBB to improve the efficiency in utilizing the deposits in loan and advances for generating the profits.
- Profitability position f NBL is comparatively better than the same of RBB. So RBB is recommended to utilize its resources more efficiently for generating more profit margins.
- The bank should introduce major programs that the customers demand these days such as consumer banking, home loans, study loan, vehicle loans, credit card facilities, online banking, ATM cards, etc. These facilities are provided by the foreign and joint venture banks, which make RBB and NBL to lag behind.
- The staff of the banks must be empowered by providing training and knowledge about the bank so that customer will go better services.
- Both the banks need to capture all the functional areas of the bank in restructuring process.

- The banks should not distribute the bonus, unless and until the bank eliminates its negative capital from the balance sheet. It is not prudent to distribute profits after capitalizing the losses.

Saud, Gokul Bahadur (2006 A.D.), undertook a study entitled “Study of Financial Performance of Selected Commercial Banks in Nepal (HBL, NB and EBL)”, an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objectives of the study are:

- To analyze financial performance through the use of appropriate financial tools.
- To evaluate the trends and growth of loan, investment and total deposit patterns of these banks.
- Based on your proper analysis and diagnosis is recommend suggestion for the improvement of the financial performance of these three banks.
- To highlight the financial performance of NB, HBL and EBL.

The study concludes that:

- Due to lower liquidity position and highly leveraged capital structure, lower liquidity position is profitable as well as more risky.
- In case of earning capacity and utilization of profit:
    - HBL has performed better in terms of absolute net profit during the study period.
    - All of these three sample banks are bale to earn above 1% return on total assets and to mobilize deposit properly.
- In case of dividend, all sample banks are not able to pay regular dividend to its stockholders. However they are maintaining its EPS above its par value.
- Regarding earning per share all of the sample banks are not able to retain its EPS on its previous level. The researcher concludes that during the

study period trend line shows the decreasing pattern of net income after tax.

- The management can increase the owner’s capital base to increase the return and value of the firm.

Maharjan, Sunil (2006 A.D.), completed the study entitled “A Comparative Study of Financial performance of Commercial Banks with reference to HBL, NIBL and EBL” , an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objectives of the study are:

- To analyze the financial performance of sample banks in terms of liquidity, profitability, growth, leverage and capital adequacy.
- To analyze the trend of total deposit, loans and advances, total investment, net profit of the selected banks.
- To identify relationship between net profit with respect to deposit, loan and advances and investment.

The study concludes that:

From the finding and analysis it is clear that all the banks are not strong in all fields. Some of them are stronger in profit making but failed to maintain the consistency, some are weaker in mobilizing their deposits; few of them have concentrated into very limited diversified investment etc. Today is the age of competition and banks should survive within these competition. Therefore, for attraction of the deposit, they should brought different attractive programs, facilities, technologies. The success rate of banking mainly depends upon the banking awareness by the general public. Regular conducted awareness programs in terms of seminars or workshops from well experienced personnel such as top level executives and concerned regulating authorities should be done. On the basis of this feed back, regular changes or implementation of new rules and regulations can be easily carried out.

The study recommends that:

- Among the sample banks, NIBL is less successful in mobilizing its deposit by investing in different productive sectors. Investment is the key to earn a profit. Therefore, they should invest in different productive sectors by utilizing the different types of deposit. Since there consistency level is very high they should maintain stability in total investment.
- The overall investment of the bank should be concentrated on productive sector such as business and industrial loan rather than consumer product such as hire purchase and housing loan. Because industrial and business sector will create the employment opportunity which is necessary for capital formation and economic growth.
- NIBL also should increase it’s investment toward government securities. And decrease a variation of investment on government securities. Even though government securities have low interest rate, they are risk free assets because government securities have marketability and can sell any time when needed.
- EBL is not successful as NIBL and HBL to earn a net profit by utilizing its assets and deposits. So, EBL should invest its deposits and utilize its assets in different productive and profitable sectors on the basis of portfolio management. Even though NIBL has higher net profit with respect to total assets and deposit, they are failed to maintain stability. Therefore they should decrease a variation level.
- NIBL should maintain stability in earning a interest since they have greater variation in earning a interest. Since HBL have low interest earning among the sample banks they should increase a interest earning because it will directly effect to the net profit.
- EBL also paid a higher interest among sample bank which means that they used more creditors’ funds or paid higher interest rate in investment. So, they need to use equity fund rather than debt or should pay a less interest rate. NIBL and HBL should maintain stability in paying the interest because their variation in interest rate is high.

- The growth rate of net profit of HBL is very low in compare to other sample banks. Due to their low profit margin, they have negative growth rate in EPS and DPS which will bring negative impact to different stakeholder. Since profit is a key of success of business they should increase a net profit by launching different new product or investing in profitable sectors. NIBL also has a negative rate in DPS even though they have satisfactory growth rate of net profit. This may occur due to highest retain of profit for future prospect. NIBL should increase a DPS to bring a positive impact toward shareholder because they are the investor of bank.

Khadgi, Rajya Laxmi (2006 A.D.), conducted the study on “Investment Policy Analysis of NABIL Bank Ltd.”, an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objectives of the study are:

- To study the resource mobilization and investment policy of NABIL Bank.
- To find out the relationship between deposit and investment trends of the bank.
- To evaluate profitability, risk, liquidity and assets management of the bank.
- To find out the current and future investing strategy of NABIL Bank.
- To provide suggestions to improve investment policy and performance of NABIL Bank based on the findings of the study.

The study concluded that:

- The current ratio of the bank over five years is 0.90 times on an average during the study period. Although the current ratio 2:1 is considered as standard, acceptability of the value depends upon the industry. For the banks, a current ratio of 1:1 or above would be considered acceptable.

Therefore the liquidity position of NABIL bank is below the normal level.

- The return on assets ratios has a fluctuating trend with mean ratio of 2.02% on an average. The C.V. of 32.67% shows that the ratio seems inconsistent and variable during the study period.
- The return on loan and advances ratios is in increasing trend with the mean value of 4.34% in an average. The ratio seems to be less variable and consistent.
- The interest earned to total assets ratios is in decreasing with mean of 6.47% in an average. The ratio during the study period seems to be consistent and less variable.
- The interest earned to total outside assets ratio of found to be 8.37% in an average during the study period. The C.V. of 23.17% indicates that the ratios are consistent. The analysis shows that the NABIL Bank has average 8.37% income margin from outside assets. If the margin is higher than cost of fund, the bank will be on profit.
- The interest paid to working fund ratios is in decreasing trend with 2.54% in an average during the study period. The ratio seems to be consistent and less variable.

The study recommends that:

- Current ratio shows the bank's ability to meet the current obligations. Generally 2:1 is considered as the standard current ratio but for the banks and financial institutions, 1:1 is considered as the standard current ratio. The current ratio of NABIL. Bank seems to be less than 1, so it is suggested to increase the bank's current ratio as soon as possible as it could impose bad impact on depositors. Once the depositors' confidence is lost, it hard to bring it back.
- The mean credit deposits ratio of NABIL Bank during the study period is 54.72% which seems to be lesser than the standard ratio. The 70% of CD ratio is considered as standard ratio, so it suggestion than NABIL should increase the CD ratio.

- The mean of loan and advances to working fund ratio is only 46.41% which shows that NABIL Bank is not efficient using its working funs. So it is suggested to lend more in the productive sectors to get income from the working fund.
- The bank has very nominal investment on shares and debentures of other companies. The mean investment is 0.12% during the study period. Banks may invest in shares and securities of any one organized institution not exceeding 10% of the paid up capital of such organized institution. Any amount of investment made in excess of this limit, for the purpose of calculation of the capital fund, shall be deducted from the core capital fund. So NABIL Bank is suggested to invest more amount in shares and debentures of other companies so it can get either dividend from the existing shares and capital gain after selling those shares and debentures in capital market after holding for some time.
- The growth rate of the deposits is very low, so it is suggested to attract depositors through variety of deposit schemes and facilities like cumulative deposit scheme, prize bongs scheme, gift cheques scheme, recurring deposit scheme, monthly interest scheme etc.
- The trend of investment of NABIL Bank is increasing in satisfactory level. NABIL Bank is recommended to keep wide vision in investment while utilizing their resources and invest in different areas.

Sapkota, Shiva Raj (2007 A.D.), completed the study “Profitability Benchmarking of NB Bank”, an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objectives of the study are:

- To examine the profitability situation of the JV bank industry as a whole and sample banks.
- To analyze the profitability trend of NB Bank and the JV bank industry over the last five years.

- To ascertain the comparative position of profitability of NB Bank with respect to other JV Banks.

The study concludes that:

It is identified from the analysis that NB Bank is performing not well below of the industry standard but also has least performance among all players in the JV Bank industry in Nepal. In conclusion, NB Bank's past and present earning generating potential is assessed as low in many parameters of profitability in comparison to the industry as well as other joint venture banks in the country.

The study recommends that:

- A serious effort has to be made towards the NPA management. The assets quality is the most serious issue in the organization and the sincere effort of the management is to be concentrated in the matter if the bank is to sustain and performs well in the forthcoming days.
- The increasing NPA indicates that the bank seems to be lacking in the conduct of detailed and proper credit appraisal and monitoring process. The bank before extending the facilitates needs to make detailed analysis about various aspects like feasibility of the party, creditworthiness of the client, collateral offered and previous performances.
- The risk inherent in the loans and advances is high. So, the complete dependence on the interest income is not an appropriate strategy. The contribution of interest income to total income in year 2062/63 is 78.59% while the rest contribute only 21.4%. So, the bank should look to increase the fee-based income as it provides safe and good returns.
- NB Bank Ltd. has always been at the top in cost of deposits. The high cost of deposits not only incurs additional interest expenses but have other indirect effects. The banks in order to make a return have to set interest rate on loans and advances at a higher level than the market. So, the risk of potential NPAs at a future data is high.

- Interest payout ratio refers the proportion of interest expenses to the interest income. Higher the ratio, lower is the profitability. The interest payout ratio of NB Bank is at 68.34%, the highest of the lot. Therefore the bank should look to minimize this ratio preferably by obtaining low cost funds.
- The credit deposit ratio of the bank stands at 75% in the year 2062/63. Although this is good from the profitability aspect, there could be potential problems of liquidity. So, the bank should look to lower this ratio either by increasing deposits or lowering credits.
- The net profit of the NB Bank had registered significant growth in the early years posting increases up to 8.6% in the first two years. However, in the previous three years, it decreases sharply. All other banks have followed slow and steady growth pattern, which seems to have paid off. So, rather than looking to achieve rapid growth it would be feasible to look to achieve and sustain steady rates of growth, thereby minimizing the risk of volatile environment.

Maharjan, Akhil (2009 A.D), completed the study “Profitability Analysis of commercial Banks (A case study of RB Bank And NB Bank)” , an unpublished master level thesis submitted to Shanker Dev Campus, Faculty of Management, T.U.

The specific objectives of the study are:

- To analyze the profit and loss trend and growth of the bank over the period.
- To evaluate the profitability and operating financial efficiency of Nepal Bank Ltd. and Rastriya Banijya Bank
- To compare and analyze fund based interest income with fee based income of Nepal Bank Ltd. and Rastriya Banijya Bank in light of interest earning assets.

The study concludes that:

- Both the banks showed poor performance. Both the banks have been able to lower their ratio and improve their performance. But the ratio showed that the NBL has high operating ratio than RBB which indicates the poor performance of NBL as the ratio of operating expenses was higher than the operating income.

- RBB and NBL had very low net interest margin. The net interest margin of RBB was higher the net interest margin of NBL

- RBB and NBL had very high interest payout ratio of 102.78% and 72.09 respectively. The main reason was due to high volume of NPAs and high cost deposits.

- The net operating margin of RBB was better than NBL but the ratio of RBB was very inconsistent in comparison to NBL. But the ratio of NBL was very low and needed to be improved.

- Both the banks were in loss in foreign exchange income in the recent year i.e. 2063/64. RBB and NBL had the Foreign Exchange Income to Total Income ratio of 1.72% and 2.80% respectively in the FY 2062/63.

- Interest Expenses to Total Operating Expenses ratio of RBB ranged from 37.64% in the FY 2059/60 to 56.82% in the FY 2060/61. Similarly the ratio of NBL has ranged from 30.72% in the FY 2061/62 to 47.29% in the FY 2059/60. The RBB has higher interest expenses ratio than NBL except for the FY 2059/60, which indicates that RBB has maintained high cost deposit than NBL.

- Both the banks had very high staff expense ratio. The ratio of RBB ranged from 34.44% in the FY 2060/61 to 57.99% in the FY 2059/60. Similarly, the ratio of NBL ranged from 45.97% in the FY 2059/60 to

57.93% in the FY 2060/61. The staff expense ratio of NBL was higher than RBB through out the study period except for the FY 2059/60.

- The FSRP was in operation in both the banks, the operating expenses of both the banks were in increasing each year. The ratio of RBB ranged from 4.37% in the FY 2059/60 to 16.98% in the FY 2063/64. Similarly, the ratio of NBL ranged from 6.74% in the FY 2059/60 to 18.90% in the FY 2062/63.

The study recommends that:

- Both the banks have high level of negative net worth. So a capital plan needs to be worked out and the shareholders of these banks need to employ the capital.

- The operating efficiency ratio of both the banks is very unfavorable during the study period due to the huge amount of operating expenses in compare to the operating income So both the banks need to improve its operating efficiency by reducing the non-interest costs especially, staff costs, wages and overhead costs.

- Both the banks have very high staff expense related to total operating expense due to over staffing. Under the FSRP, the bank have implemented VRS to cut down the number of staff and still both the banks have to rethink to maintain the appropriate level of staff to minimize the staff expenses.

- As the banks are fully or partially owned by the government, there seems some political influence in both the banks. The banks should be free from the political influence.

2.10. RESEARCH GAP

Lots of studies were made to analyze the profitability position of the commercial banks. But the previous researchers made analysis of the profitability position and operating financial efficiency of Rastriya Banijya Bank and Nepal Bank Ltd. Recent data and information of both the banks were used in the study. This research covered the first five fiscal years period of the banks' operation after the implementation of the FSRP and clarifies the progress operating under FSRP.

This study differed itself from the other researchers because it focused on the profitability of Rastriya Banijya Bank and Nepal Bank Ltd. and covered the period of F.Y. 2062/63 B.S. to 2066/67 B.S.. This research therefore will facilitate readers to identify the profitability position and operating financial efficiency of Rastriya Banijya Bank and Nepal Bank Ltd. which will help to evaluate past and present performance of both the banks as well as it will help to project their future prospect also.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

The main objective of the study was to analyze the profitability of the Nepal Bank Ltd. and Rastriya Banijya Bank. Some recent financial tools along with statistical tools were applied to examine the relevant facts and descriptive techniques were adopted in the study. The study was conducted on the basis of the secondary data. It included all the process of collecting, verifying and evaluating of past evidence systematically and objectively to reach the final conclusion. The study was designed as to give a clear picture of the bank's profitability with the help of available data and with some useful suggestions and recommendations.

3.2 SOURCE OF DATA

This study was conducted on the basis of secondary data. The data required for the analysis were directly obtained from the balance sheet and profit and loss account of the concerned bank's annual reports. Likewise newspapers, journals, periodicals, magazines, reports and unpublished thesis were taken as other sources of data during the study.

According to the need and objective, all the secondary data were compiled, processed and tabulate in the time series in order to judge the reliability of data provided by the banks and other sources. Formal and informal talks to the concern head of department of the banks were also conducted to obtain the additional information of the related problem.

3.3 POPULATION AND SAMPLE

There are altogether 26 commercial banks functioning all over Nepal and most of their stocks are traded actively in the stock market. The time limitation and unavailability of the relevant data has made this study of focus on only Nepal Bank

Ltd. and Rastirya Banijya Bank, which are selected from population. The population is as follows.

S.No.	**Names**	**Operation Date (A.D.)**	**Head Office**	**Paid up Capital** *(Rs. In Million)*
1	Nepal Bank Limited	1937/11/15	Kathmandu	380.4
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu	10777.50
4	Nabil Bank Limited	1984/07/16	Kathmandu	14491.00
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu	2407.10
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu	1398.50
7	Himalayan Bank Limited	1993/01/18	Kathmandu	1600.00
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu	874.50
9	Nepal Bangladesh Bank Limited	5/6/1994	Kathmandu	1860.30
10	Everest Bank Limited	1994/10/18	Kathmandu	8305.00
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu	11822.00
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar, Rupendehi	1399.60
13	Lumbini Bank Limited	1998/07/17	Narayangadh, Chitawan	1288.00
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar, Morang	1391.80
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski	1700.00
16	Kumari Bank Limited	2001/04/03	Kathmandu	1304.90
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa	1533.70
18	Siddhartha Bank Limited	2002/12/24	Kathmandu	1230.00
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa	1325.10
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu	1159.10
21	Prime Commercial Bank Ltd	2007/9/24	Kathmandu	1163.80
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu	1419.40
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu	1053.20
24	Development Credit Bank Ltd.	,2008/5/25	Kamaladi, Kathmandu	1655.3
25	NMB Bank Ltd.	,2008/6/5	Babarmahal, Kathmandu	1430.00
26	Kist Bank Ltd.	2003/02/21	Anamnagar, Kathmandu	2000.0

(Source: NRB, List of banks and non-bank financial institution as of Mid-July 2009)

3.4 DATA PROCESSING

After the collection of data from different sources, those data were compiled in one form for systematic presentation. The required facts were selected and analyzed in the form of table and chart. The data were analyzed yearly according to the information gathered.

3.5 METHOD OF DATA PRESENTATION AND ANALYSIS

The data presentation and analysis were focal part of the study. Ranges of financial and statistical tools were used to analyze the collected data and to achieve the objective of the study. The analyses of the data were done according to pattern of data available. Because of limited time and resources, simple analytical statistical tools such as graphs and technique of least square are adopted in this study. In the same way, some strong financial tools, ratio analysis and trend analysis, were used in the study. The data extracted from annual report, financial statement and other available information were processed and tabulated in various tables and charts under different headings according to the nature.

3.6 ANALYSIS OF DATA

In this study, various financial statistical tools were used to achieve the objective to study. The analysis of data was done according to the pattern of data available. The various tools applied in this study, are presented as follows:

3.6.1 FINANCIAL TOOLS

Financial tools were used to examine the financial strength and weakness of bank. Financial statements such as balance sheet and profit and loss account can be analyzed to assess the financial health of the bank. In this study, financial tools like ratio analysis were used

3.6.2 RATIO ANALYSIS

Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Thus, ratio analysis is use to compare the firm's financial performance and status to that of other firm's or to itself over time. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

Even though, there are many ratios used in various studies to evaluate different aspects of a business entity, the ratios are of different importance and used differently in various industry base. For example, it is no significant to analyze the quick ratio or current ratio in the context of commercial banks. Further, in the context of commercial banks the insider and outsider fund base cannot be interpreted as per the standard of production units since financial institution are, by virtue, highly levered by outsider's fund.

Similarly, in the banking industry, there is no significance to say deposits are current liabilities, or some of the studies have considered time deposits as fixed liabilities. Both of the interpretations are not viable since these liabilities should be considered as per their maturity schedules. In this study, various ratios form newly developed empirical studies have been used just to see the profitability position of commercial banks. This study contents following ratios.

3.6.3 Profitability Ratios

Profitability ratios were used to measure the efficiency of operation of a firm in terms of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of bank and vice versa. Profitability keeps up the sound health of the commercial banks. There are different indicators of profitability. Return on assets, return on equity, interest-spread ratio, earning-spread ratio, gross margin, operating profit margin and net profit margin are commonly used profitability indicators. NRB uses return on total assets as an indicator of profitability of a commercial bank. In addition, it uses the absolute measures such as interest income, net interest income, non-interest income, net non-interest income, non-operating income, net non-operating income and net profit, to evaluate the profitability of a commercial bank (NRB 2005). Though different indicators can be used to measure the profitability of banks, the profitability of Nepal Bank Ltd. and Rastriya Banijya Bank is evaluated through following different ratios;

1. Net Profit Margin
2. Return on Total Assets (ROTA)
3. Return on Equity (ROE)
4. Return on Capital Employed (RCE)
5. Operating Efficiency ratio
6. Net Interest Margin
7. Interest Payout Ratio
8. Net Operating Margin

3.6.4 Income Expenses Analysis:

1. Interest Income to Total Income
2. Fee and Commission Income to Total Income
3. Foreign Exchange Income to Total Income
4. Interest Expenses to Total Operating Expenses
5. Staff Expenses to Total Operating Expenses
6. Office Operating Expenses to Total Expenses

3.6.5 Statistical Tools

Trend analysis is one of the statistical tools used for forecasts. Among various methods of trend analysis, a very popular least square method were used in this study to analyze the trend of net profit and interest income of Nepal Bank Ltd. and Rastriya Banijya Bank and make the forecast for the next five years period.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 PROFITABILITY RATIO

The ultimate objective of banks is to earn profit. Strictly speaking, no bank can survive without profit. Profit is an indicator of efficient operation of bank. The bank acquires profit by providing different services to its customers or by making investment of different kinds.

Sufficient profit is a must to have good liquidity, grab investment opportunities, expand banking transactions, finance government in need of development fund, overcome the future contingencies and meet fixed internal obligation for the bank. Profitability ratios measure the efficiency of a bank. The following profitability ratios were used to evaluate the profitability of the selected commercial banks.

1) Net Profit Margin

The ratio signifies the effectiveness of expenses management and cost control and gives the direction to the management for service pricing policies. It means how much of total revenue has been declared as net profit after all the charges are over up. The higher ratio means that the management has been able to control its operational costs and maintain efficiency.

$$\text{Net Profit Margin} = \frac{\text{Net Profit After Tax}}{\text{Total Operating Income}}$$

Note: denominator does not include non-operating income.

Table 4.1

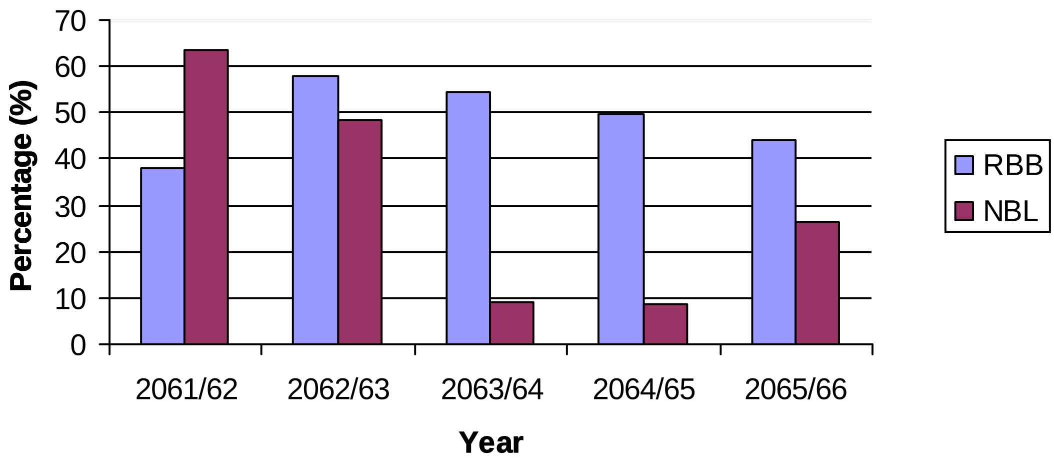
Net Profit Margin (%)

	2061/62	2062/63	2063/64	2064/65	2065/66	Avg
RBB	38.17	57.76	54.3	49.86	43.86	48.79
NBL	63.65	48.51	8.89	8.59	26.5	31.228

(Source: Annexure III)

Chart 4.1

Net Profit Margine



The table exhibits that both the banks' net profit ratios were not in consistency. The ratio of RBB was highest of 57.76% in the FY 2062/63 where as the ratio of NBL was highest of 63.65% in the FY 2061/62. The average net profit of RBB and NBL is 48.79% and 31.23% respectively. There was high difference in net profit margin after the F/Y 2062/63 in NBL. This is due to written back of provision for possible loss in F/Y 2062/63 and high amount of non operating income in F/Y 2061/62 which affect on net profit of that year. The table shows that although the banks were recovering from the heavy loss that occurred before the F/Y 2059/60, the net profit generated by the banks were not consistent. The average net profit margin of RBB is better with comparison to NBL during last five years trend.

2) Return on Total Assets (ROTA)

The ratio is a primary indicator of managerial efficiency. It indicates how efficiently the assets were utilized by the bank. The ratio measures how far the management has utilized all the assets of the bank for profit generating activities. Higher ROTA indicates higher efficiency in the utilization of the total assets and vice versa.

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

Table 4.2

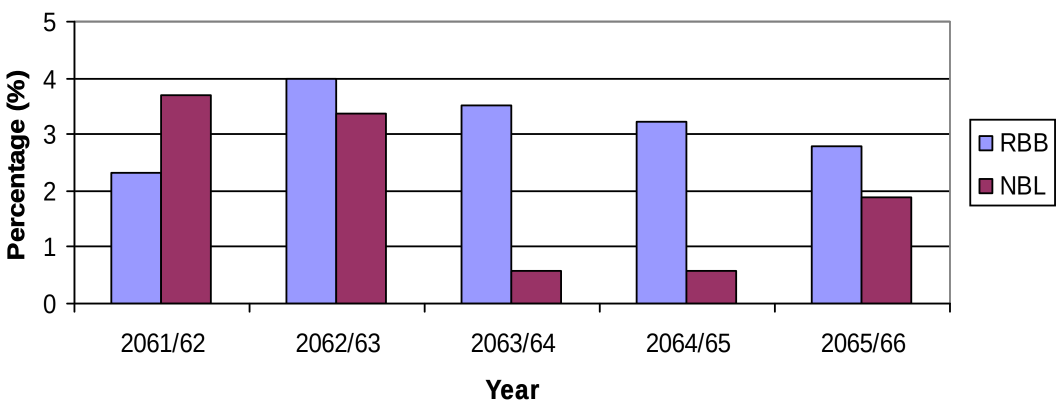
Return on Total Assets (%)

	2061/62	**2062/63**	**2063/64**	**2064/65**	**2065/66**	**Avg**
RBB	2.33	3.99	3.51	3.23	2.8	3.172
NBL	3.68	3.36	0.58	0.57	1.88	2.014

(Source: Annexure IV)

Chart 4.2

Return on Total Assets



The above table exhibits that the ratio of RBB ranged from 2.33% in the FY 2061/62 to 3.99% in the FY 2062/63 with an average of 3.17% whereas the ratio of NBL ranged from 0.57% in the FY 2064/65 to 3.68% in the FY 2061/62.with an average of 2.01% for last fiscal years. This showed that both the banks could gradually recover from the previous years' loss and has been improving its efficiency. RBB is in good condition than NBL but is not good enough in compare to other joint venture banks of

Nepal. There is enough opportunities for the management of both banks to effective utilization of accrued assets.

3) Return on Equity (ROE)

Equity refers to the owners' claim of a bank. The excess amount of total asset over outsiders' liabilities is known as shareholders' equity. It is also known as net worth. This ratio measure how prudently the management has employed shareholders' fund keeping the interest of shareholders and maximize their net worth. It is the measurement of the rate of return available to the bank's shareholders. The ratio provides the company to deliver a good return on equity. This ratio is calculated by dividing net profit by total equity capital.

$$\text{Return on equity} = \frac{\text{Net Profit After Tax}}{\text{Shareholders' Equity}}$$

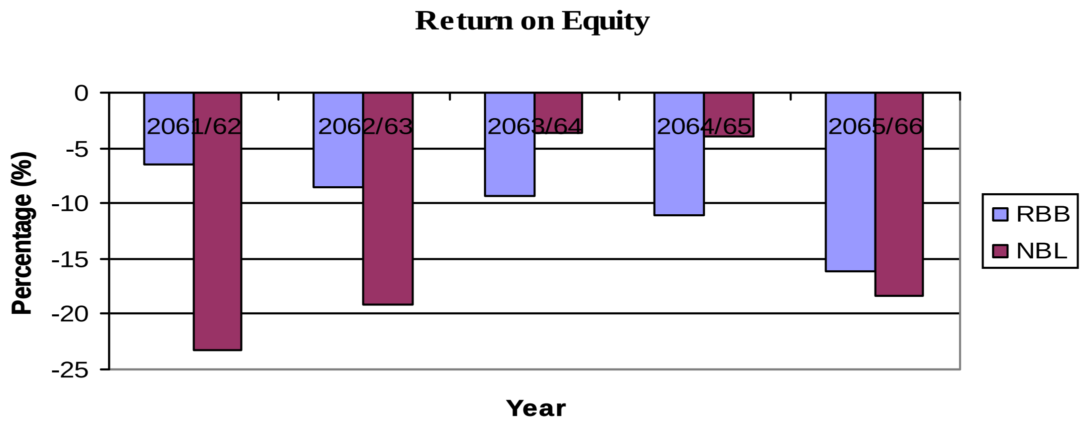
Table 4.3

Return on Equity (%)

	2061/62	2062/63	2063/64	2064/65	2065/66	Avg
RBB	-6.55	-8.5	-9.4	-11.08	-16.08	-10.322
NBL	-23.3	-19.16	-3.63	-3.98	-18.41	-13.696

(Source: Annexure V)

Chart 4.3



The above table exhibits that the ratio of RBB ranged from -6.55% in the FY 2061/62 to -16.08% in the FY 2065/66 with an average of -10.32% whereas the ratio of NBL ranged from -3.63% in the FY 2063/64 to -23.3% in the FY 2061/62 with an average of -13.69% for last five fiscal years. This shows that the returns on equity of both RBB and NBL are negative through out the five fiscal years. The negative ROE is due to the high amount of accumulated losses of previous year transferred by both the banks. RBB seems to be suffering from less loss during the five fiscal years than NBL.

4) Return on Capital Employed (ROCE)

The ratio measures management efficiency on how well the total fund including external funds were used to generate profit. This ratio provides a test of profitability in relation to long term fund. Higher ROCE implies more efficiency in utilizing the capital employed.

The external fund comprises total of borrowings, depositors and other external liabilities:

$$\text{Return on Capital Employed} = \frac{\text{Net Profit After Tax}}{\text{Total External Capital}}$$

Table4. 4

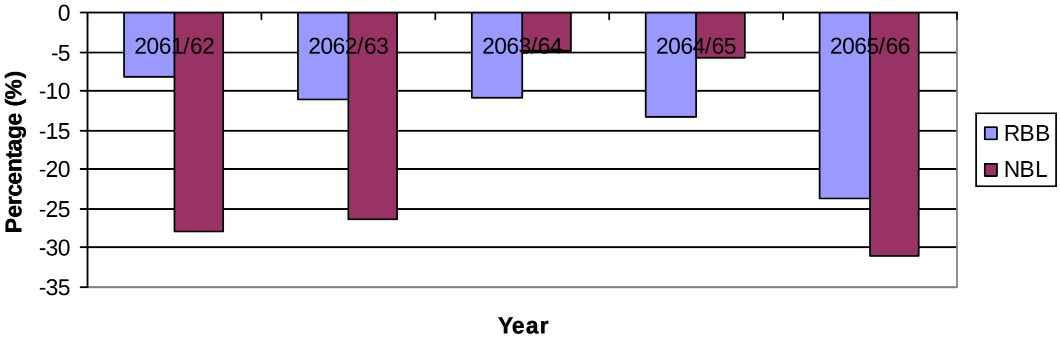
Return on Capital Employed (%)

	2061/62	2062/63	2063/64	2064/65	2065/66	Avg
RBB	-8.27	-11.09	-10.79	-13.23	-23.79	-13.434
NBL	-27.99	-26.33	-4.89	-5.71	-30.99	-19.182

(Source: Annexure VI)

Chart 4.4

Return on Capital Employed



The above table exhibits that the ratio of RBB ranged from -8.27 % in the FY 2061/62 to -23.79 % in the FY 2065/66 with an average of -13.43 % whereas the ratio of NBL ranged from -4.89% in the FY 2063/64 to -30.99 % in the FY 2065/66.with an average of-19.18 % for last five fiscal years. This shows that the return on capital employed of RBB and NBL were negative throughout the five fiscal years. The negative RCE was due to the heavy loss suffered by the bank in the past year. RBB is in good condition than NBL in the context of return on capital employed ratio.

5) Operating Efficiency Ratio

To maximize profitability and the value of the shareholders' investments in the bank, bank management must maintain efficiency in their operations. This usually means reducing their operating expenses and increasing the productivity of their employees. Since banks are to pay huge amount of the interest costs for their funds, they like to reduce non-interest costs especially, staff costs, wages and overhead costs. Lower the ratio means greater the success of management.

$$\text{Operating Efficiency Ratio} = \frac{\text{Total Operating Expenses}}{\text{Total Operating Income}}$$

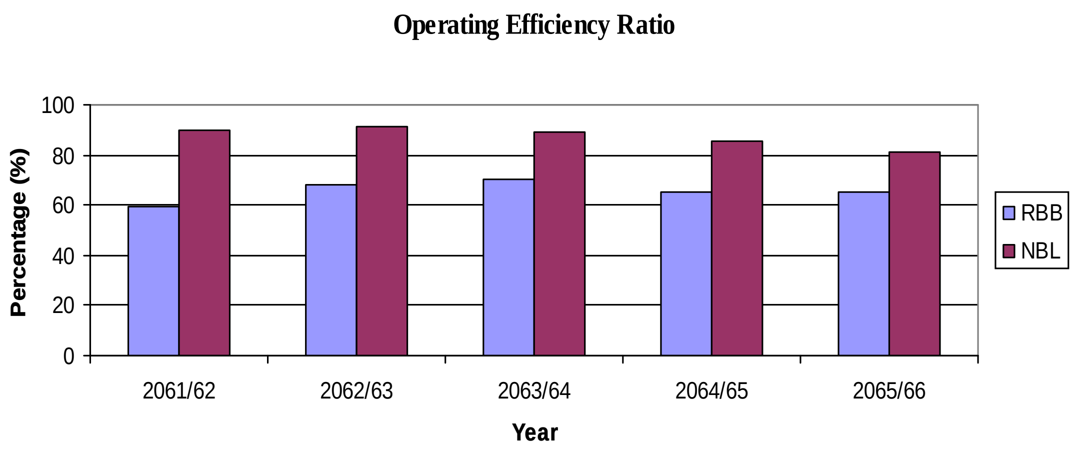
Table 4.5

Operating Efficiency ratio (%)

	2061/62	2062/63	2063/64	2064/65	2065/66	Avg
RBB	59.15	68.36	70.54	65.49	64.96	65.7
NBL	89.59	91.24	89.03	85.58	80.88	87.264

(Source: Annexure VII)

Chart 4.5



The above table show that the ratio of RBB ranged from 59.15% in the FY 2061/62 to 70.54% in the FY 2063/64 with an average of 65.7%. Similarly, the ratio of NBL ranged from 80.88% in the FY 2065/66 to 89.59% in the FY 2061/62 with an average of 87.26. Both the banks operating efficiency ratios were alarming indication of poor performance and management. Both the banks have been able to lower their ratio and improve their performance in recent Years. RBB is in good condition than NBL in the context of operating efficiency ratio.

6) Net Interest Margin

It signifies as a measurement of efficiency and profitability. How well management and staff have been able to keep the growth of revenue from LDO is comparison to the costs attached. The ratio express how large a spread between interest revenues and interest cost management has been able to achieved close control over the bank's earning assets and pursuit of the lower cost of sources, as higher ratio is better in this case.

$$\text{Net Interest Margin} = \frac{\text{Interest Income Z Interest Expenses}}{\text{Total Earning Assets}}$$

Denominator includes LDO, investments; inter banking borrowings, bill purchased, etc.

Table 4.6

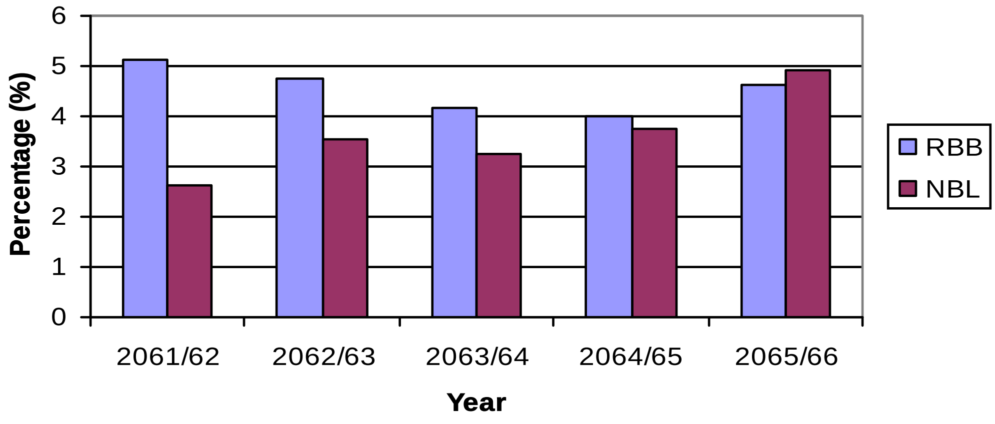
Net Interest Margin (%)

	2061/62	2062/63	2063/64	2064/65	2065/66	Avg
RBB	5.14	4.74	4.17	4.02	4.63	4.54
NBL	2.63	3.55	3.24	3.75	4.91	3.616

(Source: Annexure VIII)

Chart 4.6

Net Interest Margin



The above table exhibits that the ratio of RBB ranged from4.02% in the FY 2064/65 to 5.14% in the FY 2061/62 whereas, the ratio of NBL ranged from 2.63% in the FY 2061/62 to 4.91% in the FY 2065/66. The net interest margin of RBB remained within the average of 4.54 % which is better than net margin of NBL within the average of

3.62% for last five year. NBL has increasing trend where as RBB has decreasing trend. So, even though both the bank, RBB and NBL, have very low net interest margin and the ratio is consistently increasing through out the study period. NBL has better position than RBB in the context of net interest margin ratio.

7) Interest Payout Ratio

The main function of a bank is to collect deposit and advance loans. The bank pays interest on the deposits and charges interest on the loans and advances. It also realizes income from the investments and call deposits. Similarly, the bank has to pay interest on its borrowings. Thus, this ratio provides the proportion of interest payment of the bank as compared to the interest income generated by the bank.

$$\text{Interest Payout Ratio} = \frac{\text{Interest Expense}}{\text{Interest Income}}$$

Where,

Interest expense = Expenses on deposits and borrowings

Interest Income = Income on (loans and advances + investment + money at call + inter bank lending etc.)

Table 4.7

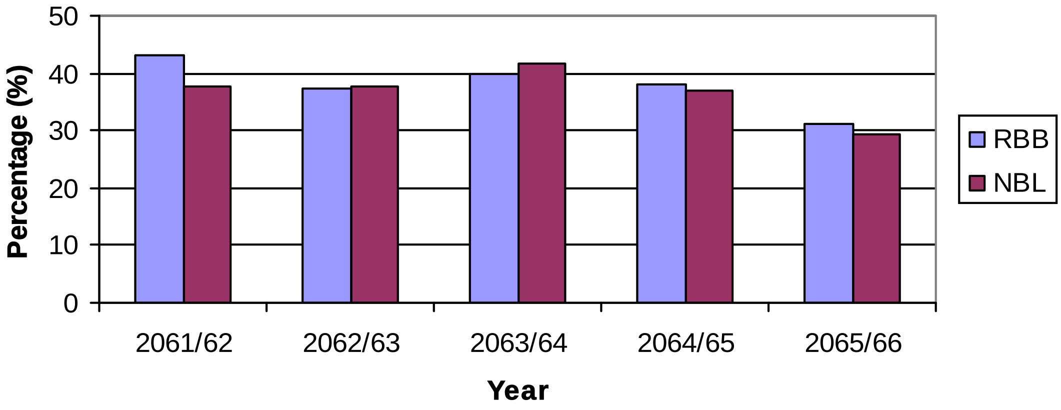
Interest Payout Ratio (%)

	2061/62	2062/63	2063/64	2064/65	2065/66	Avg
RBB	43.15	37.23	40.01	37.89	31.01	37.858
NBL	37.64	37.77	41.81	36.9	29.44	36.712

(Source: Annexure IX)

Chart 4.7

Interest Payout Ratio



The above table exhibits that the ratio of RBB ranged from 31.01% in the FY 2065/66 to 43.15% in the FY 2061/62 whereas, the ratio of NBL ranged from 29.44% in the FY 2065/66 to 41.81% in the FY 2063/64.The interest payout ratio of RBB remained within the average of 37.89% whereas it remained within the average of 36.71% in NBL. Both the bank, RBB and NBL, had very similar payout ratio. Gradually in the recent year both the banks were able to maintain favorable interest payout ratio. In the current FY 2065/66, RBB and NBL had the payout ratio of 31.01% and 29.44% respectively, which was the lowest and most profitable through the study period.

8) Net Operating Margin

This is also a ratio to measure operating efficiency of commercial banks. The net operating margin of commercial banks signifies what portion of operating profit remains after deducting all operating costs. And the net operating margin is expressed with total earning assets to find out what percentage of net operating margin has contributed to total earning assets. Higher the margin, the better is the efficiency of the management.

$$\text{Net Operating Margin} = \frac{\text{Total Operating Revenue} - \text{Total Operating Expenses}}{\text{Total Earning Assets}}$$

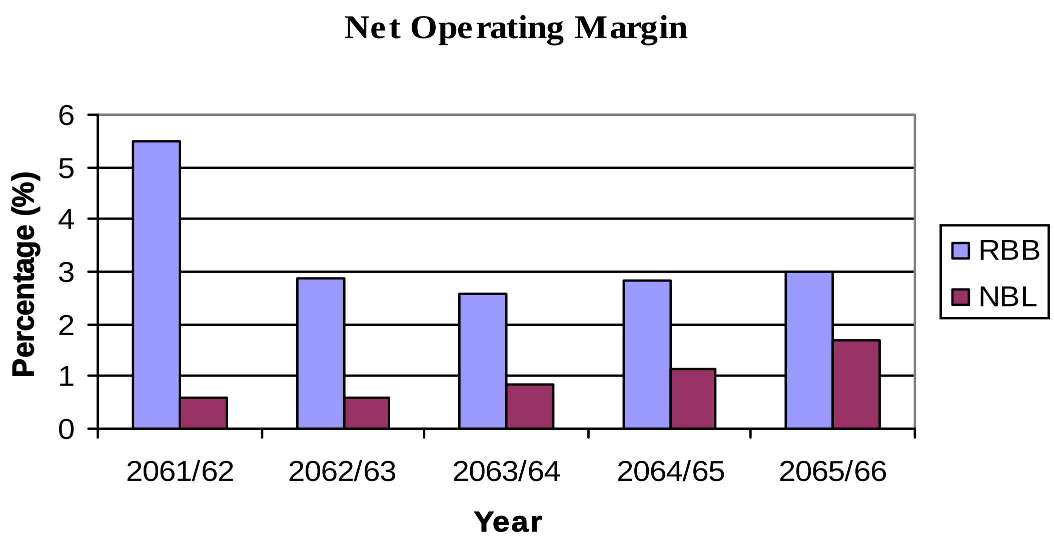
Table 4.8

Net Operating Margin (%)

	2061/62	2062/63	2063/64	2064/65	2065/66	Avg
RBB	5.49	2.87	2.59	2.84	2.99	3.356
NBL	0.6	0.61	0.84	1.14	1.67	0.972

(Source: Annexure X)

Chart 4.8



The above table exhibits that the ratio of RBB ranged from 2.59% in the FY 2063/64 to 5.49% in the FY 2061/62 whereas, the ratio of NBL ranged from 0.60% in the FY 2061/62 to 1.67% in the FY 2065/66.The net operating margin of RBB remained within the average of 3.36% whereas it remained within the average of 0.97% in NBL. Although the bank had suffered from low ratio rate, both the banks were able to gradually improve its ratio. Even though the ratio of RBB was better than NBL, the ratio of RBB is very inconsistent than NBL. But the ratio of NBL was very low and need to improve.

4.2 INCOME EXPENSES ANALYSIS

1) Interest Income to Total Income

Interest income to total income ratio indicates extend to which the bank has successfully mobilize its fund in interest earning asset. Interest earned to total income ratio measure the magnitude of interest income in total income. Generally, banks earn interest through the provision of loans and advances, overdrafts and investments in securities. This ratio can be calculated as follows,

$$\text{Interest Income to Total Income} = \frac{\text{Total Interest Earned}}{\text{Total Income}}$$

Table 4.9

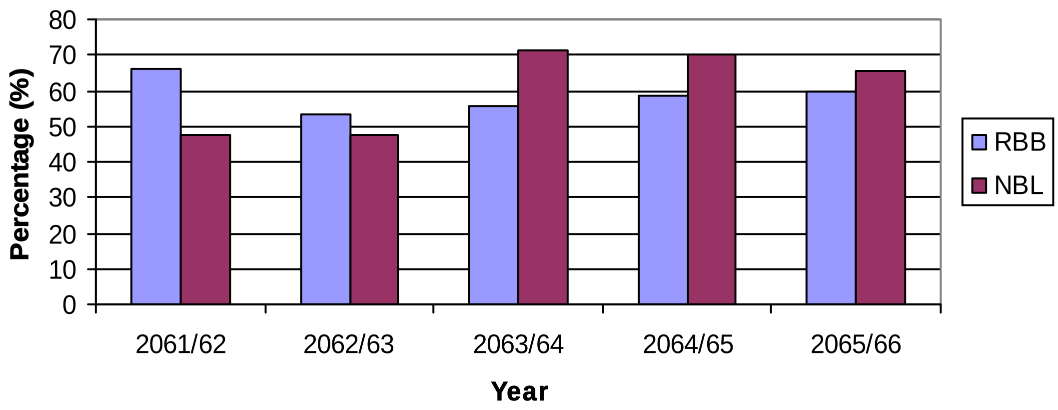
Interest Income to Total Income (%)

	2061/62	2062/63	2063/64	2064/65	2065/66	Avg
RBB	66.35	53.11	55.64	58.79	59.58	58.694
NBL	47.66	47.39	71.03	70.23	65.48	60.358

(Source: Annexure XI)

Chart 4.9

Interest Income to Total Income



The above table exhibits that the ratio of RBB ranged from 53.11% in the FY 2062/63 to 66.35% in the FY 2061/62 whereas, the ratio of NBL ranged from 47.39% in the FY 2062/63 to 71.03% in the FY 2063/64.The average interest income to total income ratio of RBB and NBL are 59.58% and 65.48% in past five year. This showed that both the bank were able to generate fair amount of interest income in its total income. The ratio of RBB had consistently and gradually improving whereas though the average ratio is better in NBL, the ratio is in decreasing trend which is not good for any bank. In spite of greater average, RBB is in better position because of its consistently increasing ratio.

2) Fee and Commission Income to Total Income

The second measure source of income of the Nepalese commercial banks is fee income. Commercial banks now-a-days have moved towards the near banking agency services like under writings, counseling, various service charges, renewal fees and other consultancy functions. They have expose to non-funded fee based services like LC, guarantee, bills/clearing, safe deposit, credit card, ATM, etc. form these services banks earn fees and commission.

$$\text{Fee and Commission Income to Total Income} = \frac{\text{Fees and Commission}}{\text{Total Income}}$$

Table 4.10

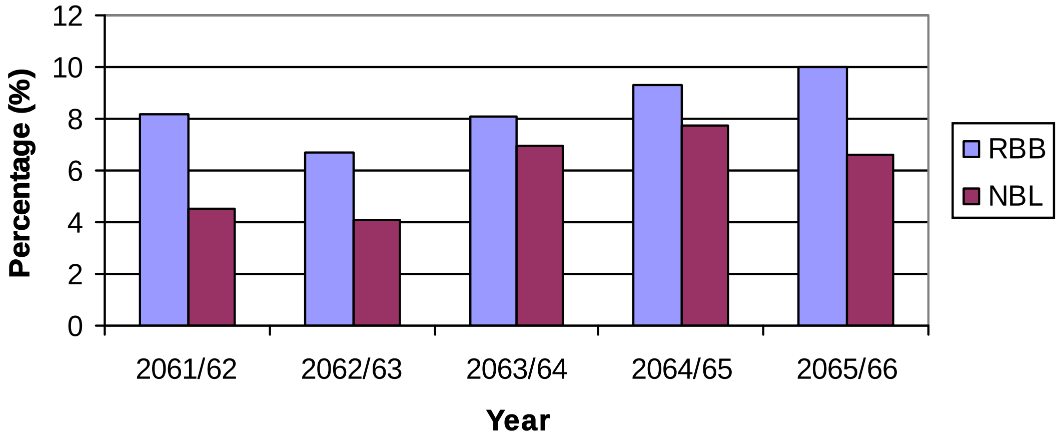
Fee and Commission Income to Total Income (%)

	2061/62	2062/63	2063/64	2064/65	2065/66	Avg
RBB	8.21	6.72	8.12	9.33	10	8.476
NBL	4.51	4.12	6.95	7.71	6.65	5.988

(Source: Annexure XII)

Chart 4.10

Commission Income to Total Income



The above table exhibits that the ratio of RBB ranged from 6.72% in the FY 2062/63 to 10% in the FY 2065/66 whereas, the ratio of NBL ranged from 4.12% in the FY 2062/63 to 7.71% in the FY 2064/65.The average Fee and Commission Income to Total Income ratio of RBB and NBL are 8.48% and 5.99% in past five year. This showed that both the bank were able to generate low income from fee and commission in its total income. The ratio of RBB was better than NBL in each year. The ratio of RBB had consistently and gradually improving except in FY2062/63 whereas ratio of NBL had consistently and gradually improving except in FY2065/66.

3) Foreign Exchange Income to Total Income

Commercial banks facilitate foreign trade through letter of credits, the incoming and outgoing foreign exchanges in remittances, purchase and sales of foreign bills and other activities induce commercial banks to deal with foreign currencies. Such trade on various foreign currencies result gain or loss to the banks. Further, the position or stock of currency is affected by the exchange rate revaluated time to time. In this way, foreign exchange income comprised two types of income: Trading Gain and Revaluation Gain.

$$\text{Foreign Exchange Income to Total Income} = \frac{\text{Total Foreign Exchange Income}}{\text{Total Income}}$$

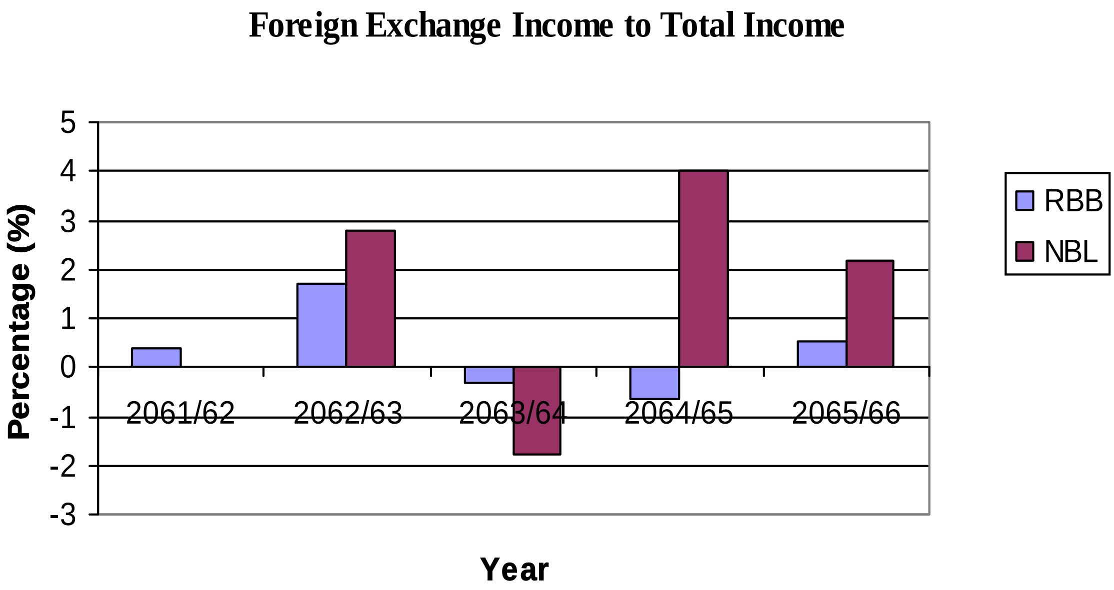
Table 4.11

Foreign Exchange Income to Total Income (%)

	2061/62	2062/63	2063/64	2064/65	2065/66	Avg
RBB	0.4	1.72	-0.31	-0.67	0.55	0.338
NBL	0.02	2.8	-1.77	3.99	2.17	1.442

(Source: Annexure XIII)

Chart 4.11



The above table exhibits that the ratio of RBB ranged from -0.31% in the FY 2063/64 to 1.72% in the FY 2062/63 whereas, the ratio of NBL ranged from -1.77% in the FY 2063/64 to 3.99% in the FY 2064/65.The average Foreign Exchange Income to Total Income ratio of RBB and NBL are 0.39% and 1.44% in past five year. Both the banks, RBB and NBL, had the ratio of 1.72% and 2.80% respectively, which is the highest of the individual bank in FY 2062/63.RBB suffer losses in FY 2063/64 and 2064/65 where as NBL suffer loss in FY 2063/64. NBL seems to be better position than RBB in the context of foreign exchange income.

4) Interest Expenses to Total Operating Expenses

The major expenses head of commercial banks is the interest expenses. Interest expenses occur on various deposits, inter bank borrowers, borrowing from NRB and from other foreign banks. Since deposits are the raw materials inputs for the banks to produce loans, banks management should be able to screen up the various deposits, obtain an economic deposit mix and minimize the cost of deposit so that a higher spread gap remains to contribute in the profitability. In fact, the lower the cost of deposits, the higher the profitability margin and vice versa.

Interest Expenses to Total Operating Expenses

$$= \frac{\text{Interest Expenses}}{\text{Total Operating Expenses before Provision \& Tax}}$$

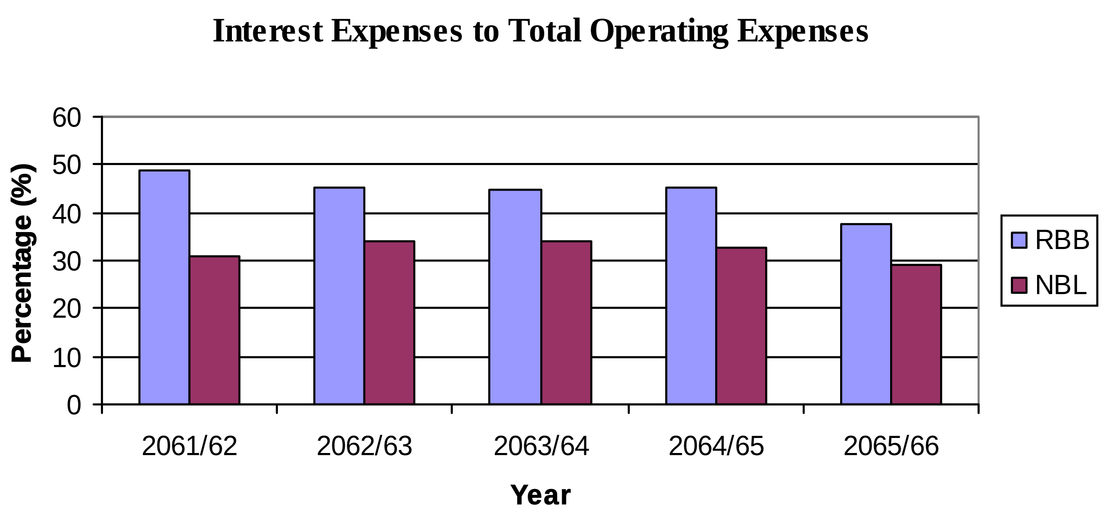
Table 4.12

Interest Expenses to Total Operating Expenses (%)

	2061/62	2062/63	2063/64	2064/65	2065/66	Avg
RBB	49.02	45.12	44.86	45.44	37.47	44.382
NBL	30.72	34.1	34.01	32.48	29.02	32.066

(Source: Annexure XIV)

Chart 4.12



The above table exhibits that the ratio of RBB ranged from 37.47% in the FY 2065/66 to 49.02% in the FY 2061/62 whereas, the ratio of NBL ranged from 29.02% in the FY 2065/66 to 34.10% in the FY 2062/63.The average Interest Expenses to Total Operating Expenses ratio of RBB and NBL are 44.38% and 32.07% respectively in past five year. This showed that both the bank were able to reduce interest expenses with compare to previous year. It is good sign for management of the both banks.

5) Staff Expenses to Total Operating Expenses

One of the major expenses of bank's administration and operation is staff expenses. Staff expenses comprises of salary, allowances, provident fund and other incentives. In average, the staff expenses comprises share in total operating expenses is more than 15% of average Nepalese commercial banks.

Staff Expenses to Total Operating Expenses =

$$\frac{\text{Staff Expenses}}{\text{Total Operating Expenses before Provision \& Tax}}$$

Table 4.13

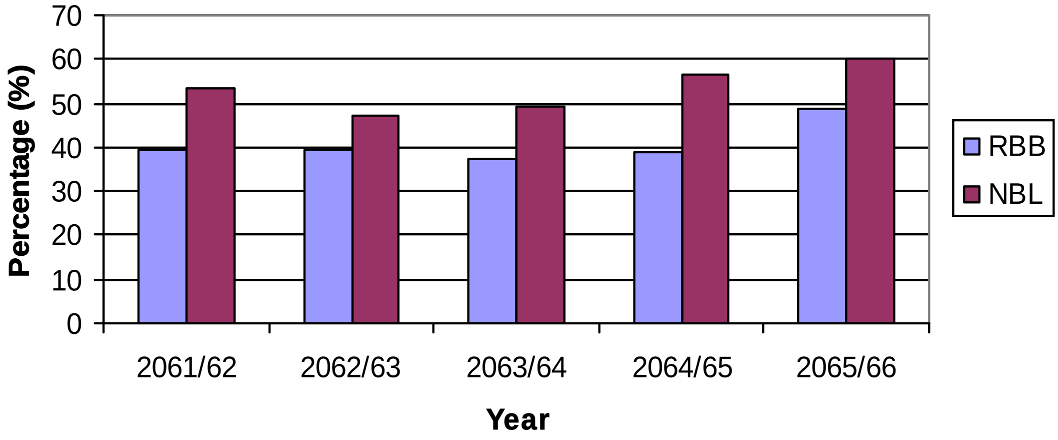
Staff Expenses to Total Operating Expenses (%)

	2061/62	**2062/63**	**2063/64**	**2064/65**	**2065/66**	**Avg**
RBB	39.56	39.54	37.54	38.8	48.74	40.836
NBL	53.59	47	49.49	56.6	60.09	53.354

(Source: Annexure XV)

Chart 4.13

Staff Expenses to Total Operating Expenses



The above table exhibits that the ratio of RBB ranged from 37.54% in the FY 2063/64 to 48.74% in the FY 2065/66 whereas, the ratio of NBL ranged from 47% in the FY 2062/63 to 60.09% in the FY 2065/66.This shows that the average ratio of RBB and NBL are 40.84% and 53.35% respectively. Similarly, the ratio of RBB is more consistent than NBL. So, RBB is in better position than NBL in the context of staff expenses.

6) Office Operating Expenses to Total Expenses

Office operating expenses comprises rents of office building and premises, electricity, water, repair and maintenance of various fixed assets, insurance, stationary, telex, telephone, advertisements, legal expenses, expenses relating to board of directors, expenses relating to board of audit, depreciation, amortization, professional service fee, security expenses, commission and discount and others.

Office Operating Expenses to Total Expense =

$$\frac{\text{Office Operating Expenses}}{\text{Total Operating Profit before Provision \& Tax}}$$

Table 4.14

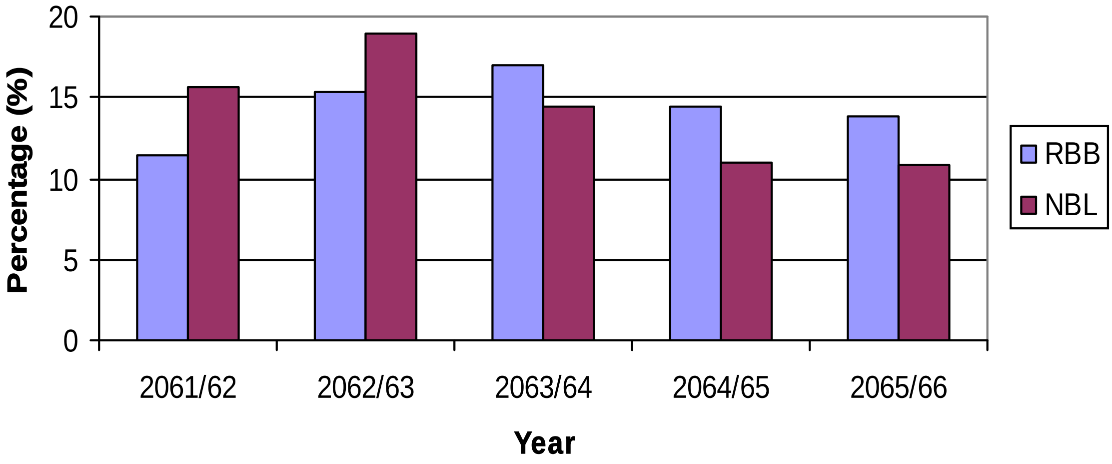
Office Operating Expenses to Total Expenses (%)

	2061/62	2062/63	2063/64	2064/65	2065/66	Avg
RBB	11.41	15.34	16.98	14.39	13.79	14.382
NBL	15.69	18.9	14.47	10.92	10.88	14.172

(Source: Annexure XVI)

Chart 4.14

Office Operating Expenses to Total Expenses



The above table exhibits that the ratio of RBB ranged from 11.41% in the FY 2061/62 to 16.98% in the FY 2063/64 whereas, the ratio of NBL ranged from 10.88% in the FY 2065/66 to 18.9% in the FY 2062/63.This shows that the average ratio of RBB and NBL are 14.38% and 14.17% respectively. The ratio is in decreasing trend for last three years which is good sign for the management of banks. Both banks are similar in the context of operating Expenses.

4.3 STATISTICAL ANALYSIS

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate decision. In this study, the least square linear trend was used to achieve the objective of the study. This topic analyzes the trend of net profit of RBB and NBL from the FY 2062/63to 2066/67 and makes the forecast for the next five fiscal years till 2071/72.

4.3.1 Trend Analysis of Net Profit and Projection for next 5 years

The profit is the universal measurement tool of performance evaluation of profit earning institution. Likewise, it also serves as an important yardstick to measure the performance of the banks. Profit is important to various parties like management, employees and the government. The employees may use it to validate their claim for better recommendations and the government to receive taxes.

The trend analyses of net profit of RBB and NBL were done. The forecast was made for the next five fiscal years. The forecast was based on the following assumptions:

1. The main assumption is that other things remain constant.
2. The forecast will be only when the limitations of least square method are carried out.
3. The bank will run in the existing working pattern.
4. The economy will have a similar scenario.
5. Nepal Rastra Bank will not change its guidelines to the commercial banks.

The following table shows the trend values of net profit of RBB and NBL for 10 fiscal years from 2062/63 to 2071/72.

Table 4.15

Trend Value of Net Profit of RBB and NBL

(Rs. in million)

Year	Trend Value of RBB	Trend Value of NBL
2062/63	1323	1730
2063/64	1592	1207
2064/65	1618	227
2065/66	1719	239
2066/67	1924	894
2067/68	2033.9	67.4
2068/69	2166.8	-196.6
2069/70	2299.7	-460.6
2070/71	2432.6	-724.6
2071/72	2565.5	-988.6

(Source: Annexure XVII and XVIII)

The above table presents highly fluctuating profit trend of NBL during the study period. The profit of the 1st two year is very high comparing to the last three year because in F/Y 2061/62, there was huge amount (1451 Million) of non operating income and in F/Y 2062/63, there was written back of provision of loss of Rs 1813 million which will affect profit of the bank. Due to this exceptional case the output generated for the forecasting of the profit trend of the future five years period seems unrealistic as the bank is performing consistently well and its profit is also in increasing trend in last three years period. So, the forecasting of the profit trend for the future fives years period has been done considering only the last three years period's profit trend which would probably give the insight in the profit trend of the NBL.

Table 4.16

Trend Value of Net Profit of RBB and NBL

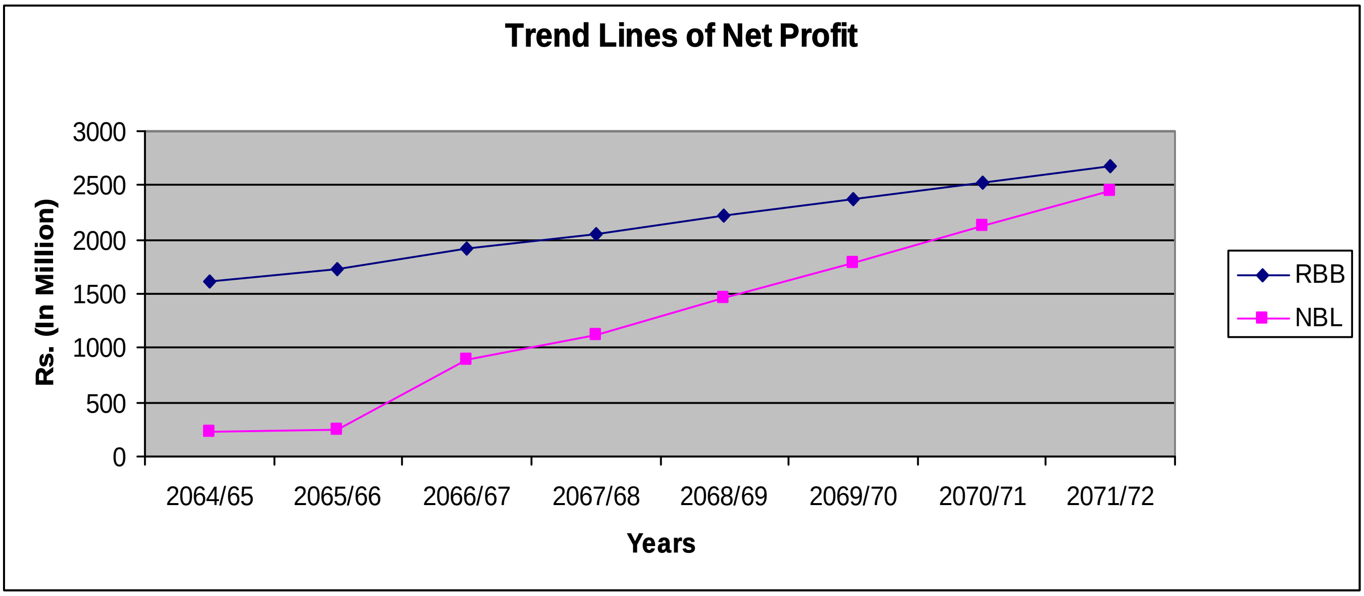
(Rs. in million)

Year	Trend Value of RBB	Trend Value of NBL
2064/65	1618	227
2065/66	1719	239
2066/67	1924	894
2067/68	2059.66	1120.34
2068/69	2212.66	1453.84
2069/70	2365.66	1787.34
2070/71	2518.66	2120.84
2071/72	2671.66	2454.34

(Source: Annexure XIX and XX)

The above table shows that the net profit of both the banks namely NBL and RBB is in increasing trend for the forecasted period in which trend value of net profit of RBB slightly better than NBL. The calculated trend values of net profit of both the banks are diagrammatically presented in the trend line below.

Chart 4.16



4.4 FINDINGS

The net profit margins of both the banks were not consistent since the banks have been recovering from the past heavy loss. The average net profit margin of RBB (48.47%) is higher than NBL (31.23%) during the study period. Similarly, the ROTA of both the bank was low. ROTA is in decreasing trend in both banks but the last year's ratio of NBL is increasing. Comparatively, RBB is in better position than NBL.

ROE and ROCE of both RBB and NBL were negative through out the five fiscal years. The negative ROE and ROCT was due to the high amount of negative reserve maintained by both the banks and also due to the heavy loss suffered by the bank in the past years which the bank has been still recovering.

Both the banks were having poor performance. But in recent past few fiscal years, both the banks have been able to improve their performance. The average operating efficiency ratio of RBB is 65.7%where as operating efficiency ratio of NBL is 87.26%. The ratio showed that the NBL has high operating ratio than RBB indicating the poor performance of NBL as the ratio of operating expenses was higher than the operating income.

RBB and NBL had very low net interest margin. The average net interest margin of RBB is 4.54% where as net interest margin of NBL is 3.62%. The net interest margin of both bank are not in satisfied level though RBB has higher net interest margin than NBL.

RBB and NBL had similar interest payout ratio on an average of around 37% which is at quite satisfied level for management. Gradually in the recent fiscal years both the banks have been able to maintain favorable interest payout ratio.

The net operating margin of RBB was better than NBL but the ratio of RBB was very inconsistent in comparison to NBL. The average net operating margin of RBB is 3.35% where as net operating margin of NBL is 0.97%. But the ratio of NBL was very low and needed to be improved as both banks have been able to improve its ratio in recent fiscal years.

The average interest income to total income ratio of RBB and NBL are at around 60%. This showed that both the banks were able to generate fair amount of interest income on its total income. The ratio of RBB has gradually improved from the FY 2062/63 where as the ratio of NBL inconsistent and declining in recent fiscal years which must be improved. NBL has high ratio at around 70% in the FY 2063/64 and 2064/65.

The average Fee and Commission Income to Total Income ratio of RBB and NBL are 8.48% and 5.99% respectively. The ratio of RBB has been better than NBL and both the banks have increasing trend.

Both the banks were very low in foreign exchange income in the recent fiscal year. The average Foreign Exchange Income to Total Income ratio of RBB and NBL are 0.33% and 1.44% respectively.

Interest Expenses to Total Operating Expenses ratio of both the banks are declining. The average interest expenses to total operating Expenses of RBB and NBL are 44.38% and 32.07% respectively. Similarly RBB has higher interest expenses ratio than NBL which indicates that RBB has maintained high cash deposit than NBL.

Both the banks had very high staff expense ratio. The average staff expense ratio of RBB and NBL are 40.84% and 53.35% respectively. The staff expense ratio of NBL was higher than RBB through out the study period.

The FSRP was in operation in both the banks, the operating expenses of both the banks were in decreasing each fiscal year except in the FY 2061/62. The average ratio of both the banks is around 14.30% making no significant difference.

CHAPTER – V
SUMMARY, CONCLUSION AND REOCMMENDATION

5.1 SUMMARY

The economic development of every country is always measured by its economic indicators. Therefore, every country has given emphasis on the development of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country.

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

Banks today are under great pressure to meet the objectives of their stockholders, employees, depositors, and borrowing customers, while somehow keeping government regulators satisfied that the bank's policies, loans, and investments are sound. The majority of the needs of the stakeholders are related with the profitability of the banks. Thus, the foremost objective of the banks is the profit maximization. As other types of business entity, commercial banks are also inspired by the profit. In this age of great competition, only the profitable banks can sustain for a long time. Financial policies of any concern are directly or indirectly influenced by its profitability. Thus, it is a base for a bank's survival, growth and expansion. So, this Research studies about the profitability analysis of commercial banks in Nepal with reference to selective banks namely RBB and NBL.

Profitability analysis is one of the key tools for financial decision and assist in making plan before using sophisticated forecasting and budgeting procedure. The value of this approach is the quantitative relation, which can be used to diagnose strengths and weakness in a bank performance. Such analysis is considerable things for the bank's common stock holders, investors, bondholders and others. In this context, the profitability of NBL and RBB has been analyzed as these are the oldest and only government owned commercial bank among 26 commercial banks in Nepal at the present operating. NBL is 40% government owned and RBB is 100% government owned.

Profitability analysis of NBL and RBB were done on the basis of their financial statements from the F.Y. 2061/62 B.S. to 2065/66 B.S. Various financial ratios, income and expenditure analysis, trend analysis were used to accomplish the objectives. This study is mainly based on the secondary data. Those data were first processed and analyzed comparatively. This study is exploratory as well as analytical one.

Due to the inefficient management and the poor performance of those two banks, NRB regulated the Financial Sector Reform Program (FSRP). The Financial Sector Reform Program (FSRP) is in operation in order to make the financial system healthier and efficient. It was launched to improve the financial position along with steer the managerial reform of the two state-owned commercial banks, namely, RBB and NBL and to strengthen the capacity of NRB as a central bank to ensure financial stability along with the expansion of the system. There are mainly three components of FSRP implemented under the loan and grant assistance of the World Bank and Department for International Development (DFID) of the British government as well as the GON. The reform program includes: (a) reengineering of NRB, (b) restructuring of NBL and RBB, and (c) capacity building of the overall financial sector.

Under the financial sector reform program, the management of the NBL has been taken over by the NRB under sub-article 1 (O) of article 86 (C) of the NRB Act, 2002 and the tenure of control has been extended to mid-March 2009. The tenure of the contract with the foreign consulting firm, ICC Consulting, Bank of Scotland (Ireland) Ltd., terminated on 21 July 2007. The NRB has constituted a three-member committee on July 27, 2007 to run the management of the bank until an alternative management team is put in place. At present, the management of NBL is being run by one of the members of the same committee. The efforts to recruit new chief executive officer of NBL through open competition failed for three times. Therefore, the selection procedure, in line with the provision of Procurement Guidelines of the WB, has already been commenced to continue the restructuring process of the bank. Likewise, the tenure of the consultants of management committee of RBBL has been extended several times from initial contract on January 16, 2003 to January 15, 2010. The management team comprising of Chief Executive Officer and Chief Information Technology Officer of the bank has been continuing in the restructuring process.

Nepal Bank Limited, suffered from a huge annual loss since 1999 A.D. The accumulated loss was Rs.250 million till the FY 2002/03 A.D. In the previous five years, NBL succeeded to earn profit of Rs.1.73 billion, Rs.1.207 billion, Rs.227 million Rs.239 million Rs.894 million Where as Rastriya Banijya Bank earned profit of Rs.1.323 billion, Rs.1.592 billion, Rs.1.618 billion, Rs.1.719 billion and Rs.1.924 billion in the FY 2004/05 to FY 2008/09 respectively.

Both the NBL and RBB have reduced the negative capital funds under the restructuring program. However, it is far beyond reaching the benchmark capital adequacy. Even though the non-performing loans of these banks have not come down at the expected level, their portion in total loans has come down gradually. Bad loans written off by these two banks contributed to decrease the NPL ratio. Albeit, the recovery of such written-off loan has become challenging for these two banks.

Both banks have prepared and implemented management plan, human resource development plan and skill enhancement plan so as to ensure planned development and right size the banks' human resources. The staff need assessment has been completed. Likewise, these banks have submitted their capital and successor plans to the NRB. The NBL introduced voluntary retirement scheme (VRS) for the fourth time to keep the size of staff at optimum level. The number of staff in the NBL was reduced to 2442 by mid- July 2009 from 2885 as in mid-July 2008 and 6030 as in mid-July 2001. The policy of reducing the over-staffs through the introduction of 30-year service period and 58-year age limit has been re-introduced through the revision in employees’ service bylaw. The RBB introduced the Human Resource Information

System and Human Resource Development Plan for planned development of human resource and keeping the size at appropriate level. The human resource need assessment has already been completed. The Successor Plan is submitted to NRB and performance-based rewarding system has also been introduced. The VRS is implemented for fifth time to bring the number of staffs at optimum level. Through the scheme, the RBBL is able to bring down the number of its staff to 2697 by mid July 2009 from 3002 as in mid-July 2008 and 5583 as in mid-July 2002.

The audit of accounts in the NBL from 1999/00 to 2007/08 has been completed which was pending for years. The audited financial statements are updated. Accordingly, financial statements are published regularly on quarterly basis. After the introduction of new management team in the RBBL, the external audit has been completed up to 2006/07 and preliminary audit report for the year 2007/08 is also received by the NRB. The audited financial statements are updated and published regularly on quarterly basis. Internal audit of the banks has been regularly undertaken as per the target assigned to the management team.

The study in this context was mainly focused on the performance of the bank in terms of profitability. The performance of the bank was reviewed with the performance of the contemporaries and industry to study its performance in comparative terms. The financial data used for the study was obtained from secondary sources. The data were then analyzed with the help of various tools like ratio analysis, comparisons and statistics like trend analysis. The data were then presented in tabular as well as in graphical form that can be easily understood and interpreted by the user.

5.2 CONCLUSION

The research and analysis revealed many interesting issues with respect to the latest profitability condition of NBL and RBB. It was identified from the analysis that the FSRP were in operation in both the bank and also reduced the negative capital funds during this period.

Before the FSRP, RBB suffered from inefficiencies of a state-owned enterprise and political pressures to approve loans rather as commercial banks where as NBL'S issues were slightly different. Basically, it suffered from insider lending. Powerful private shareholders, who became majority shareholders by 1998 A.D., took benefit of loan by themselves or borrowers closely associated with them. When the borrowers make the lending decisions, the discipline of a hard-nosed banker goes out the door. But because people feel that their deposits are implicitly guaranteed by Government of Nepal, both banks continued to receive new deposits and hence did not have any problem meeting day-to-day needs for cash. This study concludes that the financial position of NBL is worse than RBB during the study period due to failure to utilize its inefficiency in risk management the overall financial position of both the banks are unsatisfactory during the study period.

The central bank (NRB) was not entirely innocent. The weak supervision by NRB was of course not an accident. The larger political environment clearly found it convenient to keep NRB weak and hence made it easier to facilitate misuse of RBB and NBL deposits. But after the implementation of the FSRP, both the bank has been able to earn profit and has made the better performance. The management teams in both of these banks have introduced a number of plans, policies and manuals in order to strengthen the internal system. These include, among others, credit policy and guidelines in order to reform the credit management and formulate directive for the asset liability management. Also, new accounting directive, internal audit directive, accounts head classification directive, human resource plan, skill enhancement plan, portfolio status and plan, budget plan, strategic plan and anti-money laundering directive, and trade and finance directive have been implemented. Both the banks have started to write-off their bad debts after the preparation of credit write-off bylaws.

5.3 RECOMMENDATION

- Both the banks have high level of negative net worth. So a capital plan needs to be worked out to drain in the capital to the level required by the regulatory authority from its shareholders.

- Both banks need to take necessary steps immediately to manage its assets for its existence in this competitive market..

- Both banks have not adopted any cost management strategy to have control over its cost of funding. The cost management strategy would be ideal to reduce the various costs and increase the profitability.

- Both the banks have very high potential of earning high profit than they made in the recent fiscal years so both the banks have to utilize their resources more efficiently for generating more profit margins. If resources were held idle, then the banks face high cost and cause the low profit margin.

- Both banks should follow the investment policy strictly to avoid the non-performing assets. It should increase investment in the government securities to trade off and stabilize the quality investment in commercial LDO.

- Both banks should seek reliable entrepreneurs and sectors to invest its limited funds of valuable depositors.

- The risk inherent in the loans and advances is high. So, the complete dependence on the interest income is not an appropriate strategy. So, the bank should look to increase the fee-based income as it provides safe and good returns. It is recommended that both banks should enhance its off-balance sheet operation, remittance and other fee-based activities to increase its earnings as it is very profitable and immediately realizable.

- The major problem is seen in loan recovery department of both the banks, due to which the banks are facing loss in the study period. Thus the department should introduce new methods of recovery of loans than those of routine methods. On the contrary, the departments that provide loans should also be careful and must do enough feasibility study before providing loans.

- The banks should not distribute the bonus, unless and until the bank eliminates its negative capital from the balance sheet. It is not prudent to distribute profits after capitalizing the losses.

- The growth rate of net profit of both banks is very low in compare to other sample banks. Due to their low profit margin, they have negative growth rate in EPS and DPS which will bring negative impact to different stakeholder. Since profit is a key of success of business they should increase a net profit by launching different new product or investing in profitable sectors. This may occur due to highest retain of profit for future prospect.
- The operating efficiency ratio of both the banks is very unfavorable during the study period due to the huge amount of operating expenses in compare to the operating income. Although, both the banks efficiency ratio has lowered in the recent year it has not come to the fair level. So both the banks need to improve its operating efficiency by reducing the non-interest costs especially, staff costs, wages and overhead costs.
- Both the banks have very high staff expense related to total operating expense. This was mainly due to the over staffing of the bank. Under the FSRP, the bank have implemented VRS to cut down the number of staff and still both the banks have to rethink to maintain the appropriate level of staff to minimize the staff expenses.
- The staff of the banks must be empowered by providing training and knowledge about the bank so that customer will go better services.
- For the better mobilization of deposit and credit, both the banks must take the help of Advertisement. It means special publicity campaign should be lunched to provide exposure of its service, which will help to boost up the banking habits and confidence among the people upon the bank through media house.
- Both the bank have very large network in the country, as the bank has to fulfill some social obligations to the rural areas and promoting the development of poor and disadvantage group. In this large network, some branches were incurring very heavy loss whereas there were more branches than required in some urban areas. So, both the banks need to re-look in managing their network through out the country.

- As the banks are fully or partially owned by the government, there seems some political influence in both the banks. The banks should be free from the political influence as it affects the overall activities of the bank.
- Both the banks still lack scientific MIS. The IT platform needs to be installed as soon as possible. After computerization, the bank will win the trust of more than a million customers in rural and urban areas and the public will feel improvements in the banking operation. So banks must be aware and accountable to these people for the implementation of integrated banking package.
- Both the banks should introduce major programs as per the customers demand these days such as consumer banking, home loans, study loan, vehicle loans, credit car facilities, online banking, ATM card etc. These facilities are provided by the foreign and joint venture banks, which made RBB and NBL to lag behind.
- Both the banks need to capture all the functional areas of the bank in restructuring process.

ANNEX

ANNEXURE – I

Comparative Balance Sheet

NEPAL BANK LTD.

In million

S.N.	Liabilities	2065/66	2064/65	2063/64	2062/63	2061/62
1	Share Capital	380	380	380	380	380
2	Reserve Funds	-5235	-6389	-6628	-6681	-7806
3	Debenture and Bonds	0	0	0	0	0
4	Borrowings	1971	1820	1605	1717	1247
5	Deposits	45194	41829	39014	35829	35934
6	Bills Payable	12	52	61	101	418
7	Proposed & Dividend Payable	2	2	2	1	0
8	Income Tax Liabilities	0	0	0	0	0
9	Other Liabilities	5234	4358	4824	4571	16872
	Total	**47558**	**42052**	**39258**	**35918**	**47045**
	Assets					
1	Cash Balance	1516	1182	1086	1110	1069
2	Balance with NRB	6620	4431	5225	5354	0
3	Balance with Banks/FI	1036	1005	806	709	5090
4	Money at call & S.N.	400	0	200	0	550
5	Investments	13397	16570	16072	14490	14199
6	Loan, Advance & Bills Receivable	17615	13251	11058	9756	8219
7	Fixed assets	249	207	206	192	187
8	Non Banking Assets	0	0	0	0	0
9	Other Assets	6725	5406	4605	4307	17731
	Total	**47558**	**42052**	**39258**	**35918**	**47045**

(Source: Annual Reports of NBL)

Comparative Profit & Loss Account

NEPAL BANK LIMITED

In million

S.N.	Income	2008/2009	2007/08	2006/07	2005/06	2004/05
		2065/66	2064/65	2063/64	2062/63	2061/62
1	Interest Income	2690	2095	1849	2049	1987
2	Fees, Commission and Discount	273	230	181	178	188
3	Foreign Exchange Gain	89	119	0	121	1
4	Non Operating Income	58	68	50	23	1451
5	Other Operating Income	157	157	287	140	542
6	Extraordinary Income	165	180	236	0	0
7	**Write Back of Provision for possible loss**	676	134	0	1813	0
8	**Net Loss Carried Down**					
	Total	**4108**	**2983**	**2603**	**4324**	**4169**
	Expenses					
1	Interest Expenses	792	773	773	774	748
2	Employees Expenses	1640	1347	1125	1067	1305
3	Other Operating Expenses	297	260	329	429	382
4	Exchange Loss	0	0	46	0	0
5	Non Operating Expenses	0	0	0	0	0
6	Bad debts written off	0	0	0	0	0
7	Provision for Possible Losses	334	258	80	607	0
8	Provision For Staff Bonus	95	31	23	121	0
9	Provision For Income Tax	56	75	0	0	0
10	Provision for Investment	0	0	0	0	4
11	Extraordinary Expenses	0	0	0	119	0
12	**Net Profit Carried Down**	894	239	227	1207	1730
	Total	**4108**	**2983**	**2603**	**4324**	**4169**

(Source: Annual Reports of NBL)

ANNEXURE – II

Comparative Balance Sheet

RASTRIYA BANIJYA BANK

In million

S.N.	Liabilities	2065/66	2064/65	2063/64	2062/63	2061/62
1	Share Capital	1172	1172	1172	1172	1172
2	Reserve Funds	-13133	-16682	-18392	-19891	-21372
3	Debenture & Bonds	0	0	0	0	0
4	Borrowings	3874	2517	2220	4358	4218
5	Deposits	68161	58333	50465	46195	43016
6	Bills Payable	69	68	64	41	40
7	Proposed & Dividend Payable	62	55	47	39	0
8	Income Tax Liabilities	0	0	0	0	0
9	Other Liabilities	8509	7769	10564	7965	29748
	Total Liabilities	**68714**	**53232**	**46140**	**39879**	**56822**
	Assets					
1	Cash Balance	2014	2329	1898	1202	1622
2	Balance with Nepal Rastra Bank	8413	5919	3709	3867	
3	Balance with Banks/FI	1344	380	197	159	3931
4	Money at call & S.N.	0	550	20	0	0
5	Investments	15416	14446	12650	11555	8416
6	Loan & Advance	26188	21136	17329	14634	13431
7	Fixed assets	452	464	439	421	393
8	Non-Banking Assets	24	59	110	98	
9	Other Assets	14863	7949	9788	7943	29029
	Total Assets	**68714**	**53232**	**46140**	**39879**	**56822**

(Source: Annual Reports of RBB)

Comparative Profit & Loss Account

RASTRIYA BANIJYA BANK

in million

S.N.	Income	2008/2009	2007/08	2006/07	2005/06	2004/05
		2065/66	2064/65	2063/64	2062/63	2061/62
1	Interest Income	3444	2708	2357	2283	2329
2	Fees, Commission and Discount	578	430	344	289	288
3	Foreign Exchange Gain	32	0	0	74	14
4	Non Operating Income	61	16	31	27	44
5	Other Operating Income	195	158	123	110	835
6	Extraordinary Gain	138	152	156	0	0
7	Write Back of Provision for possible loss	1332	1142	1225	1516	0
8	Net Loss Carried Down	0	0	0	0	0
	Total	**5780**	**4606**	**4236**	**4299**	**3510**
	Expenses					
1	Interest Expenses	1068	1026	943	850	1005
2	Employees Expenses	1389	876	789	745	811
3	Other Operating Expenses	393	325	357	289	234
4	Exchange Loss	0	31	13	0	0
5	Non Operating Expenses	0	0	0	0	0
6	Bad debts written off	0	0	0	0	0
7	Provision for Possible Losses	481	492	387	663	137
8	Provision For Staff Bonus	181	137	129	127	0
9	Provision For Income Tax	344	0	0	0	0
10	Extraordinary Expenses		0	0	33	0
11	Net Profit Carried Down	1924	1719	1618	1592	1323
	Total	**5780**	**4606**	**4236**	**4299**	**3510**

(Source: Annual Reports of RBB)

ANNEXURE – III

Calculation of Net Profit Margin

RASTRIYA BANIJYA BANK

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Total Operating Income (A)	3466	2756	2980	3448	4387
Net Profit (B)	1323	1592	1618	1719	1924
Net Profit Margin (B/A)	38.17	57.76	54.3	49.86	43.86

NEPAL BANK LIMITED

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Total Operating Income (A)	2718	2488	2553	2781	3374
Net Profit (B)	1730	1207	227	239	894
Net Profit Margin (B/A)	63.65	48.51	8.89	8.59	26.5

(Source: Annexure I and II)

ANNEXURE – IV

Calculation of Return on Total Assets

RASTRIYA BANIJYA BANK

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Net Profit (A)	1323	1592	1618	1719	1924
Total assets (B)	56822	39879	46140	53232	68714
ROTA (A/B)	2.33	3.99	3.51	3.23	2.8

NEPAL BANK LIMITED

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Net Profit (A)	1730	1207	227	239	894
Total assets (B)	47045	35918	39258	42052	47558
For ROTA (A/B)	3.68	3.36	0.58	0.57	1.88

(Source: Annexure I and II)

ANNEXURE – V

Calculation of Return on Equity

RASTRIYA BANIJYA BANK

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Net Profit (A)	1323	1592	1618	1719	1924
Shareholders' Equity (B)	-20200	-18719	-17220	-15510	-11961
ROE (A/B)	-6.55	-8.5	-9.4	-11.08	-16.08

NEPAL BANK LIMITED

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Net Profit (A)	1730	1207	227	239	894
Shareholders' Equity (B)	-7426	-6301	-6248	-6009	-4855
ROE (A/B)	-23.3	-19.16	-3.63	-3.98	-18.41

(Source: Annexure I and II)

ANNEXURE – VI

Calculation of Return on Capital Employed

RASTRIYA BANIJYA BANK

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Net Profit	1323	1592	1618	1719	1924
Total External Capital	-15982	-14361	-15000	-12993	-8087
ROCE	-8.27	-11.09	-10.79	-13.23	-23.79

NEPAL BANK LIMITED

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Net Profit	1730	1207	227	239	894
Total External Capital	-6179	-4584	-4643	-4189	-2884
ROCE	-27.99	-26.33	-4.89	-5.71	-30.99

(Source: Annexure I and II)

ANNEXURE – VII

Calculation of Operating Efficiency Ratio

RASTRIYA BANIJYA BANK

Particular	**2061/62**	**2062/63**	**2063/64**	**2064/65**	**2065/66**
Total Operating Expenses (A)	2050	1884	2102	2258	2850
Total Operating Income (B)	3466	2756	2980	3448	4387
Operating Efficiency Ratio (A/B)	59.15	68.36	70.54	65.49	64.96

NEPAL BANK LIMITED

Particular	**2061/62**	**2062/63**	**2063/64**	**2064/65**	**2065/66**
Total Operating Expenses (A)	2435	2270	2273	2380	2729
Total Operating Income (B)	2718	2488	2553	2781	3374
Operating Efficiency Ratio (A/B)	89.59	91.24	89.03	85.58	80.88

(Source: Annexure I and II)

ANNEXURE – VIII

Calculation of Net Interest Margin

RASTRIYA BANIJYA BANK

Particular	**2061/62**	**2062/63**	**2063/64**	**2064/65**	**2065/66**
Interest Income (A)	2329	2283	2357	2708	3444
Interest Expenses (B)	1005	850	943	1026	1068
Total Earning Assets (C)	25778	30215	33885	41881	51361
Net Interest Margin [(A-B)/C]	5.14	4.74	4.17	4.02	4.63

NEPAL BANK LIMITED

Particular	**2061/62**	**2062/63**	**2063/64**	**2064/65**	**2065/66**
Interest Income (A)	1987	2049	1849	2095	2690
Interest Expenses (B)	748	774	773	773	792
Total Earning Assets (C)	47045	35918	33161	35257	38668
Net Interest Margin [(A-B)/C]	2.63	3.55	3.24	3.75	4.91

(Source: Annexure I and II)

ANNEXURE – IX

Calculation of Interest Payout Ratio

RASTRIYA BANIJYA BANK

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Interest Expenses	1005	850	943	1026	1068
Interest Income	2329	2283	2357	2708	3444
Interest Payout Ratio	43.15	37.23	40.01	37.89	31.01

NEPAL BANK LIMITED

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Interest Expenses	748	774	773	773	792
Interest Income	1987	2049	1849	2095	2690
Interest Payout Ratio	37.64	37.77	41.81	36.9	29.44

(Source: Annexure I and II)

ANNEXURE – X

Calculation of Net Operating Margin

RASTRIYA BANIJYA BANK

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Total Operating Income (A)	3466	2756	2980	3448	4387
Total Operating Expense (B)	2050	1884	2102	2258	2850
Total Earning Assets (C)	25778	30215	33885	41881	51361
Net Operating Margin [(A-B)/C]	5.49	2.87	2.59	2.84	2.99

NEPAL BANK LIMITED

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Total Operating Income (A)	2718	2488	2553	2781	3374
Total Operating Expense (B)	2435	2270	2273	2380	2729
Total Earning Assets (C)	47045	35918	33161	35257	38668
Net Operating Margin [(A-B)/C]	0.6	0.61	0.84	1.14	1.67

(Source: Annexure I and II)

ANNEXURE – XI

Calculation of Interest Income to Total Income Ratio

RASTRIYA BANIJYA BANK

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Interest Income (A)	2329	2283	2357	2708	3444
Total Income (B)	3510	4299	4236	4606	5780
Interest Income to Total Income (A/B)	66.35	53.11	55.64	58.79	59.58

NEPAL BANK LIMITED

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Interest Income (A)	1987	2049	1849	2095	2690
Total Income (B)	4169	4324	2603	2983	4108
Interest Income to Total Income (A/B)	47.66	47.39	71.03	70.23	65.48

(Source: Annexure I and II)

ANNEXURE – XII

Calculation of Fee and Commission Income to Total Income Ratio

RASTRIYA BANIJYA BANK

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Fee and Commission Income (A)	288	289	344	430	578
Total Income (B)	3510	4299	4236	4606	5780
Fee and Commission Income to Total Income (A/B)	8.21	6.72	8.12	9.33	10

NEPAL BANK LIMITED

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Fee and Commission Income (A)	188	178	181	230	273
Total Income (B)	4169	4324	2603	2983	4108
Fee and Commission Income to Total Income (A/B)	4.51	4.12	6.95	7.71	6.65

(Source: Annexure I and II)

ANNEXURE – XIII

Calculation of Foreign Exchange Income to Total Income Ratio

RASTRIYA BANIJYA BANK

Particular	**2061/62**	**2062/63**	**2063/64**	**2064/65**	**2065/66**
Foreign Exchange Income (A)	14	74	-13	-31	32
Total Income (B)	3510	4299	4236	4606	5780
Foreign Exchange Income to Total Income (A/B)	0.4	1.72	-0.31	-0.67	0.55

NEPAL BANK LIMITED

Particular	**2061/62**	**2062/63**	**2063/64**	**2064/65**	**2065/66**
Foreign Exchange Income (A)	1	121	-46	119	89
Total Income (B)	4169	4324	2603	2983	4108
Foreign Exchange Income to Total Income (A/B)	0.02	2.8	-1.77	3.99	2.17

(Source: Annexure I and II)

ANNEXURE – XIV

Calculation of Interest Expenses to Total Operating Expenses Ratio

RASTRIYA BANIJYA BANK

Particular	**2061/62**	**2062/63**	**2063/64**	**2064/65**	**2065/66**
Interest Expenses (A)	1005	850	943	1026	1068
Total Operating Expenses (B)	2050	1884	2102	2258	2850
Interest Expenses to Total Operating Expenses (A/B)	49.02	45.12	44.86	45.44	37.47

NEPAL BANK LIMITED

Particular	**2061/62**	**2062/63**	**2063/64**	**2064/65**	**2065/66**
Interest Expenses (A)	748	774	773	773	792
Total Operating Expenses (B)	2435	2270	2273	2380	2729
Interest Expenses to Total Operating Expenses (A/B)	30.72	34.1	34.01	32.48	29.02

(Source: Annexure I and II)

ANNEXURE – XV

Calculation of Staff Expenses to Total Operating Expenses Ratio

RASTRIYA BANIJYA BANK

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Staff Expenses (A)	811	745	789	876	1389
Total Operating Expenses (B)	2050	1884	2102	2258	2850
Staff Expenses to Total Operating Expenses (A/B)	39.56	39.54	37.54	38.8	48.74

NEPAL BANK LIMITED

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Staff Expenses (A)	1305	1067	1125	1347	1640
Total Operating Expenses (B)	2435	2270	2273	2380	2729
Staff Expenses to Total Operating Expenses (A/B)	53.59	47	49.49	56.6	60.09

(Source: Annexure I and II)

ANNEXURE – XVI

Calculation of Office Operating Expenses to Total Expenses Ratio

RASTRIYA BANIJYA BANK

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Other Operating Expenses (A)	234	289	357	325	393
Total Operating Expenses (B)	2050	1884	2102	2258	2850
Other Operating Expenses to Total Expenses (A/B)	11.41	15.34	16.98	14.39	13.79

NEPAL BANK LIMITED

Particular	2061/62	2062/63	2063/64	2064/65	2065/66
Other Operating Expenses (A)	382	429	329	260	297
Total Operating Expenses (B)	2435	2270	2273	2380	2729
Other Operating Expenses to Total Expenses (A/B)	15.69	18.9	14.47	10.92	10.88

(Source: Annexure I and II)

ANNEXURE – XVII

Calculation of Trend Line

RASTRIYA BANIJYA BANK

Year	**Time Period (x)**	**Net Profit (y)**	$\mathbf{x^2}$	**xy**
2061/62	1	1323	1	1323
2062/63	2	1592	4	3184
2063/64	3	1618	9	4854
2064/65	4	1719	16	6876
2065/66	5	1924	25	9620
Sum	$\Sigma x=15$	$\Sigma y=8176$	$\Sigma x^2=55$	$\Sigma xy=25857$

For this method we have a equation

$y = a + bx$

Where,

y=net profit

x = time period

n = 5 (number of years)

a and b= constant parameters which are to be estimated. The parameter b gives the measure of annual increase in sales. The unknown parameter a and b are estimated by solving the following two equation based on the principle of least square.

$\Sigma y = na + b\Sigma x$------ii

$\Sigma xy = a\Sigma x + b\Sigma x^2$----iii

Substituting the value in eqn. ii and iii we have,

8176= 5a + 15b -------------iii

25857=15a + 55b -------------iv

Multiplying equation iii by 3 and solve them

24528 X15*a* Γ 45*b*

25857 X15*a* Γ55*b*

Z Z Z

Z13468 X Z 10*b*

Or, -10b = -1329

Or, b= 132.9

Substituting the value of b in equation iii

8176 = 5a + 15b

8176 = 5a + 15 × 132.9

8176 = 5a + 1993.5

Or, a = 1236.5

Now substituting the value of constant a & b in equation (i) we get

$$y = 1236.5 + 132.9x$$

From the equation, now we can obtain the forecast of the net profit for next five year.

Forecast for next five year

Year	**Time Period (x)**	**y = a + bx**	**Forecasted Net Profit**
2067/68	6	y=1236.5+132.9*6	2033.9
2068/69	7	y=1236.5+132.9*7	2166.8
2069/70	8	y=1236.5+132.9*8	2299.7
2070/71	9	y=1236.5+132.9*9	2432.6
2071/72	10	y=1236.5+132.9*10	2565.5

Annexure - XVIII

Calculation of Trend Line

NEPAL BANK LIMITED

Year	Time Period (x)	Net Profit (y)	x^2	xy
2061/62	1	1730	1	1730
2062/63	2	1207	4	2414
2063/64	3	227	9	681
2064/65	4	239	16	956
2065/66	5	894	25	4470
Sum	Σx=15	Σy=4297	Σx^2=55	Σxy=10251

For this method we have a equation

y = a + bx

Where,

y=net profit

x = time period

n = 5 (number of years)

a and b= constant parameters which are to be estimated. The parameter b gives the measure of annual increase in sales. The unknown parameter a and b are estimated by solving the following two equation based on the principle of least square.

Σy = na + bΣx-------------i

$\Sigma xy = a\Sigma x + b\Sigma x^2$---------ii

Substituting the value in eqn. ii and iii we have,

4297= 5a + 15b -------------iii

10251=15a + 55b ---------- iv

Multiplying equation iii by 3 and solve them

12891 Χ15*a* Γ 45*b*
10251 Χ15*a* Γ 55*b*
Ζ Ζ Ζ
2640 Χ Ζ10*b*

Or, -10b = 2640

Or, b= -264

Substituting the value of b in equation iii

Or 4297 = 5a + 15b

Or 4297 = 5a + 15 × -264

Or 4297 = 5a -3960

Or, a = 1651.4

Now substituting the value of constant a & b in equation (i) we get

$$y = 1651.4-264x$$

From the equation, now we can obtain the forecast of the net profit for next five year.

Forecast for next five year

Year	Time Period (x)	y = a + bx	Forecasted Net Profit
2067/68	6	y=1651.4-264*6	67.4
2068/69	7	y=1651.4-264*7	-196.6
2069/70	8	y=1651.4-264*8	-460.6
2070/71	9	y=1651.4-264*9	-724.6
2071/72	10	y=1651.4-264*10	-988.6

ANNEXURE – XIX

Calculation of Trend Line

RASTRIYA BANIJYA BANK

Year	Time Period (x)	Net Profit (y)	x^2	xy
2063/64	1	1618	1	1618
2064/65	2	1719	4	3438
2065/66	3	1924	9	5772
Sum	Σx=6	Σy=5261	$\Sigma x^2=14$	Σxy=10828

For this method we have a equation

y = a + bx

Where,

y=net profit

x = time period

n = 3 (number of years)

a and b= constant parameters which are to be estimated. The parameter b gives the measure of annual increase in sales. The unknown parameter a and b are estimated by solving the following two equation based on the principle of least square.

Σy = na + bΣx------ii

$\Sigma xy = a\Sigma x + b\Sigma x^2$----iii

Substituting the value in eqn. ii and iii we have,

5261= 3a + 6b -------------iii

10828=6a + 14b -------------iv

Multiplying equation iii by 2 and solve them

$$\begin{array}{l} 10522 \; X \; 6a \;\; \Gamma \; 12b \\ 10828 \; X \; 6a \;\; \Gamma 14b \\ \underline{Z \qquad\quad Z \quad Z} \\ \;\; Z306 \; X \quad Z \; 2b \end{array}$$

Or, $-2b = -306$

Or, $b = 153$

Substituting the value of b in equation iii

$5261 = 3a + 6b$

$5261 = 3a + 6 \times 153$

$5261 = 3a + 918$

Or, $a = 1447.66$

Now substituting the value of constant a & b in equation (i) we get

$$y = 1447.66 + 153x$$

From the equation, now we can obtain the forecast of the net profit for next five year.

Forecast for next five year

Year	Time Period (x)	y = a + bx	Forecasted Net Profit
2067/68	4	y = 1447.66+ 153*4	2059.66
2068/69	5	y = 1447.66+ 153*5	2212.66
2069/70	6	y = 1447.66+ 153*6	2365.66
2070/71	7	y = 1447.66+ 153*7	2518.66
2071/72	8	y = 1447.66+ 153*8	2671.66

Annexure - XX

Calculation of Trend Line

NEPAL BANK LIMITED

Year	**Time Period (x)**	**Net Profit (y)**	**x^2**	**xy**
2063/64	1	227	1	227
2064/65	2	239	4	478
2065/66	3	894	9	2682
Sum	$\Sigma x=6$	$\Sigma y=1360$	$\Sigma x^2=14$	$\Sigma xy=$**3387**

For this method we have a equation

$y = a + bx$

Where,

y=net profit

x = time period

n = 3 (number of years)

a and b= constant parameters which are to be estimated. The parameter b gives the measure of annual increase in sales. The unknown parameter a and b are estimated by solving the following two equation based on the principle of least square.

$\Sigma y = na + b\Sigma x$-------------i

$\Sigma xy = a\Sigma x + b\Sigma x^2$---------ii

Substituting the value in eqn. ii and iii we have,

1360 = 3a + 6b -------------iii

3387 =6a + 14b ---------- iv

Multiplying equation iii by 2 and solve them

$$\begin{array}{rcl} 2720 & = & 6a + 12b \\ 3387 & = & 6a + 14b \\ - & & - \quad - \\ \hline -667 & = & \quad -2b \end{array}$$

Or, -2b = -667

Or, b= 333.5

Substituting the value of b in equation iii

Or 1360 = 3a + 6b

Or 1360 = 3a + 6 × 333.5

Or 1360 = 3a +2001

Or, a = -213.66

Now substituting the value of constant a & b in equation (i) we get

$$y = -213.66+333.5x$$

From the equation, now we can obtain the forecast of the net profit for next five year.

Forecast for next five year

Year	Time Period (x)	y = a + bx	Forecasted Net Profit
2067/68	4	y = -213.66+333.5*4	1120.34
2068/69	5	y = -213.66+333.5*5	1453.84
2069/70	6	y = -213.66+333.5*6	1787.34
2070/71	7	y = -213.66+333.5*7	2120.84
2071/72	8	y = -213.66+333.5*8	2454.34

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