

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 General Background**

The history of modern financial system began in Nepal with the establishment of Nepal bank Ltd in 1937 AD as the first commercial bank of Nepal. The bank was established to render services to the people and for economic progress of the country. Prior to the establishment of Nepal Rastra Bank, it played the role of central bank also. With the establishment of NRB in 1956 A.D., the development of the financial system took a momentum. Realizing the importance of industrial development, Government of Nepal and NRB established Nepal Industrial Development Corporation (NIDC) in 1959 A.D. The NRB created Agriculture Credit Fund in 1959/60 A.D. and handed it over to Government of Nepal for the establishment of the co operative bank in 1963 AD. The second commercial bank, the Rastriya Banijya Bank was established in the public sector in 1966 AD, with the equity participation of Government of Nepal and the NRB. By endorsing the assets and liabilities of the co-operative bank did set up Agriculture Development Bank (ADB/N). Government of Nepal had established the Land Reform Saving Corporation in 1966 AD to make credit available to village communities and land reform saving corporation was merged into ADB/N in 1973 AD.

A large number of non- banking financial institutions were being set up between 1962 AD to 1977 AD, such as, Employee Provident Fund Corporation (1962 AD), National Insurance Corporation (1967 AD), Nepal Insurance Company Ltd. (1968 AD), Credit Guarantee Corporation (1974 AD) and Securities Marketing Center (1977 AD). The legislation of the Commercial Bank Act, 1974 AD set out regulations for licensing, supervision, and cancellation of license of commercial banks and encouraged the establishment of other commercial banks in Nepal. The move towards financial liberalization encouraged the entry of joint venture and private

commercial banks. Nepal Arab Bank Limited, the first joint venture commercial bank of Nepal was established in 1984 AD. The Nepal Indo-Suez Bank Ltd. (Now name changed as Nepal Investment Bank Ltd.) and Nepal Grindlays Bank Ltd (name changed as Standard Chartered Bank Ltd.) were the two other joint venture commercial banks, established in 1986 AD and 1987 AD respectively.

As of Mid-October 2010, the financial system in Nepal is composed of 29 commercial banks, 83 development banks, 79 financial companies, 19 micro credit development banks, 16 saving and credit cooperatives (Limited Banking) and 45 non government cooperative authorized to do limited banking activities. All these institutions are under the regulatory framework of NRB. Beside these institutions, 25 insurance companies, Employee provident Fund, Citizen Investment Trust, Security Board, and Nepal Stock Exchange.

### **Commercial Banks**

The commercial banks are profit-orientated institutions, their main functions are to collect money, deposit from general public and lend it on profitable sector as a short- term loan and long-term loan. This study is focused on the analysis of a comparative study of the Profitability of Nepal SBI Bank and Nepal Bangladesh Bank.

Nepal has adopted the policy of economic liberalization to develop the economic condition through the participation of private sector equally in the market in the area of industry, trade, business and banking. The government amended Commercial Banking Act in 1994 AD to increase the competitions among commercial banks, to develop their working capacity and also to open the foreign joint venture banks. As per the provision made in this act the private sector, including foreign investor were given freedom in opening commercial banks. "A Joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation (industrial or commercial investments, Production trade)". (Gupta, 1984)

The banks established after amendment of Commercial Bank Act can be mentioned as per following list.

**Table No: 01**

**Class A: Commercial Banks**

S.No.	Names	Operation Date (A.D.)	S.No.	Names	Operation Date (A.D.)
1	Nepal Bank Limited	1937/11/15	16	Kumari Bank Limited	2001/04/03
2	Rastriya Banijya Bank	1966/01/23	17	Laxmi Bank Limited	2002/04/03
3	Agriculture Development Bank Ltd.	1968/01/02	18	Siddhartha Bank Limited	2002/12/24
4	Nabil Bank Limited	1984/07/16	19	Global Bank Ltd.	2007/01/02
5	Nepal Investment Bank Limited	1986/02/27	20	Citizens Bank International Ltd.	2007/06/21
6	Standard Chartered Bank Nepal Limited.	1987/01/30	21	Prime Commercial Bank Ltd	2007/09/24
7	Himalayan Bank Limited	1993/01/18	22	Sunrise Bank Ltd.	2007/10/12
8	Nepal SBI Bank Limited	1993/07/07	23	Bank of Asia Nepal Ltd.	2007/10/12
9	Nepal Bangladesh Bank Limited	1994/06/05	24	DCBL Bank Ltd.	2008/05/25
10	Everest Bank Limited	1994/10/18	25	NMB Bank Ltd.	2008/06/05
11	Bank of Kathmandu Limited	1995/03/12	26	Kist Bank Ltd.	2009/05/07
12	Nepal Credit and Commerce Bank Limited	1996/10/14	27	Janata Bank Nepal Ltd.	2010/04/05
13	Lumbini Bank Limited	1998/07/17	28	Mega Bank Nepal Ltd.	2010/07/23
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	29	Commerce & Trust Bank Nepal Ltd.	2010/09/20
15	Machhapuchhre Bank	2000/10/03			

*Source: NRB Annual Report 2010*

After establishing some joint venture banks (Nabil Bank, Investment Bank and Standard Chartered Bank), other commercial banks were established

in private sector. Other banks established are Himalayan Bank Ltd, Nepal SBI Bank, Nepal Bangladesh bank, Everest Bank, Bank of Katmandu, Laxmi Bank Ltd, Lumbini Bank Ltd, Nepal industrial and commercial Bank, Kumari Bank, Nepal Credit and Commercial Banks, Machhapuchhre Banks etc.

### **1.1.1 Profile of Sample Banks**

#### **1.1.1.1 Profile of Nepal SBI Bank Ltd**

Nepal SBI Bank Limited is the first Indo-Nepal Joint Venture in the financial sector sponsored by three institutional promoters, namely, State Bank of India, Karmachari Sanchaya Kosh (Employee Provident Fund) and Agricultural Development Bank (ADB) through a memorandum of understanding signed on 17<sup>th</sup> July 1992. The bank became operation on the 8<sup>th</sup> July 1993.

The bank received registration from the registrar of company of Ministry of commerce and Industry, Government of Nepal on the 25<sup>th</sup> April 1993 and started its first board meeting on the May 25, 1993. The bank received certificate of commencement of business on the 30<sup>th</sup> June 1993.

Balance Sheet of **Nepal SBI Bank** for the five-year period (FY 062/63 to FY 066/67).

**Table No: 02**

S N	CAPITAL & LIABILITIES	2062/63	2063/64	2064/65	2065/66	2066/67
1	Share Capital	640,236,100	647,798,400	874,527,840	874,527,840	1,861,324,239
2	Reserves and Funds	342,137,628	515,492,451	540,116,972	838,079,355	589,229,831
3	Debentures & Bonds	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000
4	Borrowings	612,428,650	815,365,219	1,627,480,190	727,466,283	-
5	Deposits	11,002,040,633	11,445,286,030	13,715,394,960	27,957,220,794	34,896,424,201
6	Bills Payable	46,238,743	48,855,749	75,115,471	62,947,325	72,368,229
7	Proposed and Dividend Payable	35,469,706	91,024,235	12,228,852	24,904,649	83,080,145
8	Income Tax Liabilities -	-	-	-	-	-
9	Other Liabilities	157,287,664	137,378,475	142,581,889	231,535,550	345,252,820
	Total Capital and Liabilities	13,035,839,124	13,901,200,559	17,187,446,174	30,916,681,796	38,047,679,465
S N	ASSETS	2062/63	2063/64	2064/65	2065/66	2066/67
1	Cash Balance	244,187,671	287,530,644	308,101,599	652,027,266	815,679,624
2	Balance with Nepal Rastra Bank	626,123,385	556,678,464	403,810,203	444,138,596	1,842,802,239
3	Balance with Banks/Financial Institution	247,847,352	278,481,119	631,048,524	807,740,259	782,779,614
4	Money at Call and Short Notice	363,200,000	350,000,000	304,012,877	-	-
5	Investment	3,610,775,484	2,659,452,919	3,088,886,918	13,286,181,660	16,305,632,815
6	Loans, Advances and Bills Purchase	7,626,736,137	9,460,450,701	12,113,698,428	15,131,747,944	17,480,548,194
7	Fixed Assets	66,711,798	97,218,804	120,222,259	253,580,695	418,244,760
8	Non Banking Assets	24,555,992	3,847,024	-	-	-
9	Other Assets	225,701,305	207,540,884	217,665,366	341,265,376	401,992,219
	Total Assets	13,035,839,124	13,901,200,559	17,187,446,174	30,916,681,796	38,047,679,465

*Source: Annual (Audit) Reports for 2062/63 to 2066/67 of SBI Bank*

### **1.1.1.2 Profile of Nepal Bangladesh Bank LTD**

Nepal Bangladesh Bank (NB Bank) has also been founded as a joint venture commercial bank promoted by IFIC Bank, Bangladesh and Nepalese promoters on 6<sup>th</sup> June 1994 with total authorized capital of RS 240 million, and issued capital of 120 million. The shareholders of the Bank are as follows:

1. IFIC Bank, Bangladesh, 50% share holder
2. Nepalese promoters, 20% share holder
3. Public share issue, 30% shareholder.

Balance Sheet of **Nepal Bangladesh Bank** for the five-year period (FY 062/63 to FY 066/67)

**Table No: 03**

SN	CAPITAL & LIABILITIES	2062/63	2063/64	2064/65	2065/66	2066/67
1	Share Capital	719,852,000	719,852,000	744,126,000	1,860,315,000	1,860,315,000
2	Reserves and Funds	(2,282,435,547)	(3,344,015,050)	(2,935,574,295)	(748,072,516)	273,275,976
3	Debentures & Bonds	-	-	-	-	-
4	Borrowings	71,000,000	230,000,000	30,000,000	-	-
5	Deposits	13,015,136,113	9,385,949,552	10,883,652,582	9,997,697,430	10,052,182,377
6	Bills Payable	44,108,695	39,410,249	30,011,921	12,628,976	15,401,690
7	Proposed and Dividend Payable	1,352,453	1,299,053	1,301,299	1,397,541	-
8	Income Tax Liabilities - -	-	30,331,984	-	6,728,973	-
9	Other Liabilities	140,267,559	191,720,455	637,509,087	833,857,217	329,885,797
	Total Capital and Liabilities	11,709,281,273	7,254,548,243	9,391,026,594	11,964,552,621	12,531,042,840
SN	ASSETS	2062/63	2063/64	2064/65	2065/66	2066/67
1	Cash Balance	354,456,408	391,686,544	612,024,871	459,402,383	422,008,026
2	Balance with Nepal Rastra Bank	1,157,837,732	614,431,541	1,005,830,098	1,869,815,145	1,423,257,127
3	Balance with Banks/Financial Institution	182,390,744	157,935,038	304,993,379	242,199,665	213,033,642
4	Money at Call and Short Notice	30,028,767	50,000,000	1,000,000	1,000,000	-
5	Investment	2,661,833,500	1,034,560,190	1,389,901,504	2,222,431,713	2,112,751,395
6	Loans, Advances and Bills Purchase	6,460,246,398	4,409,013,042	5,457,808,829	6,704,943,114	7,809,544,311
7	Fixed Assets	172,325,040	140,807,178	147,747,355	139,198,903	155,327,605
8	Non Banking Assets	205,465,587	111,924,673	37,086,862	-	-
9	Other Assets	484,697,097	344,190,037	434,633,696	325,561,698	395,120,734
	Total Assets	11,709,281,273	7,254,548,243	9,391,026,594	11,964,552,621	12,531,042,840

*Source: Annual (Audit) Reports for 2062/63 to 2066/67 of SBI Bank*

## **1.2 Purpose of the Study**

Profit plays a vital role in every business organization. It is equally important for commercial banks. Banks are the institutions, which provide many facilities to develop the economic conditions for a country by providing facilities for trade, industry, business, agriculture, tourism etc. Without profit, it cannot operate its functions and cannot provide banking facilities to the public. The main purpose of commercial banks is to serve people as well as to maintain profitability position. This study is to appraise the profitability of the Nepal SBI Bank Ltd. with comparison to Nepal Bangladesh Bank Ltd. The main purpose of the study is:

1. To evaluate the trend of deposit and loan of the banks.
2. To analysis the income and expenditure, cost and profit trends of the banks.
3. To study the strength and weakness opportunity and threats in terms of profit planning tools of the banks.

## **1.3. Statement of the Problem**

Profit is the main objective of every business organization. Besides other tasks they have to achieve the minimum objectives. The successful operation of any organization whatever the nature of it is largely depends upon the planning system that it adopts. So the planning for project is also the most important device to get success for a period. It plays a key role for the effective formulation and implementation of strategic plans. Profit planning system requires the effective coordination between various functional budgets. It is important not only for manufacturing industries but also for commercial banks. Banks generate their profit by mobilizing its deposits by providing short term and long-term loans.

The Nepal SBI Bank is one of the leading banks in Nepal, which is earning profit since its establishment. This study may answer these some questions.



1. What extent is the process of profit planning followed by Nepal SBI Bank?
2. Are the bank's operating profit is satisfactory?
3. Has the bank adopted the policy of making plan for deposit, mobilization?
4. Has the bank mobilized its investment in profitable sectors?
5. What step should be taken into improvement of the profit planning system in the bank so that overall profitability of the bank can be increased?

#### **1.4 Significance/Importance of the Study**

To get the maximum profit and to maintain the profitability every business firm has to follow the process of profit planning. It leads an organization ultimately success. Profit planning acts as a vital instrument for minimizing future risks and achieving its objectives. The study of profitability of Nepal SBI Bank will prove useful to all the parties interested on profit planning. It may give guideline to follow the profit planning process in any banking sector. It may also help the bank to develop future plan, to maximize profit. As profit is the main objective of every organization, profit plan is the most useful tools to improve profitability position.

#### **1.5 Limitations of the Study**

In this dynamic world nothing is free from limitations. This study also is not an exception. It has the following limitations:

1. Only the profit planning aspect of the bank has been analyzed leaving other areas.
2. The study covers five years period from the fiscal year 2062/063 to the fiscal year 2066/067.

3. The accuracy of this study is based on the data collected from the Nepal SBI Bank and Nepal Bangladesh Bank (NBB) websites and their annual reports.
4. This research is depended on secondary data of the bank's balance sheet, profit and loss accounts.
5. The study is done with the help of financial tools and few statistical tools.

## **1.6 Organization of the Study**

The whole study is divided into five chapters. First chapter is the introductory chapter. It consists: general background and importance of commercial banks, statement of the problem, objectives, need of the study and limitations and organization for the study and methodology being used.

Second chapter deals with review of literature with concept of some terminologies used in the analysis part of the study. The second part of the chapter consists of review of books, previous study, research papers and review of unpublished thesis of various research students.

Third chapter is concerned with the research methodology used in this study. It consists of: Introduction, Research design, Sources of data, Population and data, Method of analysis.

Fourth chapter is the analytical chapter, which is the main chapter. This chapter is mainly concerned with the analysis of the different profitability ratios related to the financial statements of Nepal SBI Bank and Nepal Bangladesh Bank and trend analysis of profit with forecast of trend line.

Fifth chapter is associated with the conclusion, recommendation and suggestions. The bibliography is also included besides the above chapters.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual/Theoretical Review**

A literature review is a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Literature reviews are secondary sources, and as such, do not report any new or original experimental work. Review of literature broadly means reviewing research studies or other relevant proposition in the related area of the study so that the past studies, their conclusion and deficiencies may be known and further research can be conducted. This chapter will help to check the chances of duplication in the present study. Thus the gap and deviation between the previous research and current research can fill out. A literature review usually precedes a research proposal and results section. Its ultimate goal is to bring the reader up to date with current literature on a topic and forms the basis for another goal, such as future research that may be needed in the area.

##### **2.1.1 Concept of Commercial Bank**

As per commercial Bank Act 2031 B.S., “A commercial bank means the bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions”. A commercial bank is a financial intermediary which collects credit from lenders in the form of deposits and lends in the form of loans. A commercial bank holds deposits for individuals and businesses in the form of checking and savings accounts and certificates of deposit of varying maturities while a commercial bank issues loans in the form of personal and business loans as well as mortgages. The term commercial bank came about as a way to distinguish it from an “investment bank”. The primary difference between a commercial bank and its counterpart is that a commercial bank earns revenue by issuing primary loans from its pool of deposits while an investment bank brings debt and equity offerings to

market for a fee. Among its assets, including loans, a commercial bank holds a portfolio of other securities to generate proprietary income. Commercial bank is one, which exchange money deposits money, accept deposits grants loans and performs commercial banking functions and which is not a bank meant for cooperation, agriculture and industries of for such specific purpose.

The American institute of the banking has down the four major functions of commercial bank such as receiving and handling deposits, handling payments for its clients making loan and investments and creating money by extension of credit. Commercial banks are the important type of financial institution for the nation in terms of the aggregate assets. The business of banking is very broad in modern business age.

### **2.1.2 Concept of Profitability**

Profit is the reward for entrepreneurship. In a simple term, profit means the remaining balance of earning available with the firm that is gain after deducting entire expenses, costs, charges and provisions. Profit is the resource left to the firm for future growth and expansion or reward to be distributed to the entrepreneurs in the form of dividends etc.

1. The economic concept of profit is the reward of the entrepreneur for risk taking and management.
2. In a business operation, concept of profit is the gain from manufacturing, merchandising and selling expenses after all expenses.
3. The concept of profit is the excess of the net selling price over the costs (including all charges of the security or commodities traded in).
4. Profit is a motivating factor behind many managerial activities. 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. Therefore it is common in economic theory to

hypothesize that the criteria for evaluate the action of the firm is profit maximization. "Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy through retain earning. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sectors". (Ronald, 1951)

Profit is constantly changed in amount and among firms. Long run services in the economy tend to reduce economic profit. The other terms used for profit are surplus, reserves, income revenue, etc.

## **2.2 Review of Related Studies**

### **2.2.1 Review of Journal and Books**

**Dr. M.K. Shrestha (2047)**, in the journal entitled, *Commercial Bank's Comparative Performance Evaluation*, which was published in Karmachari Sanchaya Kosh Publication in 2047 BS is review as follows;

The journal stresses on a proper risk management with appropriate classification of loans under performing and non performing category. Researcher further clarify that adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six month need to be treated as unearned income. Regarding risk management of banks Dr. Shrestha's other suggestions are as follows;

- ) Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- ) Strong provisioning or reservation is required in restructuring portfolio relating to overdue loans.
- ) All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard of doubtful loans.

) Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

Dr. Shrestha's suggestions are focused towards proper risk management whatsoever, aspects of the bank the above journals target, they all have to be combinable assessed and kept in strict consideration for effective and efficient financial performance of the banks in the Nepalese economy.

**Peter Rose (1999)**, in her book *commercial bank management*, says, "Achieving superior profitability for a bank depends upon several crucial factors:

- ) Careful use of financial leverage or the proportion of bank assets financed by debts as opposed by the shareholders equity capital.
- ) Careful use of operating leverage from fixed assets or the proportions of fixed cost input the bank uses to boost its operating earnings before taxes as bank output grows.
- ) Careful control of operating expenses so that more dollars of sales revenue become net income.
- ) Careful control of the bank's exposure to risks so that the losses don't overwhelm its income and equity capital."

**Michael R Baye and Dennis W. Jansen (1996)**, through their book *Money, Banking and Financial Markets* have tried to analyze a bank's profitability under an economic approach. They state, "to maximize profits bank should attract the interest rate paid on deposits"

"Bank earns interest on loans and investments, they pay interest to the depositors when interest rate sensitive. For example, a bank holds more rate sensitive assets than liabilities when interest rate rise, profits will be improved because the bank will receive more increased interest revenue than it will pay out in rising costs. The reverse would be true during a period of falling interest rates".

The interest gap is the difference between rate sensitive assets and liabilities; holding more rate sensitive assets than liabilities is called a positive Gap and an excess of rate sensitive liabilities over assets result in a Negative Gap.

Emphasizing the bank's modern functions Meir Kohn (1999), says, "Now Banks steadily expanded their activities in payment related services, in delegation and trust services, in credit substitution and services, and in forward transactions. In doing so, they have pursued economics of scope, relatively uncontained by regulations".

H.D Cross puts in this way, "Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize risk inherent in any extension of credit. (Crosse H.D, 1993: 216)

In the other words of S.P & Sing & sing, "the investment (credit) Policies of banks are conditioned, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping, of course his banker's credit policy also in mind. Sing S.P &Singh s, financial analysis for credit management in banks. (SP Singh, 1993:45- 46)

### **2.2.2 Review of Research Papers**

A study undertaken by **Kishor Rijal** (2000 AD) on *Joint venture bank, A case study of Nepal SBI Bank limited* concludes that Nepal SBI bank limited (NSBIL) has earned less profit in terms of net profit to its total risky assets. From shareholders point of view, earnings per share of NSBIL is not much satisfactory because a minimal amount has been given to the shareholders as dividend and in last year of his study the dividend payment to its shareholders is reduced by 50% in comparison to previous years. The

growth rates of NSBIL in respect net profit, earnings per share, and dividend per share are low.

A study undertaken by **Khagendra Prasad Ojha** (2000 AD) on *Profit planning in Public Enterprises (PE) in Nepal, A comparative study of Nepal Drugs Limited (NDL) and Herbs Production and Processing Company (HPPC)*. He has examined and analysis the current practices of profit planning and its effectiveness in Nepalese public enterprises. His research had the following findings and recommendations;

- ) Objectives of Nepalese public enterprises are not clear. Conflict between social objectives and profit objectives and it is hampering to different profit planning program of PEs. NDL and HPPC have not any effective program to increase profitability but these enterprises have numbers of social objective.
- ) Nepalese public enterprises are not successfully maintained coordination within organization
- ) One major problem in Nepalese public enterprises is behavioral. But this PEs has not any attempt to solve behavioral problems that are in organization.
- ) Pricing system of Nepalese Public Enterprises is not scientific. PEs adopts traditional pricing methods. Usually, cost- plus pricing method is applied to reduce price. Certain products are priced below costs as per Government circular.

Recommendations of **Mr. Ojha's** researches are:

- ) Since external variables exercise major influences on the enterprises, HPPC and NDL and all PEs should adequately identify and evaluate these variables. These enterprises should have in depth analysis of the company's strengths and weakness.
- ) Objectives are the ends, which an enterprise seeks to achieve. NDL and HPPC should develop the objects to create and maintain on optimum



enterprise environment that maximizes the interest and motivation of all employees.

- ) This enterprise should maintain proper co-ordination within the organization. Line and staff authorities and responsibility should be clearly defined.
- ) Nepalese PEs should attempt to solve the behavioral problems that arise in organization.
- ) Price cost volume relationship should be taken into consideration while developing sales plan and pricing strategies.
- ) Cost reduction programs should be formulated and applied and present cost capacity structure should be changed, efforts to reduce fixed costs should be made.

**Mr. Promod Dhungana** (1994 AD) conducted, *A study of joint venture banks profitability*. This study with main objectives of assessing the profitability of joint venture Banks in Nepal during the period of five years from 1987/88 to 1991/92.

Other objectives of the study were:

- ) To identify whether the profitability of joint venture banks are optimal or not.
- ) To identify the pattern of profitability of joint venture banks especially have Nepal Grind Lays Bank Limited (Standard Chartered Bank Limited).
- ) To suggest on the basis of finding and analysis.

Major findings, He had presented were as follows.

- ) Interest income of Nepal Indosuez Bank limited (Nepal Investment Bank) was the highest.

- ) NSCBL's commission and discount earning and foreign exchange income were higher than both of NIBL and Nabil.
- ) Nabil's operating income was appeared higher than other banks
- ) NIBL had paid highest tax per share than other banks and NSCBL paid the same.
- ) In average Nabil, NIBL and NSCBL had highest personnel expenses. Interest expenses on deposit and other operating expenses respectively.

**Mr. Raghu Bir Kapadi** (2002 AD) in his study, *A comparative study on financial performance of Nabil Bank Ltd and SCBN* has found the following findings;

- ) Liquidity position of both banks are unsatisfactory since the ratio below the normal standard i.e. 2:1
- ) The debt to equity ratio of both the banks reveals that the claims of the outsiders exceeds more than that of the owners over the bank assets. Nabil bank seems to be more leveraged than SCBN.
- ) Nabil is more efficiently using the outside's fund in extending credits for profit generation.
- ) He has recommended earning more operational profits either by increasing their operational efficiency or decreasing their operation expenses.

**Mr. Narendra Maharjan** (2008 AD), on his thesis entitled, *Financial Performance of commercial banks in Nepal: A Comparative Study of Nepal Bank Ltd and Nepal Bank Ltd*. The result of analysis of activity ratio shows that Nabil is efficiently utilizing its outsider funds by extending loans, advances and investment to generate profit, whereas NBL cannot utilize totally its outsider fund but holding the fund. It shows NBL is discouraging the investment of its resources. Nabil is utilizing its assets on generating satisfactory profit but NBL cannot generate satisfactory profit because of not

utilizing its assets on loan and advances and investment. While analyzing of valuation ratio of this two banks, it is concluded that the Nabil has higher ratio than NBL. So, the market judges Nabil bank's performance and prospect is better than NBL.

**Ms. Namrata Shakya** (2009 AD), on her thesis entitled, *A Comparative Study on the Financial Performance of Nepal Investment Bank Ltd (NIBL) & Laxmi Bank Ltd (LBL)*, evaluates the financial performance of the selected banks. On the basis of the comparative analysis of the data of LBL and NIBL, the study has focused on liquidity ratio, leverage or capital structure, capital adequacy, management of assets, Profitability and other ratios. According to their analysis, I found that among the various profitability ratios, return on net worth ratio, return on capital employed ratio return on total assets, return on total deposit ratio and interest earning to total assets ratio of NIBL are greater than that of LBL. Liquidity position of LBL and NIBL are lower, they are still able to meet their current obligation. According to capital adequacy ratio, NIBL's position is better than that of LBL.

**Ms. Sumitra Thapa** (2009 AD), on her thesis entitles, *A comparative analysis of financial performance of Standard Chartered Bank and Himalayan Bank Ltd*. In this analysis, the study reveals that the current ratio of HBL is greater than 1 and SCBNL's current ratio is less than 1, which should be considered satisfactory for HBL but not satisfactory of SCBNL. The liquidity position of HBL is better than SCBNL. The cash and bank balance of HBL with respect to meeting customer requirement than SCBNL. The cash and bank balance of HBL with respect to current assets is higher than SCBNL. This shows greater capacity of HBL with respect to current assets is higher than SCBNL. This shows greater capacity of HBL to meet its customer's cash requirement but that doesn't mean SCBNL cannot meet its daily customer cash requirement. Both the banks have successfully managed their assets.

From the review of various books, articles, journals and thesis, this study is different from previous studies. In this study, researcher has taken two banks for profitability analysis. They are Nepal Bangladesh Bank Ltd and Nepal SBI Bank Ltd. This study will be fruitful to those interested person, researchers, students, teacher, businessman and government for academically as well as policy making perspectives.

### **2.2.3 Research Gap**

There is a vast gap between the present research and previous researches. Most of the previous researches have been conducted on profit planning and control, especially in PEs. They were either a case study of particular company or a comparative study of two different companies. A few numbers of researches have been also made in the area of receivable management inventory management, CVP analysis, financial performance analysis, capital expenditure planning and so on. But these all are only a part of management account which can't represent the overall practices of management accounting in Nepalese companies. Most of the dissertations have been prepared based on the secondary data and all of the findings are similar to each other.

This is a comparative study of the two joint venture banks research entitled "**Comparative Study on the Profitability of Nepal SBI Bank and Nepal Bangladesh Bank**". The study is completely based on secondary information.

The previous researches can't represent the overall practices of management account in Nepalese companies, especially to service sector. These studies can't identify financial and statistical tools are practicing and which financial tools are not practicing till now. What might the reasons behind the non-practicing of Financial tools as well as statistical in Nepalese joint ventures companies? To fulfill these gaps, this research has been done. This research has clearly describes that which financial tools and techniques are practicing and which are not practicing till now. The research also discloses the major

difficulties for the proper application of statistical tools in Nepalese companies. The study has conducted by dividing the PEs different joint ventures organization. This includes manufacturing, trading, service, social service, public utility and financial sector done by the corporation coordination division, Government of Nepal. It also helps to identify the business sector, where statistical tools can apply to strength the Nepalese PEs. The research has also suggested and recommended that where statistical tools can apply to overcome the difficulties for the proper application of financial tools and techniques in Nepalese companies. Probably this might be the first research work carried on the mentioned topic. It can become a milestone in the context of Nepalese joint ventures companies.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.1 The Research Design**

To achieve the objective of this study, descriptive cum analytical research design has been used. Financial tools along with statistical tools have been applied to examine and evaluate the profitability of Nepal SBI bank limited and compare with the Nepal Bangladesh bank Ltd.

#### **3.2 The Population and Sample**

There are many commercial and joint venture banks are operating in the country and their stocks are traded actively in stock market. The number is increasing by day. So, among them as a sample two major banks have been taken in consideration as it is not possible to study all the data related with all bank of Nepal. Due to the limitation of the time and unavailable of the relevant data has forced to take research on the few commercial banks. So, study of the profitability of listed two banks is being compared, which are selected from population. From the below listed two commercial banks are considered as population. The selected samples are as follows:

- a) Nepal SBI Bank Limited
- b) Nepal Bangladesh Bank Limited

#### **3.3 The Data Gathering Procedure**

The studies basically focus on the secondary data. The data required for the analysis is directly obtained from the balance sheet and the profit and loss account of the concerned bank and the other publications. Supplementary information is collected from the number of institutions and authorities like NRB, Security Exchange Board, Nepal Stock Exchange, Ministry of Finance and economic surveys. Likewise, various data and information are collected

from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

### 3.4 The Statistical Procedure

Various statistical procedure related to this study will draw out to make the conclusion more reliable according to the available financial data. For this study following statistical tools are used.

#### Standard Deviation and Coefficient of Variance:

Standard Deviation refers to the difference of the performance from the average mean. Likewise the coefficient of variation provides the relative measurement of consistency of the series. The series which higher homogeneity has lower C.V. As such, the standard deviation and coefficient of variation of the net profits are calculated to identify their respective degree of deviation of profitability from their average.

$$\text{Standard Deviation ( ) } X \sqrt{\frac{1}{N} \sum x^2}$$

Where,

N= No. of observations

$$X = (\sum (X - \bar{X})^2)$$

X = actual value

X = arithmetic mean of the observation

$$\text{Coefficient of Variation (C.V) } X \frac{\text{Standard Deviation}}{\text{Mean}} | 100$$

Where,

= standard deviation of the observation

X = arithmetic mean of the observation

### 3.5 The Data Analysis Procedure

In this study, various accounting, statistical and financial tools have been used to achieve the objective of the study. The analysis of the data is done according to pattern of data available. The various calculated results obtained through financial and statistical tools are tabulated under different headings. Then, they are compared with each other.

#### 3.5.1 Financial Tools

**a) Return on Equity:** The shareholder's are true owners of the Bank and thus the profit belongs to them. This ratio display the returns earned on the shareholder's equity. The shareholder's equity involves share capital and all other reserves including the loan loss provision.

$$\text{Return on Equity} \times \frac{\text{Net profit}}{\text{Shareholder's Equity}}$$

Where, Shareholder's equity = Share capital + Reserve + Loan provision

**b) Earnings Per Share:** The performance and achievement of the bank can be identified with the earning power of the bank. The higher ratio displays the more profit of the bank. This ratio displays the earning made by each share of the bank. It is one of the major tools used by the investor to access the performance of their investment.

$$\text{Earning per share} \times \frac{\text{Net profit}}{\text{No. of Shares}}$$

**c) Net Profit margin:** The income generated by the bank, are put to various uses. There are various expenses of the bank to be dealt with. So, surplus comes into picture if the income of the bank exceeds the expenses, which is called a profit. The net profit margin displays the proportion of net profit over the income of the bank.

$$\text{Net profit margin} \times \frac{\text{Net profit}}{\text{Total Income}}$$



### 3.5.2 Liquidity Ratio

Liquidity ratios are used to judge the ability of banks to meet its short-term liabilities that are likely to mature in the short period. It is extremely essential for a firm to be able to meet its obligations. Liquidity ratio measures the liquidity of the firm to meet its current obligation.

A firm should ensure that it does not suffer some lack of liquidity and also that it doesn't have excess liquidity. A very high degree of liquidity is also bad; it is necessary to be ensuring of proper balance between high liquidity and lack of liquidity.

#### a) Cash and Bank balance to total Deposit ratio.

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

#### b) NRB Balance to total Deposits Ratio.

$$\text{NRB Balance to total Deposits Ratio} \times \frac{\text{Balance with NRB}}{\text{Total Deposit}}$$

### 3.5.3 Income Expense Ratios

Components of income: The income of the banks comprises of interest income, commission income and other income.

Where,

Interest income = Income from loans and advances, investment, agency balance, money at call and interbank lending.

Commission Income = Income from Bills Purchase, L/C, remittance income, collection chares etc

Other income = Exchange income+ income from sale of assets+ other Miscellaneous income like safe locker rentals, credit cards etc, service charges etc.

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Total Income}}$$

### 3.5.4 Components of Expenses

The expenses of the bank can be broadly categorized into interest expenses, staff expenses, operating expense and other expenses.

Where,

Interest Expense = Interest expense on deposit and borrowings

Staff Expense = Salary + Allowance + Bonus + Pension and gratuity + provident fund etc.

Operating Expense = Rent + Water, Electricity, power, Telephone charges + Repair and maintenance + Depreciation on fixed assets + Legal charge + advertisement expenses + newspaper and periodicals etc.

Other Expenses = Loss on sale of assets + Write off of bad debts + additional loan loss provision

### 3.5.5 Interest Payout Ratio

The main function of a bank is to collect deposits and provides loans. The bank pays interest on the deposits and charges interest on the loans. It also generates 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 = Expense on deposit and borrowings

Interest Income = Income on loans and advances + investment + money at call + interbank lending etc.

### 3.5.6 Loan Loss Provision to Total Income

The risk associated with the lending cannot be completely eradicated. However, it can be minimized through creating a buffer in case of losses. Thus, NRB directive requires the banks to create a certain level of provision for loan loss. The requirement depends on the quality of the assets of the bank with provision rate ranging from 1% to 100%. Thus, this comparison provides an impact of the loan loss provision on the income of the bank.

$$\text{Loan Loss provision to income} \times \frac{\text{Additional Loan Loss Provision}}{\text{Total income}}$$

Where, Additional Loan Loss provision = Additional provision created in the period

Total Income= Sum total of the credit side of profit and loss account.

### 3.5.7 Operating Expenses to Total Income

The bank during its operation has to incur go various expenses. Some of the expenses are rent, insurance, depreciation, and postage/couriers, telephone, electricity, advertisement etc. This ratio shows the proportion of operating expenses on the total revenue of the year.

$$\text{Operating expenses to total income} \times \frac{\text{Operating expenses}}{\text{Total income}}$$

Where,

Operating Expenses = Expenses Rent + Water, Electricity, Power, Telephone charges+ Repair and maintenance+ Depreciation on fixed assets + legal charges+ Advertisement expenses+ newspaper and periodicals + board meeting expenses etc.

### 3.5.8 Staff Expenses per Employee

In a service industry, the importance of the human element cannot be ignored. The service organizations have to keep their employees satisfied. Although cost minimization is one way to maximize the profits, the minimum level of staff expense can work other way round. Unmotivated and unsatisfied

workforce shall be highly inefficient and unproductive in their work and it negatively affects the profitability of the organization. Thus, the advantage and benefits should be designed at an appropriate level keeping both the organization and staff unaffected. This ratio provides the average spending of the bank on its employee during the year including the bonus payments.

$$\text{Staff Expenses per Employee} \times \frac{\text{Total staff expenses}}{\text{No.of Staff}}$$

Where,

Staff expenses = Expense on salary + Allowances + Bonus + Medical expenses + Provident fund + Pension and Gratuity + Training expense etc.

No of staff= Total Number of staff on a payroll or the end of the fiscal year.

### **3.5.9 Credit to Deposit Ratio**

The bank cannot invest all the resources. It has to apportion a certain amount of resources for the liquidity purposes. So, the banks normally do not invest all their deposits.

$$\text{Credit to Deposit Ratio} \times \frac{\text{Total credit}}{\text{Deposit}}$$

Where, Credit = Loans and advances (except Staff Loan) + bills (Documents) Purchased

Total Deposit= Sum of all forms of deposits in the bank.

### **3.5.10 NPA to Credit**

In order to identify lending, the NRB has designed certain criteria for the classification of loans with respect to the risks involves. There are four classifications pass, sub-standard, doubtful and loss. The loans and advances falling under other categories except pass are called NPA. The NPA can be a result of many factors like poor credit appraisals, poor credit management or the economic slowdown. The probability of default will be high as the credit move into the next category except pass category. This ratio provides the proportions of good loans and advances in the total portfolio.

$$\text{NPA to total credit} \times \frac{\text{NPA}}{\text{Total credit}}$$

NPA = Loans and advances (except staff loan) + Bills (documents) purchased

### 3.5.11 Interest Spread

The banks pay interest to its depositors and collect interest on the loans and advances. The banks collect at higher interest rate than at what they provide. This margin is the profit of the banks. The interest spread is the difference in rates between the loans/advances and deposits. The comparisons of spread of different banks provide an analysis of the different contribution margins. Spread is calculated as follows.

Interest spread = Interest income - Interest expense

Where,

$$\% \text{ of interest income} \times \frac{\text{Interest income}}{\text{Credit} \Gamma \text{ Money at Call} \Gamma \text{ Lending} \Gamma \text{ Investment}}$$

$$\% \text{ of interest Expense} \times \frac{\text{Interest Expense}}{\text{Deposits} \Gamma \text{ Borrowings}} \mid 100$$

### 3.5.12 Net Profit of Commercial Banks

A comparison of the net profit of joint venture banks over the year helps to evaluate comparative profit. The comparison of profit of various banks over the years is useful to understand, evaluate the performance of the bank.

### 3.6 Trend Analysis

The ability to predict the future with accuracy would be extremely valuable. So, the trend analysis is used to detect patterns of changes in the values of variable over regular periods of time. These patterns are then used to estimate for the future. Thus, estimation for the future of the banks with reference to their respective past performances will be made. Out of the various methods available, the analysis is based on the least squares method.

As per the least squares method, the straight line of trend is given by;

$Y = a+bx$  and,  $x =$  no. of years

Where,  $Y =$  estimated value in year

$$b = \frac{n \phi X \psi Z \quad X \quad Y}{\rho \quad X^2 Z \quad ( \quad X )^2}$$

$$a = \frac{\phi \psi Z b \quad X}{n}$$

## **CHAPTER IV**

### **PRESENTATION OF THE DATA**

#### **4.1 Data Presentation and Analysis**

##### **4.1.1 Introduction**

This chapter contains evaluation of the performance of NB Bank Ltd with relation to the Nepal SBI bank. To accomplish the objective of measuring the profitability the relevant data are extracted presented in tabular and graphical form. In order to analyze, various tools like ratio analysis, comparisons and trend analysis were used.

##### **4.1.2 Net Profit Ratio**

###### **4.1.2.1 Return on Equity**

The equity is the wealth of shareholders. The bank is accountable to provide a good return on the wealth of the shareholders. Return on shareholder's equity basically measures the company's return on the investment made by owner of the company. This ratio helps us to judge whether the firm has earned satisfactory return for its equity holders or not. The return on equity of the banks over a period of 5 years is given below:

The above table demonstrates that the ratio of the return on equity of SBI bank has increased for the period of five years but NB bank has deficit ratio and the bank went into loss during the five years period.

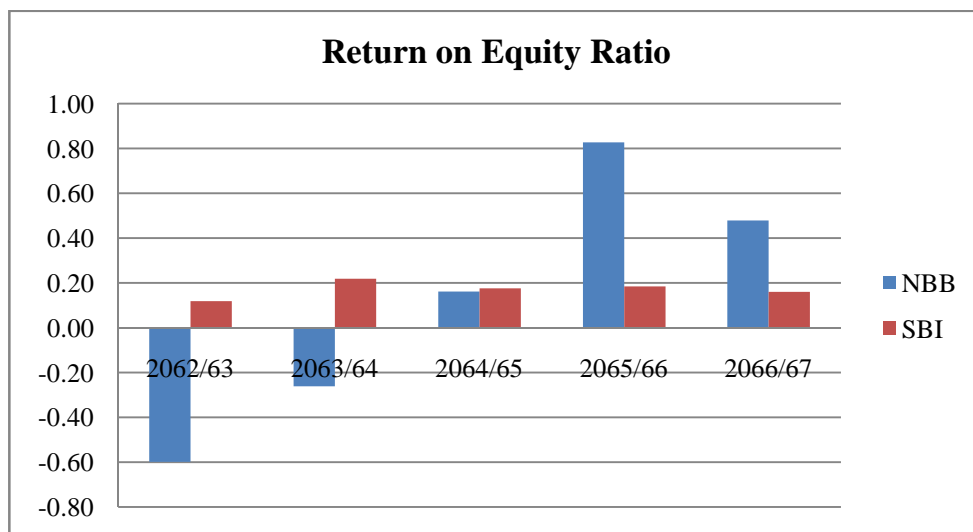
**Table No: 04**  
**Return on equity ratio (In times)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	-0.60	-0.26	0.16	0.83	0.48	0.122	0.566	4.65
SBI	0.12	0.22	0.18	0.18	0.16	0.172	0.469	2.73

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 1)*

The coefficient of variation ratio of return on shareholders' equity of the SBI Bank is less than the NBB Bank  $2.73 < 4.65$ . Less the C.V., more will be the uniformity; consistency and more the C.V. less will be the uniformity. Higher is an indication of future of utilizing the shareholders' fund. The company's returns on shareholders fund reflect that the future investment is sound and prospective investors will get attraction. Return on shareholders' fund also reflects the market value of share. Comparatively the market value of the SBI bank is higher than NBB bank.

**Figure - 1**



#### **4.2.2 Return on Total Assets (ROTA)**

The ratio is a primary indicator of managerial efficiency. It indicates how effectively all the assets have been utilized by the management. The ratio measures how far the management has utilized all the assets of the bank for profit generation. Returns on total Assets (ROTA) indicated efficiency of the utilization of the total assets and vice versa.



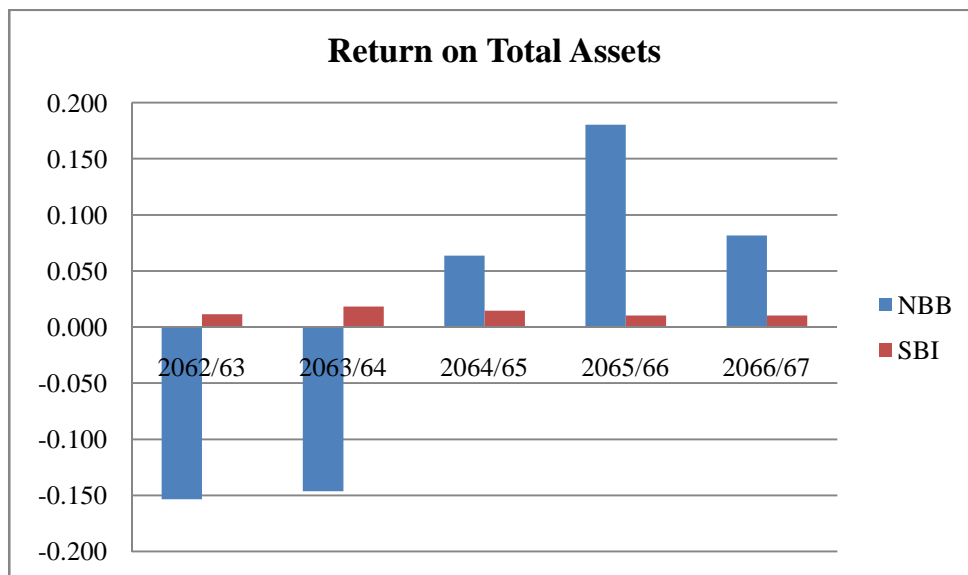
**Table No: 05**  
**Return on total assets (In times)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	-0.153	-0.146	0.064	0.180	0.082	0.005	0.148	28.98
SBI	0.011	0.018	0.014	0.010	0.010	0.013	0.035	2.69

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 2)*

The table shows that the ratio appeared -0.153, -0.146, 0.064, 0.180, 0.082 of NB Bank and 0.011, 0.018, 0.014, 0.010, 0.010 and in fiscal year during 062/63 to 063/64, it is negative ratio of the NB Bank. The ratio showed highly fluctuating trend in NB Bank. The bank was better position during the fiscal year 064/65 to 066/67 due to high NPAT. The total assets of both banks are in rising trend. The mean ratio of SBI Bank is higher than NB Bank i.e. 1.20 and -2.25 respectively. The C.V. of the SBI bank shows that the earning on total assets utilized is more consistent than NB bank. SBI Bank is more capable than NB Bank.

**Figure - 2**



### 4.2.3 Earning Per Share (EPS)

The performance and achievement of a bank can be identified with the earning power of the bank. In general case, higher earning implies the strength of the bank. Every shareholder is much interested in the return on the share. A

company is investing when the capital invested can earn adequate return per share. The ratio of earning available to the common shareholders to their outstanding share capital is expressed.

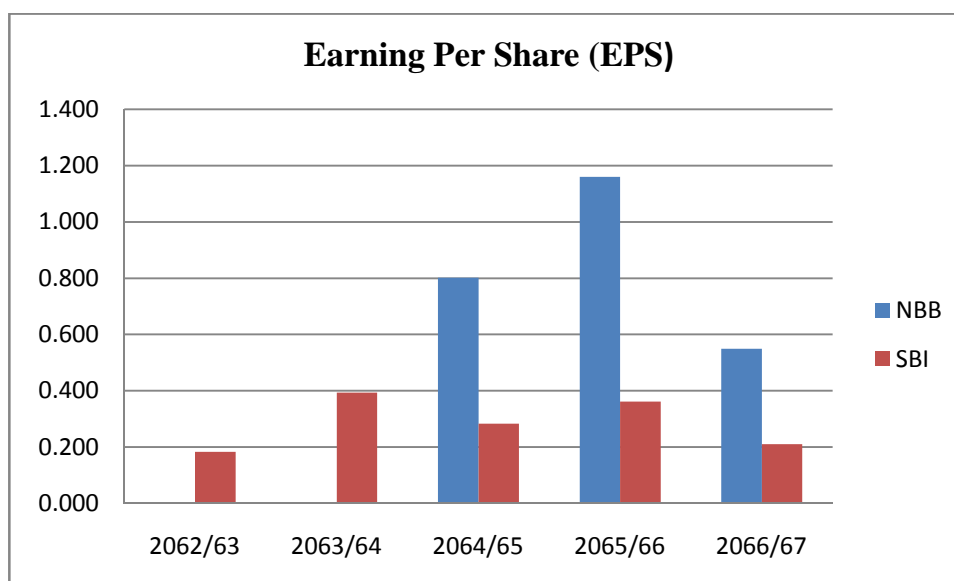
**Table No: 06**  
**Earnings per share (in times)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	N/A	N/A	0.802	1.160	0.549	0.502	0.507	101.02
SBI	0.183	0.394	0.283	0.362	0.210	0.286	0.092	31.99

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 3)*

The Earning Per Share of Nepal SBI bank rose to a 0.394 during the year 063/64, in fiscal year 062/63 has 0.183 and 0.283 in 064/65, 0.362 in 065/66 and 0.210 in 066/67. It means this is little bit fluctuating in each year. NB Bank rose to a maximum of 1.160 and its falls the earning per share up to zero during the fiscal period of 062/63 to 063/64. The reason for the massive decline of NB Bank Ltd is increase in the number of shares on the hand while the net profit has significantly declined on the SBI. The C.V. of NBB 101.02% is higher than Nepal SBI Bank 31.99%.

**Figure - 3**



#### **4.2.4 Net Profit Margin**

The profit is the universal measurement tools of the performance of any institution. Likewise, it also serves as an important index to measure the performance of the banks. Profit is important to various parties like management, employees and the government for their own reason. Management may use it to measure their performance; employees may use it to validate their claim for better remunerations and the government to receive taxes.

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

**Table No: 07**  
**Net profit margin (in times)**

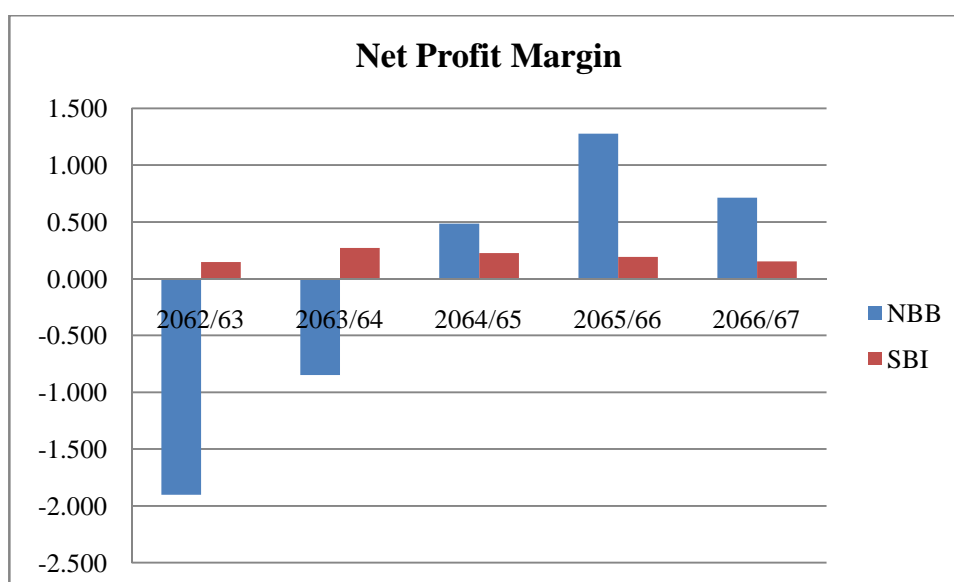
Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	-1.904	-0.849	0.484	1.278	0.713	0.495	0.637	128.56
SBI	0.147	0.270	0.227	0.191	0.153	0.198	0.052	26.30

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 4)*

The net profit margin of NB bank, at its highest, was 1.278 in the year 065/66 which was going to decline during the fiscal year period from 062/63 to 063/64. In simple terms it means that during this period, the NB bank was in deficit. The net profit margin of SBI bank was going to increasing for the fiscal year 062/63 and 063/64 and decreased during FY 064/65 to 066/67 i.e. 0.227 to 0.153 respectively.

It shows that the SBI bank has seemed more consistent in maintaining the higher net profit margin ratio. Moreover, the alarming fact is that the net profit margin of the SBI bank is good but NB bank's is not satisfactory.

**Figure - 4**



#### **4.2.5 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 sale of foreign bills, and other activities encourage 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 rates revalued time to time. In this way, foreign exchange income comprises two types of income: trading gain & Revaluation gain.

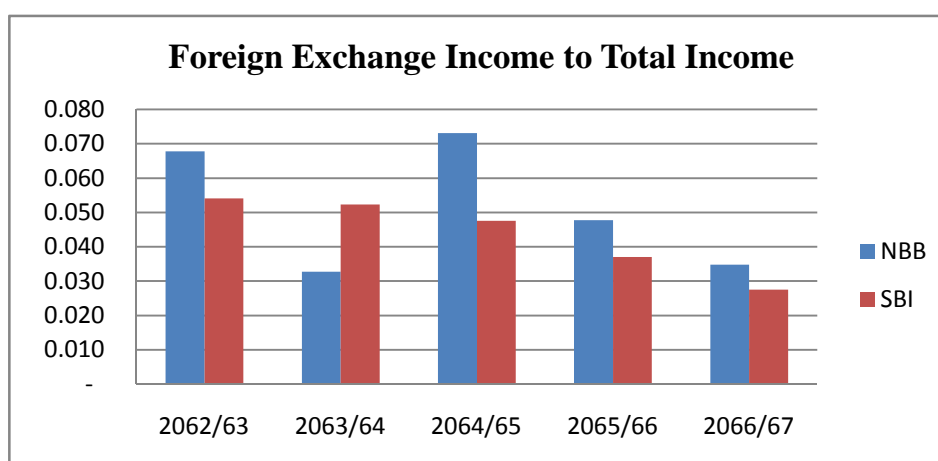
**Table No: 08**  
**Foreign exchange income to total operating income ratio (in times)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	0.068	0.033	0.073	0.048	0.035	0.051	0.017	33.81
SBI	0.054	0.052	0.048	0.037	0.028	0.044	0.010	22.88

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 5)*

Both banks are authorized by Nepal Rastra Bank to deal in foreign exchange income is made by dealing in foreign exchange and appears are to change on foreign exchange rates. The ratio of the foreign exchange income to total operating income ratio of the SBI Bank in 062/63 is 0.054 and decreased from fiscal year 063/64 to 066/67 i.e. 0.052 in 063/64, 0.048 in 064/65, 0.037 in 065/66 and 0.028 in 066/67. But ratio of NB bank has fluctuated over the period. In fiscal year 062/63 it was 0.068 and in fiscal year 063/64 it has decreased to 0.033 and increased to 0.073 in 064/65, 0.048 in 065/66 and 0.035 in 066/67. It appears that NB Bank's foreign exchange has fluctuated. The CV ratio of NB bank is 33.81% higher than SBI Bank 22.88%. It indicates that the foreign exchange earned to total operation income ratio of the NB is less consistent than SBI Bank.

**Figure - 5**



## 4.3 Income Expenses Ratio

### 4.3.1 Fees and Commission to Total Operating Income

The second major source of income in the Nepalese commercial banks is fees and commission income. Commercial banks nowadays have moved towards the near banking agency services like under writings, counseling, various service charges, renewal fees, and other consultancy functions. They have exposed to non- funded fee based services like LC guarantee, bills/clearing, safe deposits, and credit cards, ATM etc.

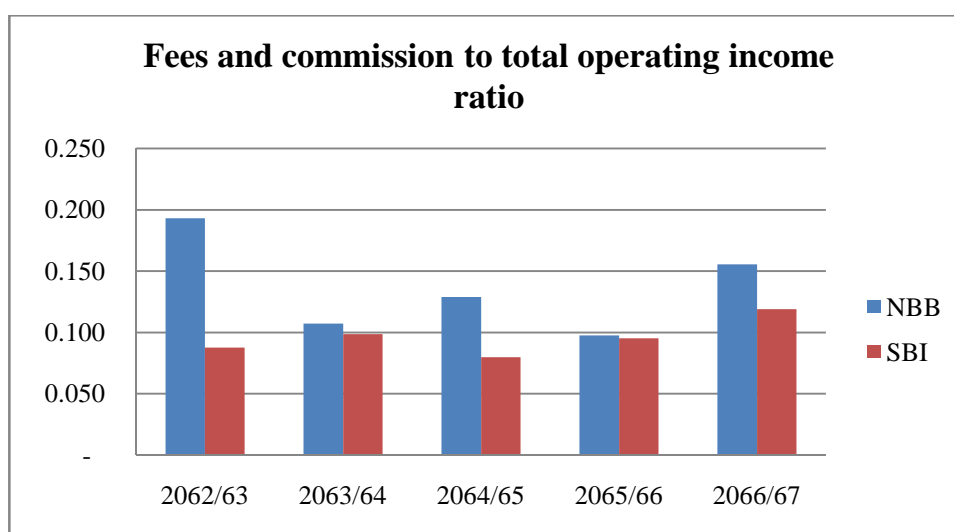
**Table No: 09**  
**Fees and commission to total operating income ratio (in time)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	0.068	0.033	0.073	0.048	0.035	0.051	0.017	33.81
SBI	0.054	0.052	0.048	0.037	0.028	0.044	0.010	22.88

(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 6)

The above table reveals that the mean ratio of SBI Bank and NB Bank is 0.137 and 0.096 respectively. NB Bank has higher ratio than that of SBI Bank. The CV ratio of SBI bank is 28.37% that are much lower than NB Bank 14.72%. It indicates the fees and commission earned to total operating income ratio of the SBI bank is more consistent than NB Bank.

**Figure - 6**



### 4.3.2 Loan Loss Provision to Total Income

The Loan Loss Provision to Total Income ratio of the banks is tabulated below. Loan loss ratio describes the preparation of provision for loss to the total income. Greater loan loss provisions are required to allow in income statement if high loss is expected. This leads to low profit and possible losses that produce low increase or decrease in the capital.

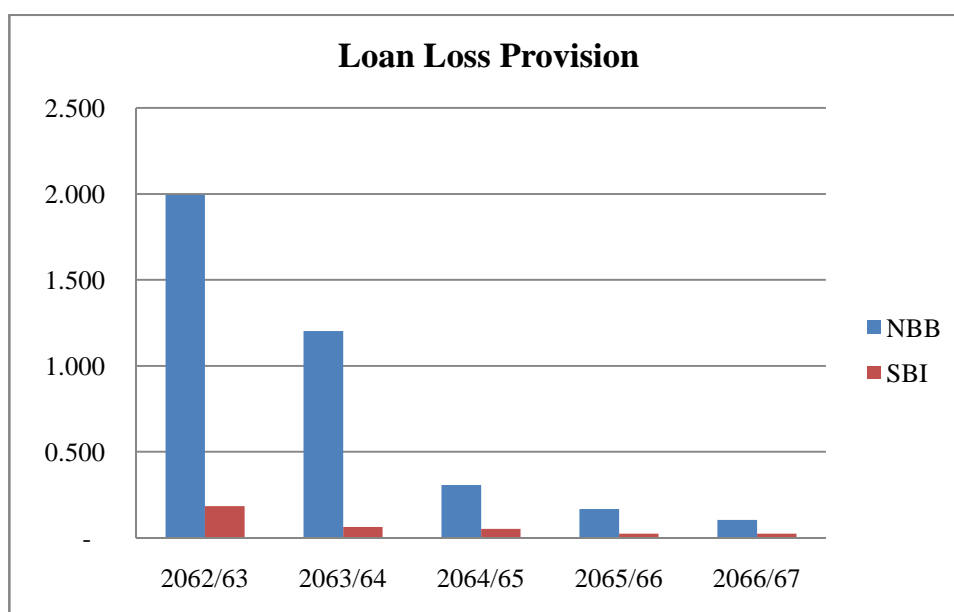
**Table No: 10**  
**Loan loss provision to total income (in time)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	1.994	1.202	0.308	0.168	0.104	0.755	0.822	108.89
SBI	0.184	0.063	0.053	0.024	0.024	0.070	0.066	95.23

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 7)*

The above table shows that higher this ratio indicates that the performance of the bank in term of recovery of loan loss provision is low. Provision for loan loss against the mean of 0.070 of SBI Bank but the mean of NBB Bank has 0.755. The CV of ratios of NB Bank is 108.89% that is comparatively higher than SBI 95.23%. It indicates the loan loss provision to total income of the NB Bank is less consistent.

**Figure - 7**



### 4.3.3 Operating Expenses to Total Income

The banks carry out its normal activity has to undergo various costs. There are called operating costs. Some of the examples are electricity, insurance etc. These expenses reduce a significant amount of the revenue. The proportion of such expenses in total income is tabulated below:

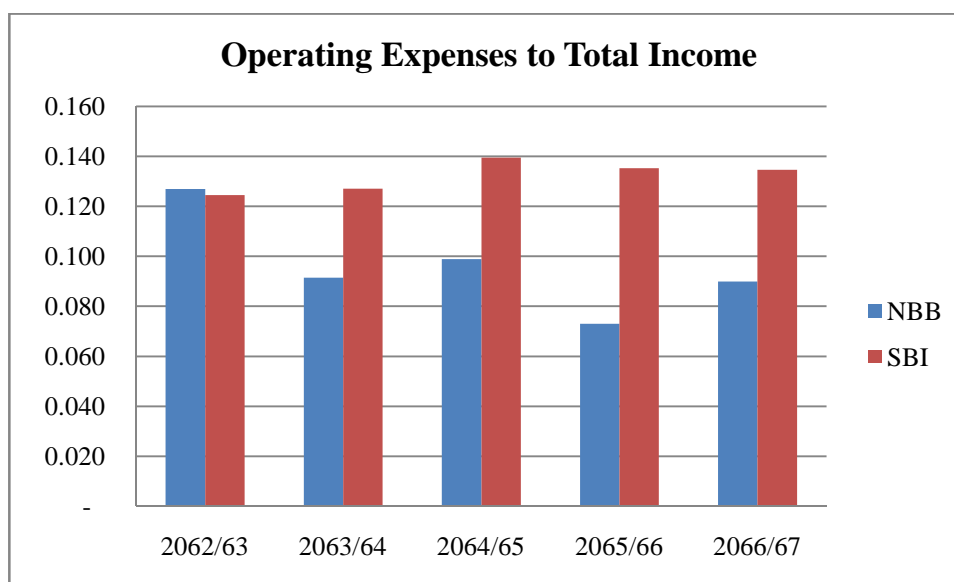
**Table No: 11**  
**Operating expenses to total income (in times)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	0.127	0.091	0.099	0.073	0.090	0.096	0.020	20.82
SBI	0.125	0.127	0.139	0.135	0.135	0.132	0.006	4.66

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 8)*

The operating expense of SBI Bank has greater mean 0.132 than of NB Bank 0.096. Both banks percentage of operating expenses data is fluctuate. The CV ratio of SBI Bank is 4.66% that is much lower than NB Bank 20.82%. It indicates that the operating expenses to total income ratio of the SBI Bank is more consistent.

**Figure - 8**





### 4.3.4 Interest Expenses to Total Expenses

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

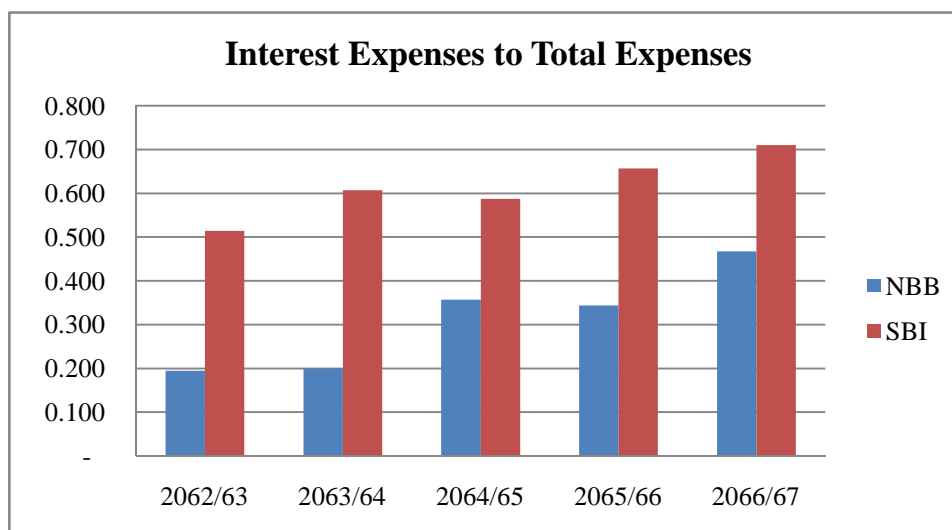
**Table No: 12**  
**Interest expenses to total operating expenses ratio (in times)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	0.195	0.200	0.357	0.343	0.467	0.312	0.115	36.92
SBI	0.514	0.607	0.587	0.657	0.710	0.615	0.074	11.99

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 9)*

If the mean ratios from the above table are observed, it is found that SBI Bank has a higher ratio of 0.615 than that of NB bank 0.312. The CV of ratios of NB is 36.92% that is comparatively higher than SBI Bank 11.99%. It indicates the total interest expenses to total operation expenses ratio of the NB Bank is less consistent than SBI bank.

**Figure - 9**



### 4.3.5 Staff Expenses to Total 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 share in total operating expenses is more than 15% of average Nepalese commercial banks.

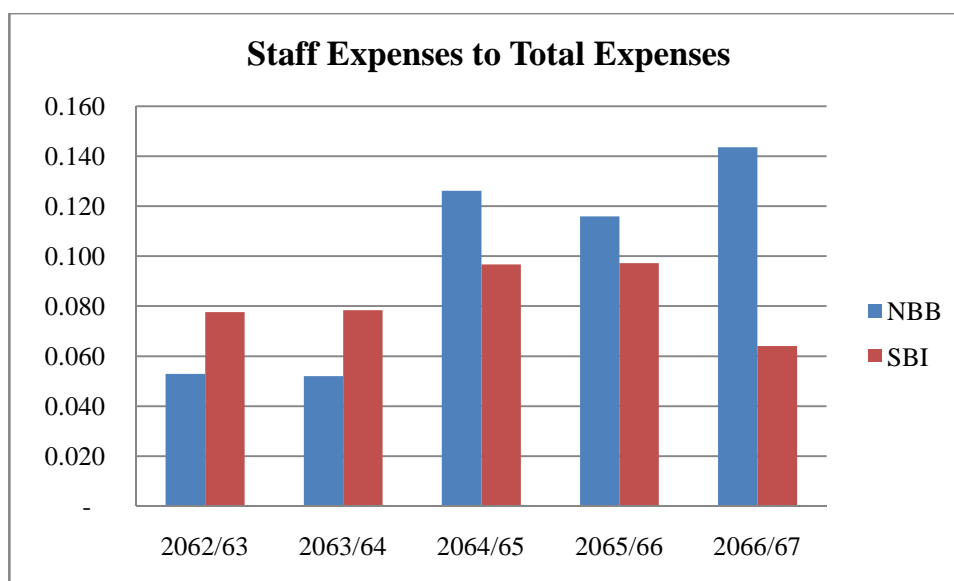
**Table No: 13**  
**Staff expenses to total operating expenses ratio (in times)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	0.053	0.052	0.126	0.116	0.144	0.098	0.042	43.23
SBI	0.078	0.078	0.097	0.097	0.064	0.083	0.014	17.04

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 10)*

The above listed table shows that mean ratios from the two banks, it is found that SBI Bank has lower ratio of 0.083 than that of NB Bank 0.098. The CV ratio of NB is 43.23% that is much higher than SBI Bank 17.04%. It indicates the total interest expenses to total operating expenses ratio of the NB bank is less consistent. Less the C.V, more will be the uniformity; consistency and more the C.V less will be the uniformity.

**Figure - 10**



### 4.3.6 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, telephone, internet, advertisements, legal expenses, expenses relating to board of directors, expenses related to audit, depreciation, amortization, professional service fee, security expenses, commission and discount and others.

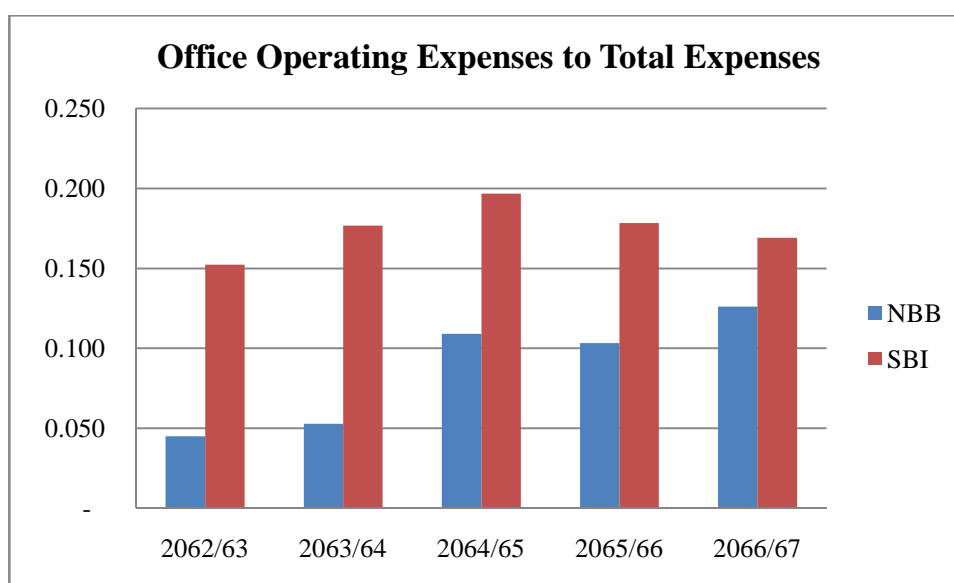
**Table No: 14**  
**Office operating expenses to total expenses ratio (in times)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	0.045	0.053	0.109	0.103	0.126	0.087	0.036	41.30
SBI	0.152	0.177	0.197	0.178	0.169	0.175	0.016	9.21

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 11)*

If the mean ratio from the above table is observed, it is found that NB Bank has lower ratio of 0.087 than that of SBI Bank has 0.175. The CV ratio of NB Bank is 41.30% that is higher than SBI Bank 9.21%. It indicates the office operating expenses to total operating expenses ratio of the NB bank is less consistent than SBI bank.

**Figure - 11**



### 4.3.7 Staff Expenses Per Employee

The human resource of any organization is a very important aspect. The organization needs to keep its human element satisfied and motivated. The spending of the banks on its human resources is as follows:

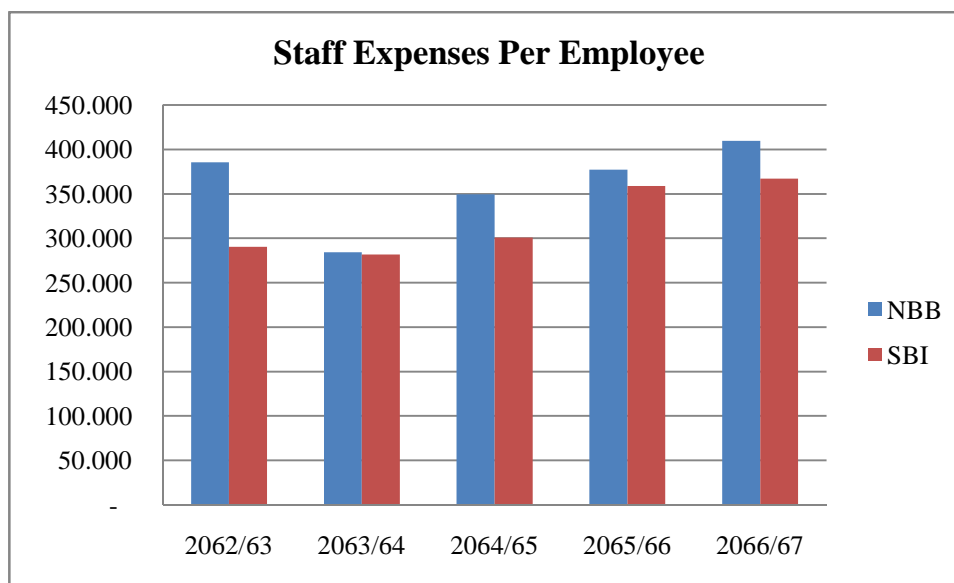
**Table No: 15**  
**Staff expenses per employee (Rs in '000)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	385.377	284.212	349.474	377.177	409.613	361.170	48.084	13.31
SBI	290.457	281.653	300.764	358.792	367.145	319.762	40.126	12.55

(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 12)

The mean ratios from the above table are observed, it is found that SBI Bank has a lower ratio of 319.76 that of NB Bank 361.17. The CV ratio of NB Bank is 13.31 that are comparatively higher than SBI Bank's 12.55. It indicates that the total staff expense to per employee ratio of the NB Bank is less consistent.

**Figure - 12**



### 4.3.8 Credit to Deposit Ratio

The major source of resource of a bank is deposit and the major outlet of resource is the credit. So, this ratio provides the ratio of efficiency with which the resources are mobilized. Following table displays the deposit

collected by the banks and their subsequent mobilization as at the end of corresponding fiscal year.

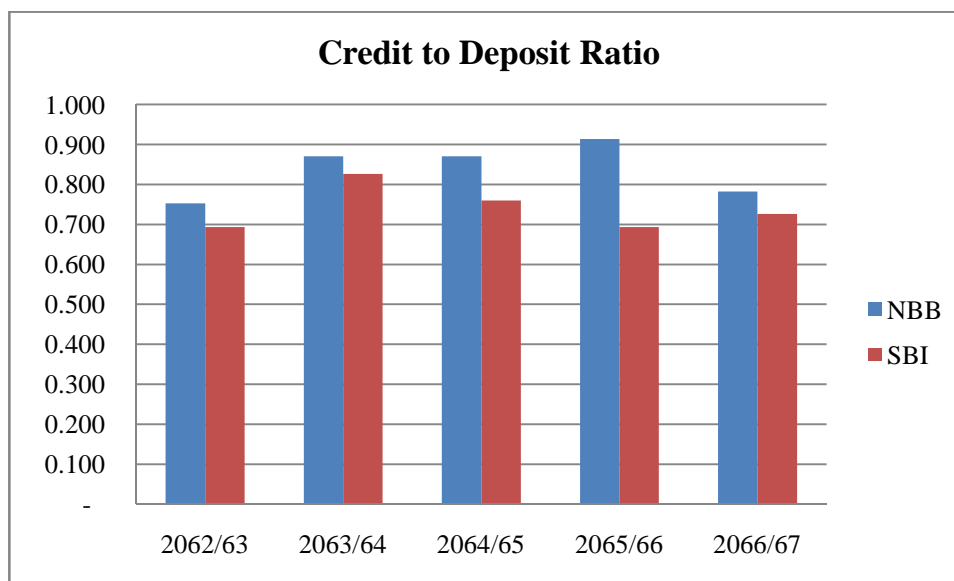
**Table No: 16**  
**Credit deposit Ratio**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	0.753	0.870	0.870	0.913	0.783	0.838	0.067	8.01
SBI	0.693	0.827	0.760	0.693	0.727	0.740	0.056	7.54

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 13)*

The mean values of the SBI Bank and NB bank have 0.740 and 0.838 respectively and the CV ratio of SBI Bank is 7.54% that is comparatively lower than NB Bank's 8.01%. It indicates the total credit deposit ratio of the NB Bank is less consistent. Thus, the bank should look to lower the ratio be either decreasing the credit volume or increasing the deposit base of the bank.

**Figure - 13**



#### 4.4 Liquidity Ratio

Liquidity ratio measures the firm's ability to meet their current obligations by making comparison between short-term obligations and the short-term resources available.

Every firm should be able to meet their obligations as they become due. Especially in case of banks they should ensure that they do not suffer

from lack of liquidity and have excess liquidity. For this purpose they must maintain optimum liquidity position because both the conditions of liquidity are unfavorable. Otherwise, they are failure to meet obligations lead to poor credit worthiness and loss of creditor's confidence.

The following are the selected ratios used to analyze the liquidity position of the firm.

- ✎ Cash and bank balance to total deposit ratio.
- ✎ NRB Balance to total deposits Ratio.

#### **4.4.1 Cash and bank balance to total deposit ratio.**

This ratio shows the ability of banks immediately fund to meet their deposits. This ratio is calculated by dividing the cash and bank balance by the amount of total deposits. In this study, Cash and Bank balance includes cash on hand, foreign cash in hand – cheque and other cash items, balance with domestic bank and balance held abroad. The total deposits of current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits.

It is hidden fact that the deposits would not withdraw total deposits, in case at a time so the bank keeps a certain margin of cash. This ratio includes that if the ratio is higher, there is higher liquid and if lower the bank is less liquid. The ratio not only analyzes the use of total resources of the firm, but also the use of various components of total assets. The ratio can be expressed as:

$$\text{Cash and Bank Balance to Total Deposit ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

High ratio indicates sound liquidity position of the bank. Even after that too high ratio is not good enough as it reveals under utilization of fund.

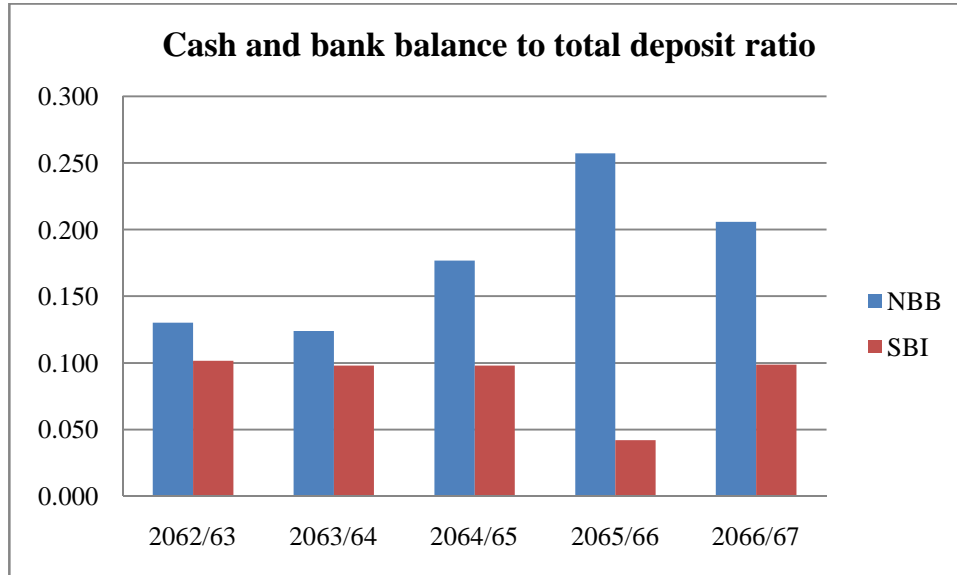
**Table No: 17**  
**Cash and bank balance to total deposit ratio (in times)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	0.130	0.124	0.177	0.257	0.206	0.179	0.056	31.14
SBI	0.102	0.098	0.098	0.042	0.099	0.088	0.026	29.12

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 14)*

It is observed that total cash and bank balance to total deposit rate in SBI Bank shows decreasing trends from FY 062/63 to 065/66 and increased in 066/67. It is highest 0.102 in fiscal year 062/63 and lowest 0.042 in fiscal year 065/66. If we compare annually NB Bank's ratio has decreased from FY 062/63 to 063/64 and increased during two fiscal years from 064/65 to 065/66 and decreased in 066/67. The mean ratio of the SBI Bank is 0.088 and NB Bank is 0.179. The CV ratio of SBI Bank is 29.12 that is comparatively lower than NB Bank's 31.14. It indicates the cash and bank balance to total deposit ratio of the NB Bank is less consistent than SBI Bank.

**Figure - 14**



#### **4.4.2 NRB Balance to Total Deposits Ratio**

Commercial banks have to hold a balance of certain percentages of their total deposits amount in Nepal Rastra Bank in order to fulfill legal requirements. The commercial banks are required to hold cash balances at NRB equivalent to 8% of their total current and saving deposit and 6% of their

total fixed deposit. Besides, these commercial banks are required to maintain 3% cash in vault out of their total domestic liabilities. This shows whether the bank has holding bank balance as required by Nepal Rasta Bank or not. NRB Balance to Total Deposits Ratio of the period of this study is shown below:

$$\text{NRB Balance to Total Deposits Ratio} = \frac{\text{Balance with NRB}}{\text{Total Deposits}}$$

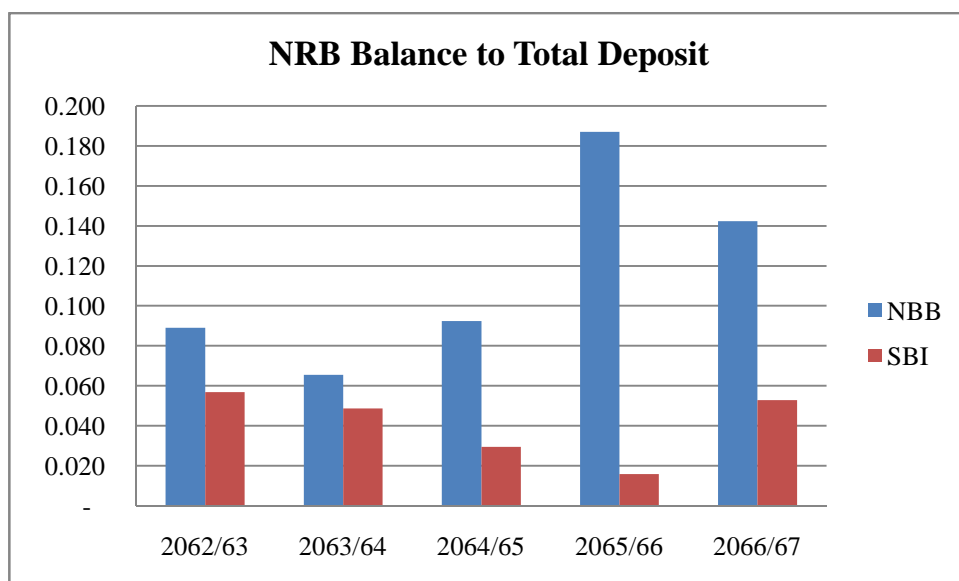
**Table No: 18**  
**NRB Balance to Total Deposit (in times)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	0.089	0.065	0.092	0.187	0.142	0.115	0.049	42.51
SBI	0.057	0.049	0.029	0.016	0.053	0.041	0.017	42.79

(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 15)

Above table shows that the ratio of balance with NRB to total deposit of both banks ratio is slightly changed in each fiscal year during the study period. In the fiscal year 065/66, NB Bank has greater ratio to among the years and in fiscal year 062/63, the greater ratio of SBI Bank in such i.e. 0.187 and 0.057 respectively. The mean ratio of NB Bank is greater than SBI Bank i.e.  $0.115 > 0.041$  and CV ratio are 42.51% and 42.79% of NB Bank and SBI Bank respectively. It shows that SBI Bank and NB Bank liquidity position almost in same to look during whole study period aggregately.

**Figure - 15**





## 4.5 Interest Spread

The spread is the difference between the buying and selling rates of the fund. The major source of income in a bank is from the interest on loans and advances. Thus, the rate of interest spread is significant importance in the aspects of profitability. The spread can be increased either by acquiring funds of lower casts or lending at higher rates of interest. Both these choices have drawbacks as acquiring funds at low cost is difficult to achieve while lending at high rates means taking higher risk of default. However, spread should be within 5% as per Nepal Rastra Bank. As per NRB, interest spread is expressed as follows:

Rate of return on total earning assets- int. cost on average deposit

Where,

$$\text{Rate of Return on Total Earning Assets} \quad X \frac{\text{Total Interest Income}}{\text{Average LAO, Investments, Call Money Placements} + \text{Total Deposits}}$$

And,

$$\text{Cost on Average Deposits} \quad X \frac{\text{Total Interest Expenses}}{\text{Average Deposits}}$$

The interest spread of banks for the last five years is tabulated below.

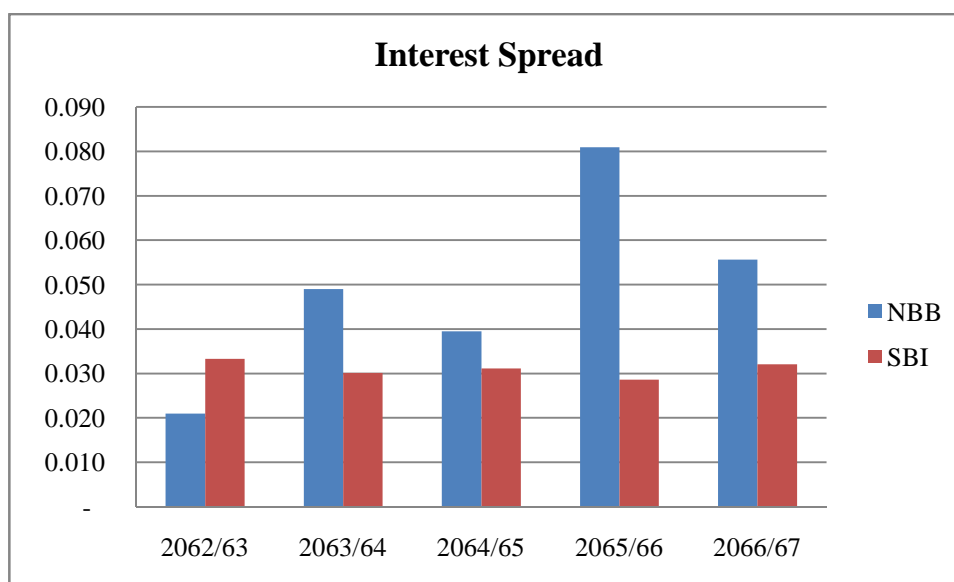
**Table No: 19**  
**Interest Spread (in times)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	0.021	0.049	0.040	0.081	0.056	0.049	0.022	45.45
SBI	0.033	0.030	0.031	0.029	0.032	0.031	0.002	5.58

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 16)*

The above table shows that the ratio of SBI Bank has ranged below the 0.033 similarly the ratio of NB Bank has ranged from 0.021 to 0.081. The mean ratio of NB Bank is higher than that of SBI Bank i.e.  $0.049 > 0.031$ . The CV of SBI bank shows that the earning spread is more consistent than NB bank i.e. SBI- 5.58%, NBB- 45.45%.

**Figure - 16**



#### 4.6 Dividend Per Share

People prefer present income more to the prospective future income. The shareholders and prospective investors emphasize the current earning on their shares. Because future is uncertain and it lies under time value of money, higher EPS also cannot satisfy the shareholders and prospective investors. To grasp the current market opportunity and benefit from trade of shares, the shareholders are more interested in dividend per share.

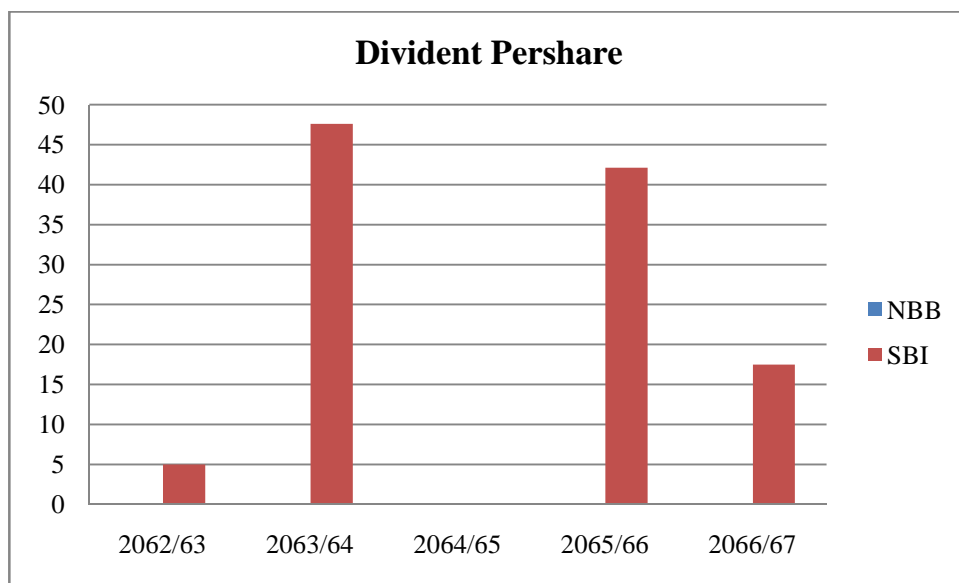
**Table No: 20**  
**Dividend per share (%)**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67
NBB	N/A	N/A	N/A	N/A	N/A
SBI	5.00	47.59	N/A	42.11	17.50

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

Higher dividend per share creates positive attitude of the shareholders towards the enterprises, which consequently helps to increase the value of shares.

**Figure - 17**



#### **4.7 NPA to Credit**

The loans and advances classified as NPAs have high potential for default. This ratio thus provides the proportion of such lending in the credit portfolio of the bank.

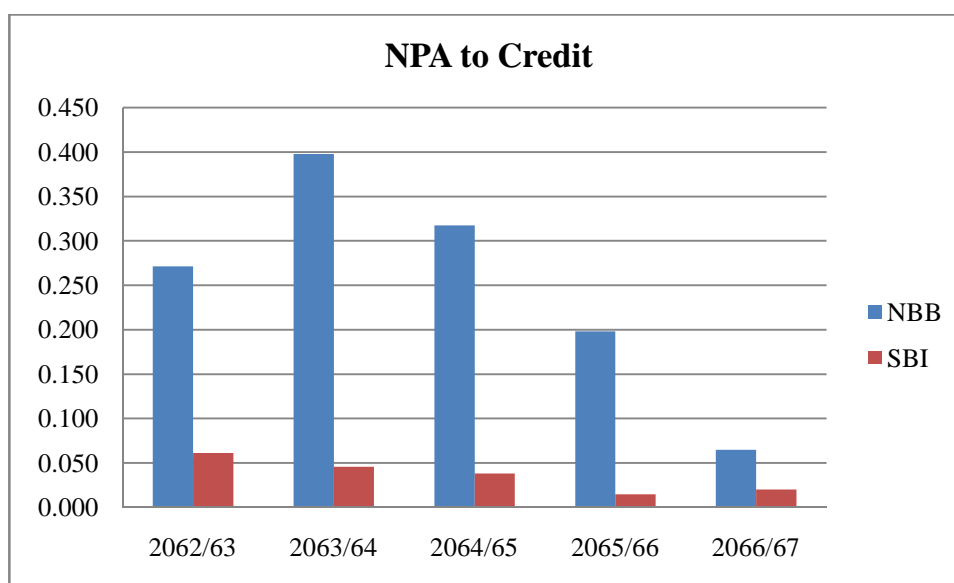
**Table No: 21**  
**Proportion of NPA in Credit Portfolio**

Bank/Years	2062/63	2063/64	2064/65	2065/66	2066/67	Mean	SD	CV
NBB	0.271	0.398	0.317	0.198	0.065	0.250	0.126	50.64
SBI	0.061	0.046	0.038	0.015	0.020	0.036	0.019	52.57

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd., Refer to Appendix - 17)*

The above table shows that it is found that the NPA proportion in SBI Bank is managed to reduce such a lending process from 062/63 to 065/66 i.e. 0.061 to 0.020. Likewise NB Bank has fluctuated. The mean ratio of NB Bank is 0.250 which is greatest than the 0.036 but the CV ratio of NB Bank is 50.64% that is slightly lower than SBI bank 52.57%. It indicates NPA to credit ratio of the both banks is consistent.

**Figure - 18**



#### **4.9 Trend Analysis of Net Profit**

This statistical tool is very important in the planning process as it helps to estimate a considerably reliable future with the help of past performances. Here, we look to estimate the profitability of the banks for the next years. The analysis is based on the least squares method. According to the calculations, the profitability of the SBI bank and NB Bank will be as follows:

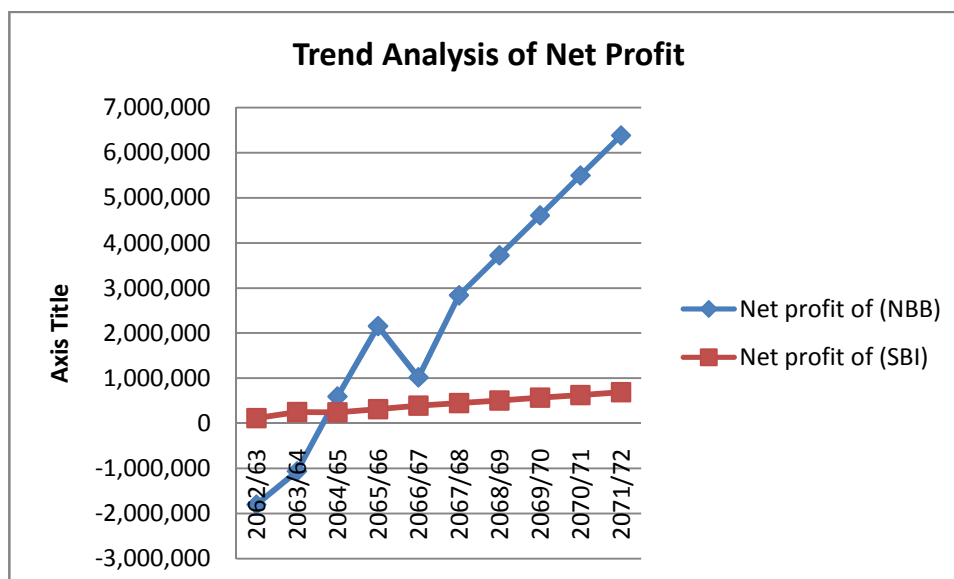
**Table No: 22**  
**Trend Analysis of Net Profit of SBI Bank and NB Bank (Rs in ‘000)**

Years	Net profit of (NBB)	Net profit of (SBI)
2062/63	-1,797,159	117,002
2063/64	-1,061,580	254,909
2064/65	596,487	247,771
2065/66	2,158,104	316,373
2066/67	1,021,380	391,742
2067/68	2,840,475	448,843
2068/69	3,726,151	509,937
2069/70	4,611,828	571,032
2070/71	5,497,504	632,126
2071/72	6,383,180	693,221

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

According to the trend analysis, the net profit of the SBI bank has an increasing trend in stability. It will grow in the coming years. If other things remain the same, the total net profit of the SBI Bank will be Rs 693,221,000.00 in FY 2071/72. Similarly, NB Bank's net profit will be Rs. 6,383,180,000.00 in FY 2071/72. This trend analysis chart shows that the NB Bank net profit will be more than SBI Bank. As on FY 2063/64, the bank was in a lost position and the management of NB bank was controlled by Nepal Rastra Bank and it has been improved from FY 2064/65 and in FY 2066/67 the profit is highly increased in 2064/65.

**Figure - 19**



## CHAPTER V

### SUMMARY AND CONCLUSIONS

#### 5.1 Summary

The prosperity of every developing country can be ensured by its economic growth. The role of commercial banks in the economic growth can be estimated to be very prominent. By mobilizing the scattered idle resources from the savers, commercial banks pool up the fund in a sizable volume in order to supply the fund requirement of productive sector of the economy. To remain as the major contributing factor to the growth of the nation's economy, they themselves have to sustainable existence and growth of themselves for which profitability is a must.

Therefore the profit for commercial organization has been defined as the lifeblood for the organization. A commercial Bank also, being a commercial institution has to plan for the reasonable profit earnings. Thus, this study is conducted to examine the profitability position of the Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd. The review of one specific institution can only say so much as compared to the conclusion that can be drawn from the comparisons with the competitors and the industry. Thus, the study makes use of comparison with other similar foreign joint venture banks and their average in order to measure the performance of the bank.

The history of the foreign joint venture banks in Nepal is short. They only came in existence in the late 80's after the government reforms the Commercial Bank Act. Before the liberalization, the Nepalese economy was fully dependent on the Nepal Bank Ltd. and Rastriya Banijya Bank. The presence of these two banks, were not sufficient to sustain the economic development. The main logic in the Government of Nepal's policy of allowing foreign Joint Venture Bank (JVB) to operate in Nepal that was encouraging to traditionally run commercial banks to enhance their banking capacity through competition, efficiency and modernization.

Nepal SBI Bank Limited is a Joint venture bank registered on 2050/01/16 in the department of industry, under the company act 2021 BS and commercial act 2031 BS. The authorized capital of the bank is Rs. 240 million.

Nepal Bangladesh Bank Ltd is registered in Nepal in 2051 BS. It is a joint venture bank with IFIC Bank, Bangladesh. The management of the bank is entrusted to IFIC bank Ltd under the technical services agreement. The bank is currently providing its services from 17 branches and total number of staff is 367.

The study is concentrated on the financial performance of two second generation joint venture banks, namely Nepal SBI Bank Ltd, and Nepal Bangladesh Bank Ltd to provide valuable insights observation regarding how they are financially performing. The first chapter contained details about the growth of commercial banks in general and has given a brief profile of two joint venture banks in this study. In 2<sup>nd</sup> chapter, the relevant studies have been carefully made to have a grasp of what others have said made on the topic. In 3<sup>rd</sup> chapter, the suitable research methodology has been used covering financial tools. The available data have been analyzed according to the need to represent the overall financial performance of commercial banks. Certain issues and findings have been materialized from analysis of data followed by a package of suggestions and recommendations.

## **5.2 Conclusions**

The effectiveness of intermediation role-played by the banking sector ultimately contributes to the economic development of a country. No doubt, the monetary and regulatory measure adopted by central banks to regulate and supervise the banks and financial institutions determine the extent of banking sector development. Results visualized are increased competition, internationalization of banking business, economic cooperation and innovation in financial instruments. The banking business has crossed the national boundaries and this has created more risks and challenges to the

regulatory framework in the SAARC countries and this call the needs for harmonization for banking policies to manage the banking business in this globalize world.

From the studies conducted following points has been concluded.

- ) The liquidity position of Nepal SBI Bank is comparatively slightly better with Nepal Bangladesh Bank Limited. The ratio of balance with NRB to total deposit of both banks ratio is stable trend over the study period. The mean ratio of SBI Bank is less than NB Bank. It shows that SBI Bank's liquidity position with regard to this ratio more satisfactory than NB Bank but cash and bank balance to total deposit ratio of the SBI bank is slightly better consistent than NB Bank.
- ) The profitability position of Nepal Bangladesh Bank is comparatively not better than Nepal SBI Bank Limited.
- ) Nepal Bangladesh Bank Limited has not maintained adequate capital in relation to the nature and condition of its assets, its deposit liabilities and other corporate liabilities. Therefore, the degree of capital risk in NB Bank Limited is higher and its risk ratios are highly unstable.
- ) Through the trend analysis it is found that the deposit collection position, lending position, investment position and net profit position trend during the whole study period of NB Bank Limited is not better than Nepal SBI bank but NBB has better position in NPA.
- ) The interest spread is the difference between the buying and selling rates of the fund. The rate of interest spread is significant importance in the aspect of profitability. Nepal Bangladesh Bank has average interest to total deposits ratio was found marginally higher than Nepal SBI Bank. It shows that earning interest spread is more consistent in case of SBI Bank than NB Bank.



- ) It can be concluded that interest expenses covered more portion in SBI Bank compared in NBB Bank. It may be result of their success to attract the depositors due to higher rate of interest.
- ) Organization itself does nothing but their success or failure is mainly based upon their employees. Efficient and well motivated staffs are the ornaments of any organization. Nepal Bangladesh bank staff expenses ratio is higher than SBI Bank. The main case is that high numbers of staff are working in NB Bank. In this way staff expenses includes all the expenses made upon their employees such as salary and allowance, training , uniform, and other contribution to provident fund, intensive benefit etc. NB Bank should be cared to maintain reasonable number of staff in future.

### **5.3 Recommendation**

On the basis of analysis, findings, issues and gaps following suggestions can be made.

- 1 Liquidity:** Both the banks should be ensured to maintained adequate and satisfactory level of liquidity.
- 2 Profit margin:** It is recommended that NB Bank is required to preserve of current profit rate. Both banks should attract more non-interest bearing amount deposit for increase profit margin. Moreover this should invest for earning of interest.
- 3 Loan and advances:** NB Bank has to stop to provide/invest in uncertain loan and sector. It has to be more focused to invest on manufacturing and productive industrial sector.
- 4 Control expenses:** Both banks have to control in its expenses, which are unnecessary, and financially burden for the bank. Both banks must formulate the strategy to control such expenses using modern technology and experts and well trained personnel which also increase the operating efficiency of the bank.

- 5 Earnings per share:** The earning per share and dividend per share attract the investors. The bank is also not generating sufficient return for the equity. So higher cash dividend strategy should be adapted for the better growth of shareholders worth.
- 6 Need to invest on small entrepreneurs development programs:** Joint venture banks like NB bank and SBI Bank are at present concentrating its business with big clients like big groups in trade and industry, manufacturers, exporters of garments and carpets, service related to tourism industry, subsidiaries of multinational companies operating in Nepal. The minimum level of balance need to open an account in these banks is out of the reach of economically backward and small investors. So the bank should increase the number of clients, develop entrepreneurship, diversify its business with the large numbers of small investors and come forward to meet the national objective of privatization of more entrepreneurs.
- 7 Training to the employees:** it is suggested that the commercial banks of Nepal have to use well-trained personnel. Well-trained personnel will provide better services to the bank and peoples. They will increase the operating efficiency of the banks. Thus, the banks have to conduct Training School of their personnel if necessary the banks have to be ready to provide the training to personnel on abroad.
- 8 Introducing to foreign investors for national development:** The Joint Ventures Banks are suggested to promote the foreign investors for making their investment for the development of the country. The foreign investors and industrialists are unfamiliar with the local rules, regulations, customs and practices. So, the JVBs should try as far as possible to promote for foreign investment of foreigner investors and industrialists that creates more productive assets, more jobs which leads to national development of the country by solving a great unemployment problem of the nation.

- 9 Mobilizing the deposits funds in productive sector:** The joint venture banks basically not concentrating to mobilize their deposit funds in productive sector. So they are suggested to come forward to meet government obligations by financing in the priority sector developments programs such as poverty alleviation programs, women development programs, income generating programs, generating new services etc.
- 10 It should grant more priority to local staffs:** The banks should develop the banking capacity in their local staffs. Banking capacity in their staffs can be developed by training and development programs and by allocating more authority and responsibility to them. These banks can achieve its goals in minimum cost by granting more priority to the local staffs. This will ultimately increase its profits.
- 11 Banking Technology:** it is found that the modern banking technologies followed by joint venture Banks in Nepal are mostly beneficial to the high level of depositors. NB Bank and SBI Bank are suggested here to make these technologies accessible to there all kinds of depositors as far as possible. It should introduce Tele-banking system and credit cards to boost up its transactions as well as to capture more market of financial service industries. Not only this, it should adopt efficient and latest market strategy to make its transaction more capable as well as to fulfill of the growing demand of new financial service and facilities.
- 12 Planning Research and Development:** An emphasis should be given on planning, research and development for the proper panning, to be strategic 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.

**Appendix - 1**  
**Return on equity ratio**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	d = X - $\bar{x}$	D <sup>2</sup>	Ratio (in times) X	d = X - $\bar{x}$	D <sup>2</sup>
2062/63	(0.60)	(0.72)	0.52	0.12	(0.05)	0.0028
2063/64	(0.26)	(0.38)	0.15	0.22	0.05	0.0023
2064/65	0.16	0.04	0.00	0.18	0.00	0.0000
2065/66	0.83	0.71	0.50	0.18	0.01	0.0002
2066/67	0.48	0.36	0.13	0.16	0.93	0.8679
X	0.61			0.86		
Mean (x)	0.12			0.17		
d <sup>2</sup>			1.29			0.8731
S.D	0.5657			0.469		
CV (%)	4.65			2.73		

(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)

$$\begin{aligned} \text{Mean} &= \frac{\sum X}{N} \\ \frac{\text{Nepal Bangladesh Bank Limited}}{5} &= \frac{0.61}{5} = 0.12 \\ \frac{\text{Nepal SBI Bank Limited}}{5} &= \frac{0.86}{5} = 0.17 \\ \text{S.D.} &= \sqrt{\frac{\sum d^2}{N-1}} \\ \sqrt{\frac{\text{Nepal Bangladesh Bank Limited}}{5-1}} &= \sqrt{\frac{1.29}{4}} = 0.5657 \\ \sqrt{\frac{\text{Nepal SBI Bank Limited}}{5-1}} &= \sqrt{\frac{0.8731}{4}} = 0.469 \\ \text{Coefficient of Variations (C.V.)} &= \frac{\text{S.D.}}{\text{Mean}} \times 100 \\ \frac{\text{Nepal Bangladesh Bank Limited}}{0.12} &= \frac{0.5657}{0.12} \times 100 = 4.65\% \\ \frac{\text{Nepal SBI Bank Limited}}{0.17} &= \frac{0.469}{0.17} \times 100 = 2.73\% \end{aligned}$$

**Appendix - 2**  
**Return on Total Assets**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	(0.1535)	(0.16)	0.03	0.0113	(0.00)	0.000003
2063/64	(0.1463)	(0.15)	0.02	0.0183	0.01	0.000029
2064/65	0.0635	0.06	0.00	0.0144	0.00	0.000002
6065/66	0.1804	0.18	0.03	0.0102	(0.00)	0.000007
2066/67	0.0815	0.08	0.01	0.0103	(0.00)	0.000007
X	0.0256			0.0646		
Mean (x)	0.0051			0.0129		
$d^2$			0.09			0.000048
S.D	0.1483			0.034727		
CV (%)	28.9819			2.6878		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

**Appendix - 3**  
**Earning Per Share (EPS)**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	-	(0.50)	0.25	0.1827	(0.10)	0.0107
2063/64	-	(0.50)	0.25	0.3935	0.11	0.0115
2064/65	0.8016	0.30	0.09	0.2833	(0.00)	0.0000
6065/66	1.1601	0.66	0.43	0.3618	0.08	0.0057
2066/67	0.5490	0.05	0.00	0.2105	(0.08)	0.0058
X	2.5107			1.4318		
Mean (x)	0.5021			0.2864		
$d^2$			1.03			0.0337
S.D	0.507247			0.0916		
CV (%)	101.0169			31.9878		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

**Appendix - 4**  
**Net Profit Margin**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	0.000	(0.50)	0.25	0.1469	(0.05)	0.0026
2063/64	0.000	(0.50)	0.25	0.2696	0.07	0.0052
2064/65	0.4839	(0.01)	0.00	0.2267	0.03	0.0009
6065/66	1.2785	0.78	0.61	0.1911	(0.01)	0.0000
2066/67	0.7132	0.22	0.05	0.1534	(0.04)	0.0019
X	2.4755			0.9877		
Mean (x)	0.4951			0.1975		
$d^2$			1.15			0.0106
S.D	0.6365			0.05196		
CV (%)	128.5588			26.3036		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

**Appendix - 5**  
**Foreign Exchange Income to Total Income**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	0.0677	0.02	0.00	0.0540	0.01	0.0001
2063/64	0.0328	(0.02)	0.00	0.0523	0.01	0.0001
2064/65	0.0731	0.02	0.00	0.0476	0.00	0.0000
6065/66	0.0477	(0.00)	0.00	0.0370	(0.01)	0.0000
2066/67	0.0348	(0.02)	0.00	0.0275	(0.02)	0.0003
X	0.2561			0.2185		
Mean (x)	0.0512			0.0437		
$d^2$			0.00			0.0005
S.D	0.01732			0.01		
CV (%)	33.8117			22.8833		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

**Appendix - 6**  
**Fees and commission to total operating income ratio**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	0.1932	0.06	0.00	0.0877	(0.01)	0.0001
2063/64	0.1074	(0.03)	0.00	0.0986	0.00	0.0000
2064/65	0.1290	(0.01)	0.00	0.0798	(0.02)	0.0003
6065/66	0.0975	(0.04)	0.00	0.0951	(0.00)	0.0000
2066/67	0.1556	0.02	0.00	0.1190	0.02	0.0005
X	0.6826			0.4802		
Mean (x)	0.1365			0.0960		
$d^2$			0.01			0.0009
S.D	0.03873			0.01414		
CV (%)	28.3691			14.7243		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

**Appendix - 7**  
**Loan Loss Provision**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	1.9937	1.24	1.53	0.1841	0.11	0.0131
2063/64	1.2020	0.45	0.20	0.0628	(0.01)	0.0000
2064/65	0.3077	(0.45)	0.20	0.0526	(0.02)	0.0003
6065/66	0.1678	(0.59)	0.34	0.0244	(0.05)	0.0021
2066/67	0.1036	(0.65)	0.42	0.0244	(0.05)	0.0020
X	3.7748			0.3482		
Mean (x)	0.7550			0.0696		
$d^2$			2.70			0.0175
S.D	0.8221			0.06633		
CV (%)	108.8921			95.2350		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

**Appendix - 8**  
**Operating Expenses to Total Income**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	0.1270	0.03	0.00	0.1245	(0.0076)	0.000058
2063/64	0.0914	(0.00)	0.00	0.1270	(0.0051)	0.000026
2064/65	0.0989	0.00	0.00	0.1394	0.0073	0.000053
6065/66	0.0730	(0.02)	0.00	0.1352	0.0031	0.000009
2066/67	0.0899	(0.01)	0.00	0.1346	0.0025	0.000006
X	0.4803			0.6607		
Mean (x)	0.0961			0.1321		
$d^2$			0.00			0.0002
S.D	0.02			0.00616		
CV (%)	20.8220			4.6617		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

**Appendix - 9**  
**Interest Expenses to Total Expenses**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	0.1947	(0.12)	0.01	0.5141	(0.1009)	0.010178
2063/64	0.1999	(0.11)	0.01	0.6068	(0.0082)	0.000068
2064/65	0.3566	0.04	0.00	0.5874	(0.0276)	0.000762
6065/66	0.3434	0.03	0.00	0.6570	0.0420	0.001761
2066/67	0.4669	0.15	0.02	0.7098	0.0948	0.008978
X	1.5615			3.0750		
Mean (x)	0.3123			0.6150		
$d^2$			0.05			0.0217
S.D	0.1153			0.073736		
CV (%)	36.9200			11.9895		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*



**Appendix - 10**  
**Staff Expenses to Total Expenses**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	0.0529	(0.05)	0.00	0.0776	(0.0052)	0.000027
2063/64	0.0521	(0.05)	0.00	0.0783	(0.0044)	0.000020
2064/65	0.1262	0.03	0.00	0.0967	0.0139	0.000194
6065/66	0.1160	0.02	0.00	0.0972	0.0144	0.000207
2066/67	0.1436	0.05	0.00	0.0641	(0.0187)	0.000350
X	0.4907			0.4139		
Mean (x)	0.0981			0.0828		
$d^2$			0.01			0.0008
S.D	0.042426			0.014107		
CV (%)	43.2304			17.0404		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd.and Nepal SBI Bank Ltd.)*

**Appendix - 11**  
**Office Operating Expenses to Total Expenses**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	0.0451	(0.04)	0.00178	0.1524	(0.0223)	0.000498
2063/64	0.0529	(0.03)	0.00119	0.1768	0.0021	0.000004
2064/65	0.1092	0.02	0.00048	0.1968	0.0221	0.000488
6065/66	0.1033	0.02	0.00026	0.1784	0.0037	0.000014
2066/67	0.1261	0.04	0.00150	0.1690	(0.0056)	0.000032
X	0.4365			0.8734		
Mean (x)	0.0873			0.1747		
$d^2$			0.005210			0.001035
S.D	0.036056			0.016093		
CV (%)	41.2969			9.2132		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd.and Nepal SBI Bank Ltd.)*

**Appendix - 12**  
**Staff Expenses Per Employee**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in '000) X	$d = X - \bar{x}$	d	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	385.3766	24.21	585.94545	290.46	(29.31)	858.79
2063/64	284.2115	(76.96)	5922.65353	281.65	(38.11)	1,452.30
2064/65	349.4739	(11.70)	136.80578	300.76	(19.00)	360.93
6065/66	377.1765	16.01	256.19959	358.79	39.03	1,523.29
2066/67	409.6129	48.44	2346.68861	367.15	47.38	2,245.14
X	1,805.8515			1,598.81		
Mean (x)	361.1703			319.76		
$d^2$			9248.293			6,440.45
S.D	48.084			40.1262		
CV (%)	13.3134			12.5488		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd.and Nepal SBI Bank Ltd.)*

**Appendix - 13**  
**Credit to Deposit Ratio**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	0.7527	(0.09)	0.00724	0.6932	(0.0467)	0.002180
2063/64	0.8701	0.03	0.00105	0.8266	0.0867	0.007519
2064/65	0.8701	0.03	0.00105	0.7599	0.0200	0.000400
6065/66	0.9133	0.08	0.00571	0.6932	(0.0467)	0.002180
2066/67	0.7826	(0.06)	0.00304	0.7266	(0.0133)	0.000178
X	4.1888			3.6995		
Mean (x)	0.8378			0.7399		
$d^2$			0.018076			0.012457
S.D	0.06708			0.0558		
CV (%)	8.0071			7.5417		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd.and Nepal SBI Bank Ltd.)*

**Appendix - 14**  
**Cash and bank balance to total deposit ratio**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	0.1302	(0.05)	0.00236	0.1016	0.0140	0.000195
2063/64	0.1240	(0.05)	0.00300	0.0981	0.0104	0.000109
2064/65	0.1767	(0.00)	0.00000	0.0979	0.0102	0.000105
6065/66	0.2572	0.08	0.00615	0.0421	(0.0456)	0.002078
2066/67	0.2059	0.03	0.00073	0.0986	0.0109	0.000120
X	0.8940			0.4383		
Mean (x)	0.1788			0.0877		
$d^2$			0.012246			0.002607
S.D	0.055678			0.02553		
CV (%)	31.1405			29.1216		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

**Appendix - 15**  
**NRB Balance to Total Deposit**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	0.0890	(0.03)	0.00069	0.0569	0.0162	0.000262
2063/64	0.0655	(0.05)	0.00248	0.0486	0.0079	0.000062
2064/65	0.0924	(0.02)	0.00052	0.0294	(0.0113)	0.000128
6065/66	0.1870	0.07	0.00515	0.0159	(0.0249)	0.000618
2066/67	0.1424	0.03	0.00074	0.0528	0.0121	0.000146
X	0.5762			0.2037		
Mean (x)	0.1152			0.0407		
$d^2$			0.009578			0.001215
S.D	0.0489898			0.01743		
CV (%)	42.5094			42.7868		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

**Appendix - 16**  
**Interest Spread**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	0.0210	(0.03)	0.00080	0.0333	0.0023	0.000005
2063/64	0.0490	(0.00)	0.00000	0.0301	(0.0009)	0.000001
2064/65	0.0395	(0.01)	0.00009	0.0311	0.0001	0.000000
6065/66	0.0809	0.03	0.00100	0.0286	(0.0024)	0.000006
2066/67	0.0556	0.01	0.00004	0.0321	0.0011	0.000001
X	0.2460			0.1552		
Mean (x)	0.0492			0.0310		
$d^2$			0.001935			0.000013
S.D	0.02236			0.001732		
CV (%)	45.4472			5.5802		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

**Appendix - 17**  
**NPA to Credit**

Fiscal Year	Nepal Bangladesh Bank Ltd.			Nepal SBI Bank Ltd.		
	Ratio (in times) X	$d = X - \bar{x}$	$D^2$	Ratio (in times) X	$d = X - \bar{x}$	$D^2$
2062/63	0.2712	0.02	0.00046	0.0613	0.0253	0.000638
2063/64	0.3976	0.15	0.02186	0.0456	0.0096	0.000091
2064/65	0.3173	0.07	0.00456	0.0383	0.0023	0.000005
6065/66	0.1980	(0.05)	0.00268	0.0148	(0.0212)	0.000451
2066/67	0.0647	(0.19)	0.03425	0.0202	(0.0158)	0.000251
X	1.2488			0.1802		
Mean (x)	0.2498			0.0360		
$d^2$			0.063804			0.001437
S.D	0.12649			0.018947		
CV (%)	50.6446			52.5721		

*(Source: Annual (Audit) Reports for FY 2062/63 to 2066/67 of Nepal Bangladesh Bank Ltd. and Nepal SBI Bank Ltd.)*

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