

*PROFITABILITY POSITION OF COMMERCIAL
BANKS OF NEPAL (NABIL and NIBL)*

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T.U. Regd. No.: 7-2-441-34-2005

2nd Year Exam Symbol No.: 140133

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

*In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)*

January 2014

RECOMMENDATION

This is to certify that the thesis:

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Satyambada Sah
Entitled

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DECLARATION

I hereby declare that the work reported in this thesis entitled "**PROFITABILITY POSITION OF COMMERCIAL BANKS OF NEPAL (NABIL and NIBL)**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Master of Business Studies under the supervision of Mr. Balram Jha, R.R.M. Campus, Janakpurdham.

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ACKNOWLEDGEMENT

I am much pleased to submit this thesis for the partial fulfillment of requirement for the degree of Master of Business Studies under the Faculty of Management, Tribhuvan University. This study is a result of the effort of many people, which remains incomplete without thanking them.

I am deeply indebted to my supervisor Mr. Balram Jha and teachers without whose guidance and instruction I would never have completed this thesis. Their relentless observation on my work and guidance despite their hectic schedules is what I will always owe them.

Last but not the least, I am thankful to my parents who have always been my great source of inspiration.

Satyambada Sah

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ABBREVIATIONS

C.V	:	Coefficient of Variation
CA	:	Current Assets
CB's	:	Commercial Banks
CBB	:	Cash and Bank Balance
CD	:	Current Deposit
CL	:	Current Liabilities
CR	:	Current Ratio
FD	:	Fixed Deposit
FY	:	Fiscal Year
IE	:	Interest Expenses
II	:	Interest Income
LA	:	Loan and Advances
LIA	:	Liquid Assets
NABIL	:	Nabil Bank Limited
NIBL	:	Nepal Investment Bank Limited
NPAT	:	Net Profit after Tax
NPM	:	Net Profit Margin
P.E.	:	Probable Error
r	:	Correlation
ROA	:	Return on Total Assets Ratio
S.D	:	Standard Deviation
SE	:	Shareholder's Equity
TD	:	Total Deposit

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Bank is a resource mobilizing institution, which accepts deposit from various persons, and invest such accumulated resource in different sector like trade, commerce, industry etc. The commercial bank has its own role and contribution and it is an agent of economic development. Banks are the financial mediator of depositor and borrower.

Now financial institutions are mushrooming in our country with the help of open door policy adopted by the government. They are in keen competition among the financial institution in accepting as much deposits as possible. Nepal has seen the deregulated and expanded financial systems widely participated by the private sector over the years. This has resulted in substantial growth in deposit mobilizations and loan disbursement. The competitiveness among the bank due to the autonomy given to them in the later years has led to varied activities that increased risk on the part of the depositors. The liberal financial policies pursued after the restoration of democracy in Nepal brought a big change as well as challenges in the financial sector. At present, thirty two commercial banks are running in Nepalese financial sector. Financial institution plays vital role in the economic growth of the country. Financial infrastructure of an economy consists of financial intermediation, financial institution and financial markets. Financial institutions mainly facilitate the development of Nepalese trade, industry and commerce.

Nepal has adopted mixed economy system, which is known to be combination of good aspects of socialistic and capitalistic economic system, in this economic system both government and private sector are active for the industries since 1990, Nepal has

adopted more liberal and open economic system with high emphasis on private sector led growth in the early years of development the government had taken the leadership for industrial development by establishing industries under its ownership.

Bank is one of the financial institutional which provides to public borrowing and lending. Now a day the banking sector reached to the most remote areas of the country and has gain a good experienced in the growth of the economy. The present structure of the financial institution is based on commercial banks. The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy.

In contrast, large banks generally lack sufficient deposits to fund their main business dealing with large companies, governments, other financial institutions, and wealthy individuals. Most borrow the funds they need from other major lenders in the form of short term liabilities which must be continually rolled over. This is known as liability management, a much riskier method than asset management. A small bank will lose potential income if gets its asset management wrong. A large bank that gets its liability management wrong may fail.

The key to liability management is always being able to borrow. Therefore a bank's most vital asset is its creditworthiness. If there is any doubt about its credit, lenders can easily switch to another bank. The rate a bank must pay to borrow will go up rapidly with the slightest suspicion of trouble. If there is serious doubt, it will be unable to borrow at any rate, and will go under. In recent years, large banks have been making increasing use of asset management in order to enhance liquidity, holding a larger part of their assets as securities as well as securitizing their loans to recycle borrowed funds.

One of the basic objectives of establishing a commercial bank is to earn optimal profit by proper utilization of fund. By mobilizing public money and channeling the same to various business and production activities. Commercial banks contribute to the development of the country. In a developing country like Nepal, saving is low and scatters in small amounts which individuals residing in different corners of the country. Mobilization of such savings is made by commercial banks through their branches established in different parts of the country.

1.1.1 Introduction of Banks

NABIL Bank Limited

NABIL Bank Limited (NABIL) commenced its operation on 16th July 1984 A.D. as the first joint venture bank in Nepal, Dubai Bank Limited. Dubai (Later acquired by Emirates Bank International limited, Dubai) was the first joint venture partner of NABIL. Currently NB (international) limited. Ireland is the foreign partner.

NABIL Bank limited had the official name Nepal Arab Bank Limited till 31st December 2001A.D. NABIL is the pioneer in introducing maims innovative products and marketing concept in banking sector of Nepal with 15 venture and private banks operating in Nepal. Success of NABIL is a milestone in the banking history of Nepal as it paved the way for the establishment of many commercial banks and financial institutions. NABIL was incorporated with the objective of extending international standards modern banking services to various sectors of the society.

NABIL provides a full range of commercial banking services through its more than 40 points of representation across the kingdom and over 170 reputed correspondent banks across the globe. Moreover, NABIL has a good name in the market for its highly personalized services to the customers. At the time of commencement it had Rs 100 million as Authorized Capital. Now, the Authorized capital of the bank is Rs. 500 million while the issued and paid up capital is Rs. 49, 16, 54,400.

NABIL provides a full range of commercial banking services through its outlets spread across the nation and reputed correspondent banks across the globe. Moreover, NABIL has a good name in the market for its highly personalized services to the customers. At the time of commencement. It had Rs 100 million as Authorized Capital. Now, the Authorized capital of the bank is Rs. 500 million while the issued and paid up capital is Rs. 491654400. The share holding of NABIL Bank Ltd. is as following at the end of financial year 2010/11

Share Subscription and Capital Structure

S.N.	Subscription	% Holding
1	Promoter	70%
	Foreign institution	50%
	Other licensed institution	6.15%
	Other Entities	13.85%
2	General public	30%
	Total	100%
	Share Capital	Amount
	Authorized capital	2,100,000,000
	Issued capital	2,029,769,400
	Paid up capital	2,029,769,400

(Source: www.nabil.com.np)

Nepal Investment Bank

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rastriya Banijya Bank holding 15% of the Capital.
- Rastriya Beema Sansthan holding the same percentage.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

The Corporate Vision and Mission of the NIBL are as follows:

Vision

To be the most preferred provider of Financial Services in Nepal

Mission

To be the leading Nepali bank, delivering world class service through the blending of state-of-the-art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all our stakeholders. We are committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance.

Share Subscription and Capital Structure

S.N.	Subscription	% Holding
1	Promoter	80%
	A group of companies	50%
	Rashtriya Banijya Bank	15%
	Rashtriya Beema Sansthan	15%
2	General public	20%
	Total	100%
	Share Capital	Amount
	Authorized capital	4,000,000,000
	Issued capital	3,012,924,200
	Paid up capital	3,012,924,200

(Source: <http://www.nibl.com.np>)

1.2 Focus of the Study

These commercial banks play a vital role in the economic growth of the country. Likewise they are equally liable to the benefits of their shareholders, customers, and depositors and overall to the whole society. Admist the unfavorable circumstances their success mainly depends on their financial decisions. This thesis focuses on the analysis of their profitability and liquidity position to disclose the truth about their financial decisions, present problems and recommendations for corrections. For research purpose two commercial banks have been chosen namely NABIL Bank Limited (NABIL) and Nepal Investment Bank Limited (NIBL).

1.3 Statement of the Problem

For each and every bank or financial institution it is very crucial to analyze the profitability and financial performance. Every banking sector cannot reach their objective without a good financial performance. The financial sector has not been responsive enough for them to meet the growing resources. In this competitive market each and every bank and financial institution need to analyze their financial situation to develop strategies and to identify the strengths and weaknesses. Similarly investors are also needed to evaluate the performance of the companies for secured

investment. In the Nepalese capital market financial institutions have dominated to the other sectors. Many researchers have been made in the field of the performance evaluation of the commercial banks among the financial institutions. However the comparative performance evaluation between NABIL and NIBL has not yet been made. So it is felt to make a comparative study between the companies.

The statements of problems of this study are mentioned below:

- Are the banks operating profits are satisfactory?
- Why private banks are in the depth problem of the inter competition?
- Are banks maintaining sufficient liquidity?
- What is the trend of liquid assets and net profit?
- Why many of the banks are getting out of market lacking better planning and performance?

1.4 Objective of the Study

The main objective of this study is to make the comparative study of the profitability analysis of Nepal Investment Bank and NABIL Bank Limited. The other specific objectives are as follows.

- To examine the profitability and liquidity situation of the banks.
- To analyze the profitability trend and liquid assets of the selected banks over the last five years.
- To examine the relationship between net profit and cash and bank balance, and between net profit and total liquid assets of the Banks

1.5 Limitations of the Study

Limitations of the study are as follows:

- It has been conducted in the limited time and resources.
- The study mainly focuses with the profitability and liquidity situation of NABIL and NIBL.
- Generally it is mainly based on secondary data like balance sheet, profit and loss account and other useful documents.
- It is covering the period of 5 years from 2007/08 to 2011/12 of NABIL and NIBL banks.

1.6 Need of the Study

The study is needed because it is very useful to the companies to identify the strengths and weakness of the respective companies, students for further researches, interested person, investors etc. Some of the reasons are summarized in the following:

- It is helpful to the shareholders to identify the financial performance of the respective banks and to analyze and to compare the financial position and productivity.
- It is useful to the students of banking and finance to study the profitability and productivity.
- This study will be helpful to the public to analyze risk of the banks. Its help to public to believe that their fund may secured or may not secured.
- It is useful to the overall banking management.

1.7 Organization of the Study

This study has organized into the following five chapters.

Chapter I: Introduction

Chapter explains the background of the study, focus of the study, statement of the problems, objective of the study, limitation of the study and organization of the study.

Chapter II: Review of Literature

The second chapter is concern with the review of relevant subjects and includes conceptual framework and review of articles and past studies.

Chapter III: Research Methodology

Chapter three present methodologies adopted for the research. It comprises research design, sources of data, method of analysis and its descriptive presentation.

Chapter IV: Presentation and Analysis of Data

Chapter four deals with the techniques used in analyzing the collected data and its presentation and analysis in the descriptive and analytical manner. It also include major findings of the study.

Chapter V: Summary, Conclusion and Recommendation

This is the last chapter of the study and presents summary of the study, conclusion of the study and needful recommendations for further improvement of the financial performance of the selected banks and for investment decision for investors.

CHAPTER - II

REVIEW OF LITERATURE

This chapter focuses with literature in the selected field and research related to the present studies. Review of literature is a way to discover what other research in the area of our problem has uncovered. Scientific research must be based on the past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study (Wolf and Pant, 1999:3).

Review of literature means reviewing research studies of other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. This part of the study highlights available literature related to this research which makes base of knowledge for the study. Review of literature is stock thinking of available literature in one's field of research. It comprises conceptual review, review of related studies and concept of profitability.

2.1 Conceptual Framework

2.1.1 Concept of Banking

Bank is an institution, which deals with money & credit. It accepts deposits from public, makes fund available to those who need them and helps in remittance of fund from one place to another. "A bank seeks optimum combination of earning liquidity and safety. While formulating investment policy" (Charles, 1994:105). The more developed financial system of the world characteristically falls into three parts, the central bank, the commercial bank and other financial institutions.

2.1.2 Concept of Commercial Bank

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

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

Function of Commercial Banks

Commercial banks perform the following functions:

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

2.2 Concept of Profit and Profitability

Profit in the accounting sense is the excess of revenue receipts over the costs incurred in producing this revenue. This concept of profit is also known as residual concept. But, in economics, both implicit and explicit costs are deducted from total sales revenue in determining profits (Cavery, 1997:87).

The term profit has three meanings:

- In economics, the concept of reward of the entrepreneur for risk taking and management.
- In business operations, the gain from manufacturing, merchandising and selling operations after all expenses are met. Since profit normally is added to net worth, it may be measured by the increase in net worth over that of the previous accounting period. The amount of the concern's profit thus may be determined not only through the profit and loss statement but also by the comparison of the earned surplus or net worth in the balance sheet which, however, is the residue of profits after dividends and any other appropriations and does not reveal details of sources of income and expenses, such as are found in the profit and loss account.
- In speculative transactions, the excess of the net selling price over the costs (including all charges) of the security or commodities traded in (Charles, 1999:206).

Profitability means ability to earn profit. What role does "profit" play within the firm? What specific tasks are assigned to the financial staff, and what tools and techniques are available to it for improving the firm's performance? On a broader scale, what is the role of profit in the Nepalese economy, and how can financial management be used to further our national goal? As we shall see, proper financial management will help all business provides better products to its customer at lower price, pay higher wages and salaries to its workers and managers, and still provide greater return to the investors who put up the capital needed to firm and then operate the firm. We can simply define the word "profit" as primary measurement of success of management effectiveness in business enterprise. In other word profit means the excess of total revenue over the total cost of production. Productive activities, which in turn is the result of the investment venture in productive enterprises. The establishment of these enterprises needs a huge amount of funds. Existing enterprises

and companies within the economy can be viewed as productive enterprises that operate with equity and debt funds. The decision making process of choosing funds among various alternatives with the best financial mix, plays a crucial role in the capital structure decision of the firm.

As a Matter of fact, the overall efficiency of a company is reflected in its profits. Profit or loss have been universally recognized and accepted as a measure of business efficiency. Thus, the larger the profits, the more efficient and profitable the company is deemed to be. This criterion has the great advantage that it provides a certain standard of measuring the efficiency of company. Regarding this, it states. "Profit is the simple, convenient and the most popular yardstick of judging the efficiency of a business enterprise in private as well as public sector. For private enterprise, is taken to be the most satisfactory criterion of efficiency. Profit helps in judging the overall efficiency and is easy to calculate. Even through profit maximization, unlike private enterprise, is not the sole objective of public enterprises, yet profit serves as a well accepted criterion for the judging the overall efficiency of public enterprises too.

The second component part of the term profitability is 'ability' which reflects the capacity of power of company to earn profit. This ability is also referred to as 'earning capacity' or 'earning power' of the concerned investment. Thus, the term 'profitability' may be taken as the ability of a company to earn profit. According to Howard and Upton, "The word profitability may be defined as the ability of a given investment to earn return on its use (Howard and Upton, 1961:152).

It may be mentioned that the term 'profitability' is distinguished from the word 'profit'. Profit refers to the absolute quantum of profit whereas profitability alludes to the ability to earn profit. The former is an absolute measure in itself while the latter is a relative one. According to W.M. Harper, the profitability is a relative measure. It indicates the most profitable alternative. The profit, on the other hand, is an absolute

measure- it indicates the overall amount of profit earned by transactions (Peter, 1999:69).

As the profitability is a relative measure, it is used to judge the degree of operational efficiency of management. In a profitability analysis, the profit making ability of company as measured in terms of size of investment in it or its sales volume. Such an analysis of profitability reveals how particularly position stands as a result of transactions made during the year. It is particularly interesting to the suppliers of funds who can evaluate their investment and take necessary decision thereon. Profitability is the net result of a large number of policies and decisions. The ratios examiner thus far provide some information about the way the firm is operating, but the profitability ratios show the combined effects of liquidity, assets management and debt management on operating results. Profitability ratio is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and condition can be determined. While computing the ratios, they do not add any information; they only reveal the relationship in a more meaningful way to enable us to draw conclusions from them. Further, in financial analysis, and performance of the firm. It helps in making decisions as it helps establishing relationship between various ratios and interpret them. It helps as analyst to make quantitative judgment about the financial position and performance of the firm. The rationale of ratio analysis lies in the fact that it makes related information comparable. A single figure by itself has no meaning but when expressed in terms of a related figure, it yields significant inferences Ratio Analysis, as quantities tool, enables analysts to draw quantitative conclusions. Hence, ratio analysis is the systematic production of ratios from both internal and external financial reports to summarize key relationship and results in order to appraise profitability position. It is used as practical means of monitoring and improving performance, which helps the organizations, meet their future obligations of expectations from the past performance.

The profitability concept has an important place in the theory of financial management. The financial decision of a firm relates to choice of proportion of debt and equity to finance the investment requirement. A proper balance between debt and equity is necessary to ensure a trade-off between risk and return to the firm. A firm should select such a financing mix, which maximizes the profit of the firm. The optimal profit and its implication are more noticeable.

Profitability is the net result of a large number of policies and decisions. The ratios examiner thus far provide some information about the way the firm is operating, but the profitability ratios show the combined effects of liquidity, assets management and debt management on operating results. Profitability ratio is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and condition can be determined. While computing the ratios, they do not add any information; they only reveal the relationship in a more meaningful way to enable us to draw conclusions from them. Further, in financial analysis, and performance of the firm. It helps in making decisions as it helps establishing relationship between various ratios and interpret them. It helps as analyst to make quantitative judgment about the financial position and performance of the firm.

2.2.1 Need of Profit

Profit is a must for the following reasons:

- **Measurement of Performance**

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

- **Premium to Cover Costs of Staying in Business**

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

- **Ensuring Supply of Future Capital**

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

- **Return to the Investors**

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

2.2.2 Theories of Profit

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

A) Theory of Risk and Uncertainty Bearing

It was who first developed the theory of risk bearing and concluded that profit is a reward of the entrepreneurs for bearing risks. But, the theory was picked up by Professor F.H. Knight who divided risks into insurable and non-insurable risks and concluded that profit is a reward for bearing non-insurable risks and uncertainties. Thus according to Knight, profit is a reward to the entrepreneur for his non-transferable function of bearing non- insurable risk and uncertainties (Hawley and Knight, 1997).

B) Dynamic Theory of Profit

This theory was propounded by J.B. Clark. According to this theory, ‘dynamic changes’ in the economy are the basic causes of emergence of profits. There is no profit in a static economy as no changes take place. In a dynamic economy there are constant changes in population, capital, methods of production and industrial set up. These changes multiply wants of consumers, which earn profits to the entrepreneur (Clark, 1999).

C) Innovation Theory of Profits

Joseph Schumpeter singled out ‘innovation’ from the dynamic theory of profits and developed the innovation theory of profits. According to Schumpeter changes take place in a dynamic economy and innovation in the changing world gives rise to profits. In his view, the entrepreneur plays an important role of introducing innovation in an economy and profits are the rewards for his role as an innovator. The innovation could be changes or techniques that reduces cost of production or increases demand for the product (Schumpeter, 1990).

2.3 Profitability of Commercial Banks

Unlike in any other organizations, there are various forms of stakeholders in the Bank. So, the bank also has to make the best efforts to meet the interests of the stakeholders. The majority of the needs of the stakeholders are related with the profitability of the banks. For example, in case the bank earns profits, the investors get dividends, employees get bonus, government gets benefits in forms of taxes etc. Thus, the foremost objective of the banks is the profit maximization.

The major source of funds of the bank is the public deposit. The bank in most of the cases has to pay certain rate of interest to the public in their deposit. Thus, the banks have to mobilize these funds in the profitable sectors, which derive the maximum return on the assets. Hence, the investment or granting of loan and advances by them are highly influenced by profit margin. The profit of the bank is dependent on the

interest rate, volume of loan and time period of loan. However, the bank at the same time has to ensure that their investment is safe from default.

Although the banks have to invest in order to earn profits. But, at the same time have to set aside some of its fund in order to maintain their liquidity. As we all know the major source of bank's fund is public deposits, the bank has to be able to allow the depositors to withdraw their deposit in terms of need. Thus, the bank cannot invest all its funds in the profitable sectors. Thus, a successful bank is one who invests most of its funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserves to meet the daily requirements of the depositors. Lower the liquidity, higher the profitability and higher the liquidity, lower the profitability. So, profitability and liquidity maintain a highly negative co-relation. Since both are equally important, banks cannot afford to ignore any of them. So, the management has to make a crucial decision regarding a mixture of liquidity and profitability (William, 1990:156).

2.4 Review of Journals and Articles

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

Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statements

of a bank need relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decision. The requirements of bank's financial statement have been expressly laid down in the concerned act. The Commercial Banking Act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

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

- The structure of balance sheet and profit and loss account.
- Operating efficiency and internal management system
- Managerial decision taken by top management regarding rate, exchange rate, lending policies etc.
- Environmental changes (technology, government, competition and economy)

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

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

Shrestha (2002) in his article "*Commercial Banks' Comparative Performance Evaluation*" stresses on a proper risk management with appropriate classification of

loans under performing and non performing category. He further clarifies that adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income.

Regarding the risk management of the bank Shrestha suggests that:

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

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

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

Maskey and Subedi (2009) in their article “*Development of the Nepalese Financial System*” write that, A healthy financial sector is essential to facilitate sustainable economic growth. Theoretically, the channel by which financial development supports economic growth is via enhancing financial intermediation, for example,

moving funds from savers to investors in a cost-effective manner which motivates individuals towards more efficient resource allocation decisions .In the literature, there are four channels by which financial development affects economic growth:

- By improving the screening of funds-seeking investors and their subsequent monitoring, and thereby channeling the allocation of resources for its most profitable investments;
- By encouraging the mobilization of savings by means of providing diverse instruments that match the differing preferences of savers;
- By lowering the transaction, screening, and monitoring costs through economies of scale;
- By enhancing various options of risk and liquidity management. Each of these four financial functions influences savings and investment decisions of economic agents and ultimately results in higher economic growth (NRB, 2009, 31).

2.5 Review of Thesis

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

Adhikari (2006) entitled “*Comparative Study of the Profitability of Nepal SBI Bank & Nepal Bangladesh Bank*” has the following major findings which are summarized as below;

- The mean ratio of return on equity of NB Bank is nearly too five times of SBI Bank. The variability of return on overall equity of NB Bank is very higher than that of SBI Bank. It shows the inconsistency in return on equity.
- The mean ratio of return on total assets NB Bank is less than SBI Bank. It shows the inconsistency in return on assets.

- The ratio of net profit margin of NB Bank is remarkably low compared to SBI Bank. The bank is not able to control operating expenses and other leakage. The mean ratios of the both banks show that SBI Bank has higher mean ratio of net profit margin 7.40 than that of NB Bank 6.09.
- It can be concluded that the profitability position of NB Bank is comparatively worse than that of SBI. The bank must maintain its high profit margin for the well being in future.
- Average cash and bank balance to total deposit ratio of SBI Bank remained greater than that of NB Bank. It indicates the better liquidity position of SBI Bank.

The study has recommended that,

- Both the banks should be established after proper diagnosis of the root causes of unsatisfactory liquidity. In this regard, NB Bank should be more serious than SBI Bank.
- Both banks should attract more noninterest bearing amount deposit for increase profit margin. The share of fixed deposit on its total deposit is very high. So it is recommended to reduce its fixed deposit.
- Both banks must formulate the strategy to control unnecessary expenses using modern technology, computer networks and experts, and well trained personnel which also increase the operating efficiency of the bank.
- The earning per share and dividend per share attract the investors. So higher cash dividend strategy should be adapted for the better growth of shareholders worth.
- Need to invest on small entrepreneurs development programs.
- NB Bank and SBI Bank are suggested to make modern banking technologies accessible to there all kinds of depositors as far as possible.

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

Shrestha (2007) researched the Master's thesis on "*Performance Measurement of Joint Venture Banks in Nepal With Reference to EBL, SCB, Nepal State Bank of India (NSBI) and NABIL*". The major objective of his study was to assess the investment policy and strategies followed by the banks under study .The major findings of the study includes,

- SCB has the highest mean current ratio whereas, NABIL has the poorest,
- NABIL has maintained highest cash and bank balance to total deposit ratio among all the banks under study,
- The condition of the entire banks are moderate to maintain investment to total deposit ratio,
- EBL has the highest earning power capacity than the other banks under study etc.

With the analysis and evaluation of various financial and statistical tools, he recommended that all the banks under study should collect more amounts of deposits through variety of deposit schemes and facilities. Moreover, he also suggested EBL to keep wide vision in investment. Further, he strongly recommended the banks to invest its more funds in share and debentures.

Lama (2008) conducted a study of "*Profitability of Nabil Bank Ltd with comparison to other JV Banks*". From the analysis of difference financial ratio, the major findings of the ratio are as follows:

- Profitability reveals the degree of success in achieving desire profit. From Return on Equity of Nabil Bank it is found that the operating efficiency of the

bank is in increasing trend. It is due to increase in income and decrease in nonperforming loans.

- The Earning per share of Nabil Bank is very good during the period which shows the better position of bank in the market. It increases the value of the firm.
- The Net profit Margin ratio has been increasing till FY 2061\62 and then slightly decreased. Though there is low fluctuation, Nabil bank has been able to mobilize the resources generated from the operation.
- The interest payout ratio of Nabil Bank is lower. The main reason of low ratio is low volume of NPAs and high cost deposit.
- NABIL Bank has lowest loan loss provision to total income. It means it has low volume of NPAs and is successful in mobilizing the loans.
- The operating expenses of NABIL bank has been remained comparatively low consistently over the years. The management of the operating expenses in NABIL Bank should be said to be highly efficient.

Further Lama has recommended that:

- The sincere effort of the management is to be concentrated in the NPA management if the bank is to sustain and perform well in the forthcoming day.
- The bank seems to be lacking in the conduct of detailed and proper credit appraisal and monitoring process. The bank needs the facilities to make detailed analysis about various aspects.
- The human resource is the most important component in a service industry. Thus, effective program should be initiated to improve the productivity of the staff. Which should be introduced other commercial bank for the staffs to increase their morale.

- Bank should try to correct their market prices according to the net worth, earning per share and other profitability indications. The banks are recommended to decrease their price-earnings ratios to a reasonable level.
- NABIL Bank seems to have complied to the directive in literary terms rather than its meaning. So, although it has a negative impact on profit of the bank, it has to assess the real threat of NPAs in a prudential manner and make additional provisions wherever necessary. For a bank that is in dire straits, it would be a good option for the long- term sustainability of the bank rather than looking to maximize the short- term profit.

Manandhar (2009) has conducted a study on, “*A Comparative Study on Performance Analysis of Top Five Commercial Banks of Nepal.*” The main objective of the study is to analyze and compare liquidity, profitability, stability and market value position among the top five commercial banks. The other specific objectives are;

- To trace out the trend of loan and advances.
- To find out the relationship between deposits and loans & advances, and deposits and net profit.
- To analyze the trend of profit and dividend distribution.

His major findings are;

- EBL and NIBL have been getting lower net profit out of total income with comparison to all the banks.
- EBL comparatively fails to maintain operating ratio on total assets whereas NIBL did best. HBL, EBL and NIBL have been suffering from ineffectively using the total fund. so, they are getting lower return than SCBNL and NABIL.

- All top five commercial banks have been earning sufficient interest income on loan and advances. It means they have been high utilizing the loan and advances.
- NABIL has been providing comparatively greater cash dividend on share capital in a consistency manner too. SCBNL and NIBL have been providing lower cash dividend in inconsistency manner. SCBNL has been providing dividend on share capital comparatively greater than other banks in a consistency manner.
- NABIL has also been providing better dividend in a consistency manner to some extent too. As a lower average, NIBL has not provided dividend on share capital. NABIL shows greater inconsistency too.

Dahal (2011) conducted this Master's thesis entitled "*Relationship between Liquidity and Profitability of Joint Venture banks in Nepal, With Reference to Everest Bank, Himalayan Bank and NABIL,*" with an objective to discuss, examine and evaluate the tradeoff between liquidity and profitability position of concerned JVBs in Nepal. Thus, this study had been conducted to achieve the following objectives:

- To explore and examine the relationship between liquidity and profitability of EBL, HBL and NABIL.
- To determine the operational efficiency of management of banks under study.
- To evaluate how efficiently the total assets have been used by the management of the banks.
- To analyze the trend of net profit achieved by the concerned banks.
- To examine the relationship between total deposit and net profit of the banks.
- To analyze the specific problems faced by the banks.

This study concludes with the following findings such as,

- The Liquidity position of HBL is comparative better than EBL and NABIL

according to the current ratio and quick ratio.

- The liquidity position of EBL seems to be more sound than HBL and NABIL on the basis of cash and bank balance to current deposit ratio and cash and bank balance to total debt ratio.
- The average net profit ratio, ROE, ROA, ROCE, EPS and DPS, Dividend payout ratio, Earning Yield ratio and Dividend yield Ratio of NABIL are comparatively better than EBL and HBL.
- NABIL is far better than EBL and HBL in almost aspect that have been analyzed and evaluated in the study.

On the basis of finding, he recommended that all these JVBs under study are suggested to concentrate more on the performance, business growth rate, assets quality and governance practices .Apart from these, market reputation, diversified service range and rate of shareholder should also be taken into account by the bank so that it not only be beneficial for the bank but will also pay a vital criteria or tool regarding a reward as one of the best bank of the nation.

2.6 Research Gap

Commercial Banks invest their deposit in different profitable projects according to the investment regulatory framework and guidance issued by Nepal Rastra Bank as well as the bank's own risk and return appetite. Financial analysis of such investment and profitability of a bank is always fruitful to a wide range of stakeholders. So, the updated information on banks' profitability would be of great advantage to the researcher, the bank concerned, as well as to the public at large who has any kind of stake in that organization. This study covers latest financial data and analysis based there on of joint venture banks particularly of the NABIL and NIBL.

The previous researches can't represent the overall profitability position of commercial banks. These studies can't identify financial and statistical tools are practicing and which financial tools are not practicing till now. What might the

reason behind the non practicing of financial tools as well as statistical in Nepalese joint ventures companies. To fulfill these gaps, the research has been done. The research has suggested and recommended, where statistical tools can apply to overcome the difficulties for the proper application of financial tools and techniques in Nepalese companies. In this context, a detail analysis of profitability position of NABIL and NIBL keeping in mind. This study fulfils the prevailing research gap on profitability of NABIL and NIBL.

CHAPTER - III

RESEARCH METHODOLOGY

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

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Research design is plan, structure and strategy of investigation conceived. So as to obtain answer to research question and to control variances to achieve of the study, descriptive and analytical research design have been used.

3.2 Population and Sample

In the present context, there are 32 commercial banks operating in Nepal. The study of all these banks within this research was almost impossible. Hence, considering these number of banks as total population, only two commercial bank namely NABIL Bank Limited (NABIL) and Nepal Investment Bank Limited (NIBL) within from these total population has been taken as sample and tried to achieve the objectives set out by analyzing the data.

3.3 Sources and Collection of Data

For the purpose of study only the secondary data are used. The required data and information for analysis are directly collected from the annual reports of the respective banks. The supplementary data are collected from number of institution

like Ramswarup Ramsagar Multiple Campus Library and documentation section of T.U. Library, company office etc. Similarly related books magazine Journals articles reports bulletins and data from security board Nepal. Further the secondary data have been collected from reports and financial statement of the company, published and unpublished officials reword, books, articles magazine, annual report etc.

3.4 Data Processing and Presentation Procedure

The information or data obtained from the different sources in raw form. From that information, direct presentation was not possible so it was necessary to process data and converts it into required form. Only after than the data were presented for this study. For presentation different tables were used. Similarly in same case graphical presentation were also made. So far as the computation was concerned, it has been done with the help of using Microsoft Excel.

3.4.1 Financial Tools

Ratio Analysis

Ratio analysis is such a powerful tool of financial analysis that through it economic and financial position of a business unit can be fully. Ratio analysis is a widely used tool of financial analysis it is defined as the systematic use of ratio to interpret the financial analysis statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined (Khan and Jain, 2003:209).

The following financial ratios are used in this research.

Profitability Ratio

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

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

a) Net Profit Trend

The goal of each bank is to maximize profit. Thus, this analysis depicts the comparative efficiency of the banks in gaining highest profit. Obviously, the high profit is favorable.

b) Net Profit Margin

Net profit mean net profit divided by net revenues, often expressed as a percentage. This number is an indication of how effective a company is at cost control. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit. The net profit margin is a good way of comparing companies in the same industry, since such companies are generally subject to similar business conditions. However, the net profit margins are also a good way to compare companies in different industries in order to gauge which industries are relatively more profitable. To calculate net profit margin for bank and financial institutions we can use the following formula.

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Gross Income}}$$

c) Return on Total Assets Ratio (ROA)

Return on total assets explains the contribution of assets to generating net profit. This ratio indicates efficiency towards of assets mobilization. In other words return on total assets ratio is an overall profitability rate, which measures earning power and overall operation efficiency of a firm. This ratio helps the management in identifying the factors that have a bearing on overall performance of the firm

This ratio can be calculated as:

$$\text{Return on Total Assets} = \frac{\text{NPAT}}{\text{Total Assets}}$$

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

d) Return on Net worth Ratio (ROE)

Return on net worth reflects how well the firm has used the recourse of the owner's. The earning of satisfactory return is the most desirable objective of business as common or ordinary shareholders are entitled to the residual profits. It is calculated by dividing profit after tax by net worth. The ratio can be calculated in this way.

$$\text{Return on Net Worth Ratio (ROE)} = \frac{\text{NPAT}}{\text{Net Worth}}$$

e) Interest Income to Loan and Advances

The bank grants loan and advances for the sole reason to gain interest income. Thus, to examine how far the bank has been able to manage the loan and advances in earning interest income, the ratio of interest income to loan and advances has been determined.

$$\text{Interest Income to Loan and Advances} = \frac{\text{Interest Income}}{\text{Total Loan and Advances}}$$

f) Return on Total Deposit Ratio

Return on total deposit ratio measures how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits. This ratio explains the ability of management in efficient utilization of deposits.

The ratio is calculated as;

$$\text{Return on Total Deposit Ratio} = \frac{\text{NPAT}}{\text{Total Deposits}}$$

g) Return on Total Investment Ratio

This ratio actually measures the total interest income from total investment. A high ratio of interest income from investment indicates high mobilization of collected deposits in investment and vice versa. The ratio is calculated as;

$$\text{Return on Total Investment Ratio} = \frac{\text{Net Profit}}{\text{Total Investment}}$$

h) Return on Loan and Advance

The ratio expresses one of the key measurements in management discretion in the primary function of commercial banks. The main source of income of commercial banks is lending. Interest earned from loan and advance is more important income base than interests earned from other investment and inter bank borrowing. The ratio is calculated as;

$$\text{Return on Loan and Advance} = \frac{\text{Net Profit}}{\text{Total Loan and Advance}}$$

i) Loan and Advances to Total Deposit Ratio

This ratio measures the bank's ability to mobilize the depositors fund to earn profit by providing loans and advances. It also measures the extent to which the banks are successful in mobilizing deposits for the purpose of profit generating. The ratio is calculated by dividing loans and advances by total deposits.

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposit}}$$

j) Interest Expenses to Interest Income Ratio

Interest paid to interest income ratio reveals the proportionate relationship between interest paid on different liabilities and interest income from different source. Higher ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income and vice versa.

$$\text{Interest Expenses to Interest Income Ratio} = \frac{\text{Total Interest Expenses}}{\text{Total Interest Income}}$$

k) Interest Coverage Ratio

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

$$\text{Interest Coverage Ratio} = \frac{\text{Earning Before Interest \& Tax}}{\text{Total Interest Expenses}}$$

l) 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 can be highly inefficient and unproductive in their work thereby affecting the profitability of the organization. Thus, the perks and benefits should be designed at an appropriate level keeping both the organization and staff satisfied. This ratio provides the average spending of the bank on its employee during the year including the bonus payments.

$$\text{Staff Expenses per Employee} = \frac{\text{Total Staff Expenses}}{\text{No.of Staff}}$$

m) Non Performing Loan Ratio

The non performing loan to total loan measures the risk on the total loan and thus represents the quality of the assets the bank is carrying on. Higher the ratio indicates higher risk on the assets and vice-versa. The ratio is calculated by dividing non performing loan by total loans and advances.

$$\text{Non Performing Loan Ratio} = \frac{\text{Earning Before Interest \& Tax}}{\text{Total Interest Expenses}}$$

n) Earnings per Share

Share holders are concerned about the earning that will eventually be available to pay them dividends of that are used to expand their interest in the firm because the firm retains the earning. There earning may be express on a per share banks is an EPS. This ratio is calculated the following formula.

$$\text{Earnings per Share} = \frac{\text{Earning Available to Common Shareholders}}{\text{No of Outstanding Share of Common Stock}}$$

o) Dividend Per Share

The net profit after taxes belongs to shareholders. But the income, which they really receive, is the amount of earnings distributed as dividends. Therefore, a large number of present and potential investors may be interested in dividend per share, rather than earning per share. DPS is the earnings distributed to ordinary shareholders divided by the number of ordinary shares outstanding.

$$\text{Dividend per Share} = \frac{\text{Dividend Paid}}{\text{No.of Common Shares}}$$

3.4.2 Statistical Tools

To analyze the data, various statistical tools are used. Therefore every researcher has chosen the most important and suitable tools to reach the financial decision.

- Arithmetic Mean
- Standard Deviation
- Coefficient of Variation (C.V.)
- Correlation Coefficient (r)
- Coefficient of Determination (r^2)
- Probable Error of Correlation
- Trend Analysis

A. Arithmetic Mean

Arithmetic Mean of a given set of observations is the sum of the observation divided by the number of observations. In such as case all the items are equally important. Simple Arithmetic Mean is used in this study as per necessary for analysis

We have,

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

Where,

$\sum x$ = Sum of all values of the observations

n = Number of observation

x = Value of variables

B. Standard Deviation

The standard deviation is usually denoted by the letters (σ). Karl Pearson suggested it as a widely used measure of dispersion and defined as the given observations from their arithmetic mean of a set of value. It is also known as root mean square

deviation. Standard deviation, in this study has been used to measure the degree of fluctuation of interest rate and that of other variables as per the necessity of the analysis.

We have,

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(x - \bar{x})^2}{n}}$$

C. Coefficient of Variation (C.V.)

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 times coefficient of standard deviation is called coefficient of variation. It is denoted by C.V.

Thus,

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100\%$$

Where,

σ = Standard Deviation

\bar{x} = Mean Value of Variables

The distribution having less C.V. is said to be less variable or more consistent. A distribution having greater C.V. is said to be more variable or less consistent.

D. Correlation Coefficient (r)

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

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

Where,

N = No of observation in series X and Y

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

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

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

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

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

E. Coefficient of Determination (r^2)

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

F. Probable Error of Correlation

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

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

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

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

G. Trend Analysis

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

Mathematically,

$$Y = a + bX$$

Where,

Y = Value of dependent variable

a = Y- intercept

b = Slope of trend line

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

Normal equation of the above are

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

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

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

This is the most important chapter of the study. In this chapter the data collected will be analyzed and presented mathematically. All the above-mentioned financial and statistical tools will be used to present the data. In this chapter the researcher has analyzed and interpreted relevant and available data of the selected commercial banks according to the research methodology as mentioned in the previous chapter. The analysis of data consists of organizing, tabulating and evaluating the collected data.

4.1 Financial Analysis

Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. Profitability ratios are the measurement of effectiveness. So with the help of these ratios, one decides whether to invest in a particular firm or not. Profit is the difference between total revenue & total expense over a period of time. Profitability ratios are used to indicate the overall efficiency of the firm. There are many measures of profitability. Higher degree of profitability ratio shows better financial position & performance to the firms.

4.1.16 Net Profit Trend

The main objective of the bank is to achieve profit. Further, profit is the lifeblood of each organization, without which the organization cannot sustain. Thus, the bank should also gain profit for survival. The net profit gained by the sampled banks is presented in the Table 4.1.

Table 4.1
Net Profit

(Rs. in Thousands)

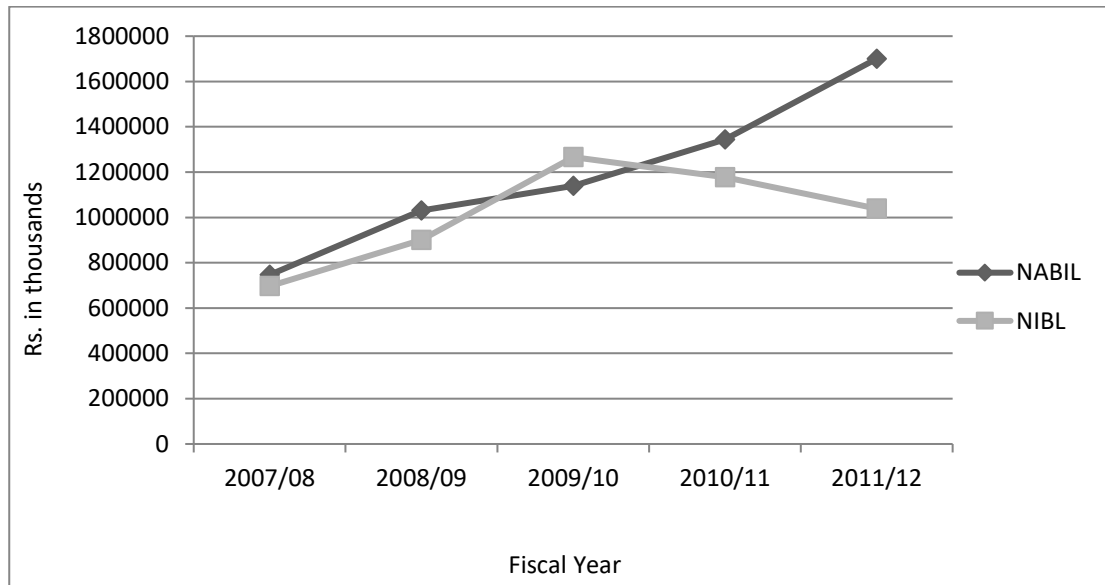
Fiscal Year	NABIL	NIBL
2007/08	746468	696732
2008/09	1031053	900619
2009/10	1138571	1265949
2010/11	1344179	1176641
2011/12	1700376	1039276
Mean	1192129	1015843
S.D.	356673	225869
C.V.%	29.92	22.23

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

The above table depicted the net profit trend of the sampled banks during fiscal year 2007/08 to 2011/12. According to the above table, the net profit achieved by NABIL is in increasing trend. NABIL is able to increase the net profit from Rs. 746468 thousands in the fiscal year 2007/08 to Rs. 1700376 thousands in the fiscal year 2011/12. Within the five year periods, NABIL earned Rs. 1192129 thousands per year in average, and the coefficient of the variation in the net profit achievement is 29.92%.

Similarly, the net profit achievement of NIBL is also in increasing trend except in 2011/12. The net profit of NIBL is highest, Rs. 1176641 thousands, in the fiscal year 2010/11 and lowest, Rs. 696732 thousands, in the fiscal year 2007/08. In average, NIBL earned Rs. 1015843 thousands as net profit, and the coefficient of variation in such earning is 22.23%, which indicated high pace of growth in the net profit. Comparing between two, certainly NABIL made the higher net profit than of NIBL.

Figure 4.1
Net Profit



4.1.17 Net Profit Margin

Net profit mean net profit divided by net revenues, often expressed as a percentage. This number is an indication of how effective a company is at cost control. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit. The net profit margin is a good way of comparing companies in the same industry, since such companies are generally subject to similar business conditions. However, the net profit margins are also a good way to compare companies in different industries in order to gauge which industries are relatively more profitable.

Table 4.2
Net Profit Margin

(Ratio in %)

Fiscal Year	NABIL	NIBL
2007/08	29.68	26.4
2008/09	30.56	24.0
2009/10	24.11	23.9
2010/11	22.29	18.2
2011/12	23.74	15.5
Mean	26.08	21.60
S.D.	3.77	4.55
C.V.	14.44	21.07

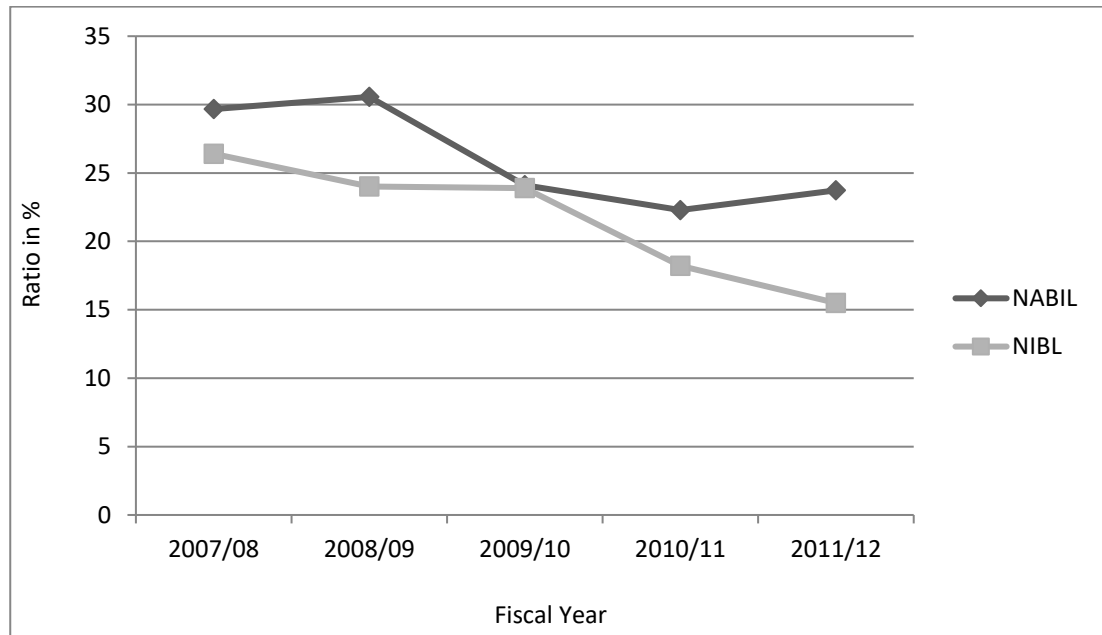
Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

The above table shows the net profit margin of NABIL and NIBL. The table showed that the net profit margin of NABIL is fluctuating during the study period. The net profit margin ratio of NABIL is ranged from 22.29% in the fiscal year 2010/11 to 30.56% in the fiscal year 2008/09. In average, the net profit margin of NABIL is 26.08% and the coefficient of variation in the ratio is 14.44%.

Likewise, the net profit margin of NIBL is in increasing trend during the study period i.e. 26.4% in the fiscal year 2007/8 to 15.5% in the fiscal year 2011/12. In average, NIBL is able to kept 21.60% as the net profit margin and the coefficient of variation in the ratio is 21.07%.

On the basis of net profit margin, it can be concluded that the NABIL is more successful than NIBL in controlling the operating and other non operating cost; as a result their net profit margin is higher.

Figure 4.2
Net Profit Margin



4.1.18 Return on Total Assets Ratio

Return on total assets explains the contribution of assets to generating net profit. This ratio indicates efficiency towards of assets mobilization. In other words return on total assets ratio is an overall profitability rate, which measures earning power and overall operation efficiency of a firm. This ratio helps the management in identifying the factors that have a bearing on overall performance of the firm.

Table 4.3
Return on Total Assets Ratio

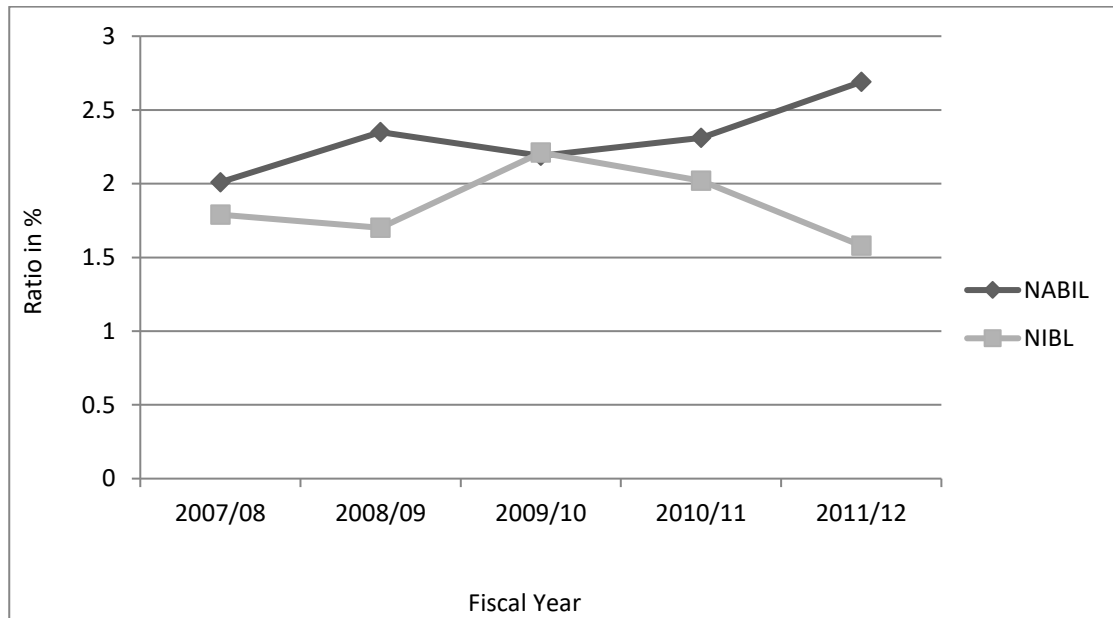
(Rs. in Thousands)

Bank	NABIL			NIBL		
Fiscal Year	NPAT	Total Assets	Ratio (%)	NPAT	Total Assets	Ratio (%)
2007/08	746468	37132759	2.01	696732	38873306	1.79
2008/09	1031053	43867398	2.35	900619	53010803	1.70
2009/10	1138571	52079725	2.19	1265949	57305413	2.21
2010/11	1344179	58141437	2.31	1176641	58356827	2.02
2011/12	1700376	63200298	2.69	1039276	65756232	1.58
Mean			2.31			1.86
S.D.			0.25			0.25
C.V.			10.86			13.58

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

The above table shows analysis of return on total assets of the NIBL and NABIL over the selected period. The ratios of the NABIL are 2.01%, 2.35%, 2.19%, 2.31% and 2.69% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average ratio and CV of the bank are 2.31% and 10.86% respectively. On the other side the ratio of NIBL are 1.79%, 1.70%, 2.21%, 2.02% and 1.58% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average ratio and CV of the bank are 1.86% and 13.58% respectively. Here, NIBL has the higher profit ratio in the fiscal year 2010/11 and lower in the year 2008/09. It shows that the NABIL profitability position over the total assets is much more satisfactory than that of NIBL.

Figure 4.3
Return on Total Assets Ratio



4.1.19 Return on Equity

One of the most important profitability metrics is return on equity (ROE). Return on equity reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. If you think back to lesson three, you will remember that shareholder equity is equal to total assets minus total liabilities.

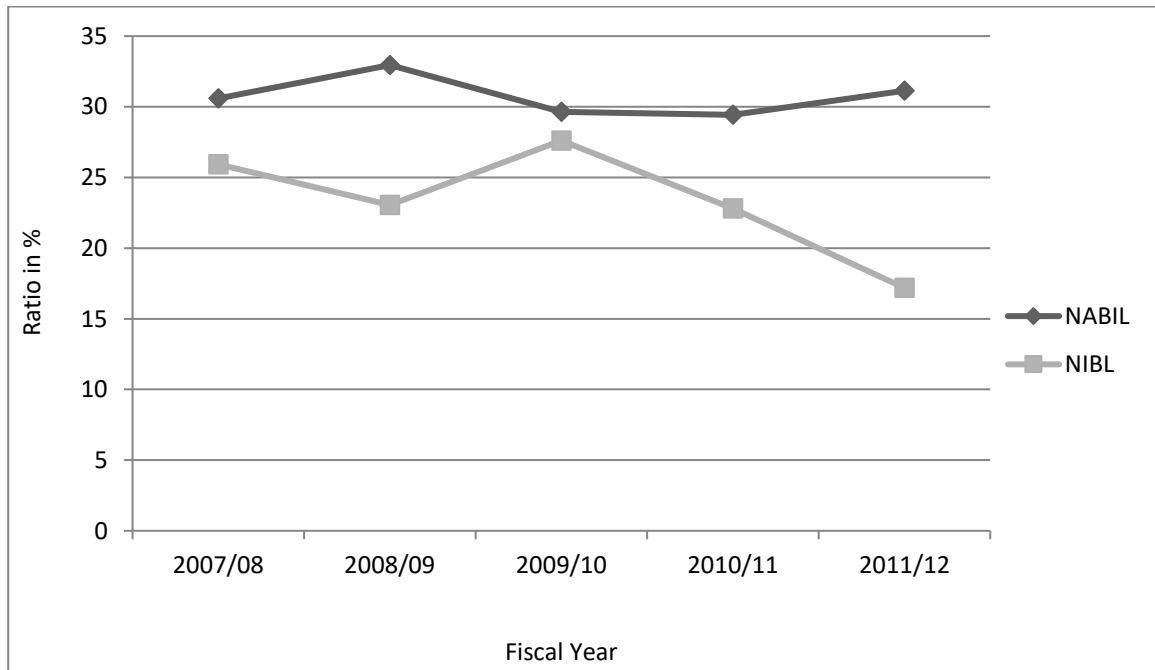
Table 4.4
Return on Equity Ratio

(Rs. In Thousands)

Bank	NABIL			NIBL		
	NPAT	Total Equity	Ratio (%)	NPAT	Total Equity	Ratio (%)
2007/08	746468	2439824	30.60	696732	2686786	25.93
2008/09	1031053	3129020	32.95	900619	3907840	23.05
2009/10	1138571	3840178	29.65	1265949	4585393	27.61
2010/11	1344179	4566981	29.43	1176641	5159760	22.80
2011/12	1700376	5460079	31.14	1039276	6049941	17.18
Mean			30.75			23.31
S.D.			1.41			3.98
C.V.			4.59			17.06

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

Figure 4.4
Return on Equity Ratio



The above table and figure shows the return on equity of NABIL and NIBL over the study period 2007/08 to 2011/12. The table shows that the returns on equity of the NABIL are in fluctuating trends over the study period and ranged from 29.43% to 32.95% in the fiscal year 2010/11 and 2008/09 respectively. The average ratio of NABIL is 30.75%. Similarly, the return on equity ratio of the NIBL is in fluctuating trends. The return on equity of NIBL is ranged from 17.18% in the fiscal year 2011/12 to 27.61% in the fiscal year 2009/10. The average ratio of NIBL is 23.31%. The return on equity ratios of the NABIL is higher than that of NIBL and there is more consistency in the ratio of NABIL than of NIBL.

4.1.20 Interest Income to Loan and Advances

The bank grants loan and advances for the sole reason to gain interest income. Thus, to examine how far the bank has been able to manage the loan and advances in earning interest income, the ratio of interest income to loan and advances has been determined.

Table 4.5
Interest Income to Loan and Advances

(Rs. In Thousands)

Bank	NABIL			NIBL		
	Interest Income	Loan and Advances	Ratio (%)	Interest Income	Loan and Advances	Ratio (%)
2007/08	1978696	21365053	9.26	2194275	26996652	8.13
2008/09	2798486	27589933	10.14	3267941	36241207	9.02
2009/10	4047725	32268873	12.54	4653521	40318308	11.54
2010/11	5254030	38034097	13.81	5803440	41095514	14.12
2011/12	6133739	41605683	14.74	5982641	41636999	14.37
Mean			12.10			11.44
S.D.			2.35			2.86
C.V.			19.38			24.97

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

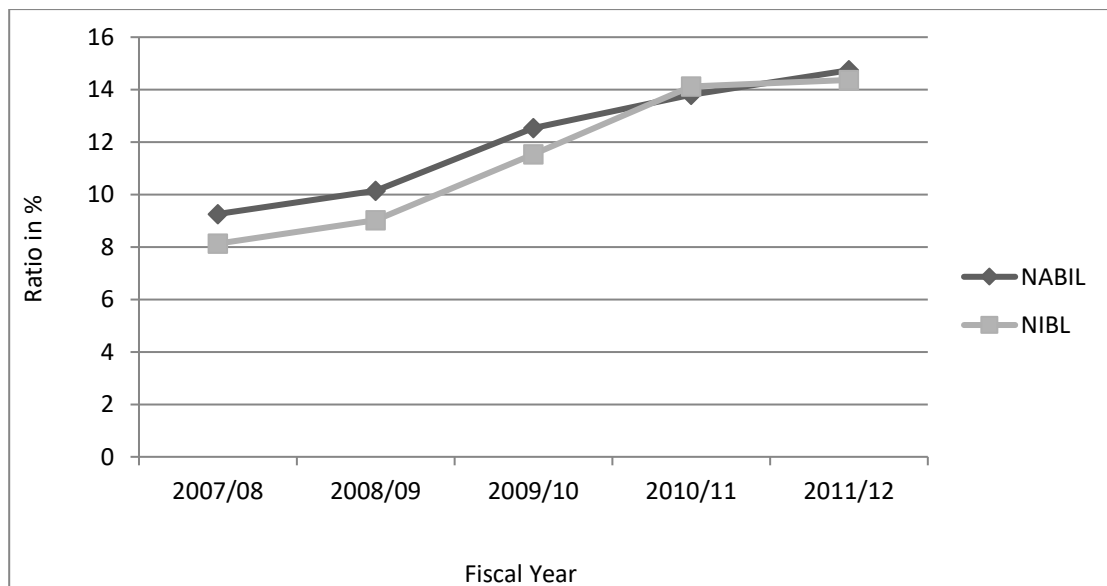
The above table measured the efficiency of the sampled banks in loan mobilization in terms of interest income earned during fiscal year 2007/08 to 2011/12. The table showed that the interest income to total loan and advances disbursed by NABIL is in increasing trends and the ratio is highest, 14.74%, in the fiscal year 2011/12 and lowest, 9.26%, in the fiscal year 2007/08. In average, NABIL gained 12.10% of the total loan and advances disbursed as the interest income and the coefficient of variation in the ratio is 19.38%.

Likewise, the interest income to total loan and advances of NIBL is in increasing trend over the study period. The ratio is highest, 14.37% in the fiscal year 2011/12 and lowest, 8.13%, in the fiscal year 2007/08. In average, NIBL earned 11.44% of the total credit granted as interest income. The coefficient of variation of 24.97% indicated uniformity in the ratio.

Comparing the sampled banks, it can be concluded that NABIL is more efficient in mobilizing the funds in credit and advances, since the interest yielded to total credit ratio is highest in comparison with that of NIBL.

Figure 4.5

Interest Income to Loan and Advances



4.1.21 Return on Total Deposit Ratio

Return on total deposit ratio measures how efficiently the deposit has been mobilized. This ratio is a mirror of bank's overall financing performance; deposits are outsiders' capital fund that entails paying fixed interest, this affects NPAT ultimately. Shareholders, depositors and management are concerned with this ratio.

Table 4.6
Return on Total Deposit Ratio

(Rs. In Thousands)

Bank	NABIL			NIBL		
	NPAT	Total Deposit	Ratio (%)	NPAT	Total Deposit	Ratio (%)
2007/08	746468	31915047	2.34	696732	34451726	2.02
2008/09	1031053	37348256	2.76	900619	46698100	1.93
2009/10	1138571	46340701	2.46	1265949	50094725	2.53
2010/11	1344179	49696113	2.70	1176641	50138122	2.35
2011/12	1700376	55023695	3.09	1039276	57010604	1.82
Mean			2.67			2.13
S.D.			0.29			0.30
C.V.			10.93			13.91

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

The above table revealed the efficiency of the banks to optimally mobilize the deposit collected during the study period 2007/08 to 2011/12. The table depicted that the return on total deposit of NABIL is in increasing trends during the study period except in fiscal year 2009/10, i.e. from 2.34% in the fiscal year 2007/08 to 3.09% in the fiscal year 2011/12. In average, NABIL generated Rs. 2.67 net profit from Rs. 100 investment of total deposit and the coefficient of variation in the ratio is 10.93%, indicating uniformity in the ratio.

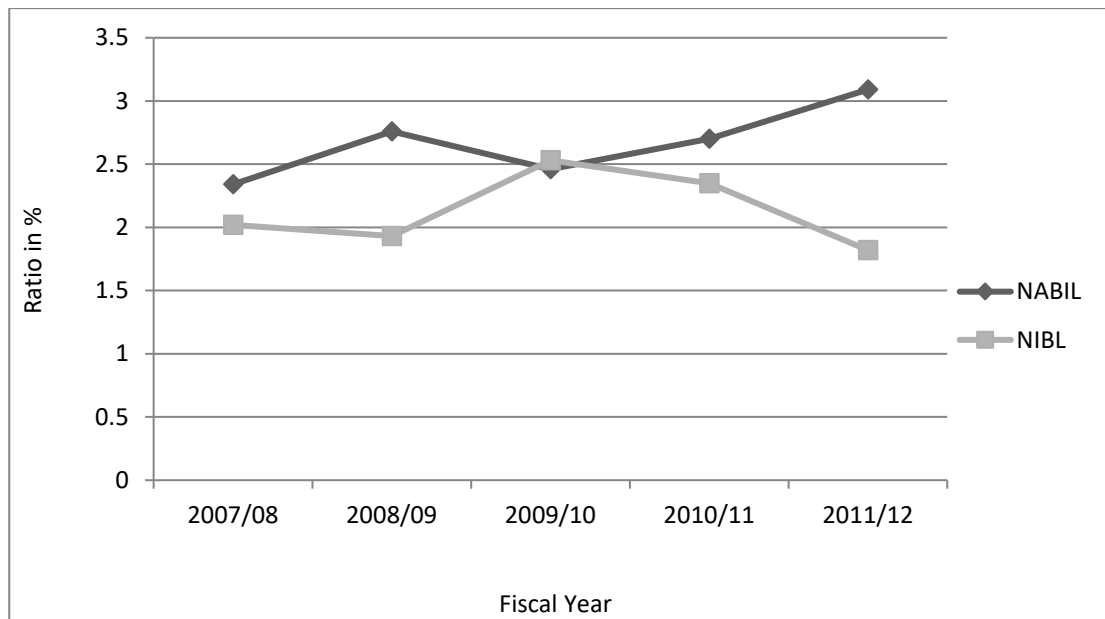
Likewise, the net profit to total deposit ratio of NIBL is in fluctuating trends during the study period. The ratio is minimum, 1.82%, in the fiscal year 2011/12 and

maximum, 2.53%, in the fiscal year 2009/10. In average, NIBL gained Rs. 2.13 from mobilizing Rs. 100 of total deposit, and the coefficient of variation in such return is 13.91%, indicating consistency.

On the basis of return on total deposit it can be concluded that NABIL is more efficient in mobilizing the deposit in productive sector, since the net profit to total deposit of NABIL is higher (2.67%) in comparison with that of NIBL (2.13%).

Figure 4.6

Return on Total Deposit Ratio



4.1.22 Return on Total Investment Ratio

This ratio actually measures the total interest income from total investment. A high ratio of interest income from investment indicates high mobilization of collected deposits in investment and vice versa.

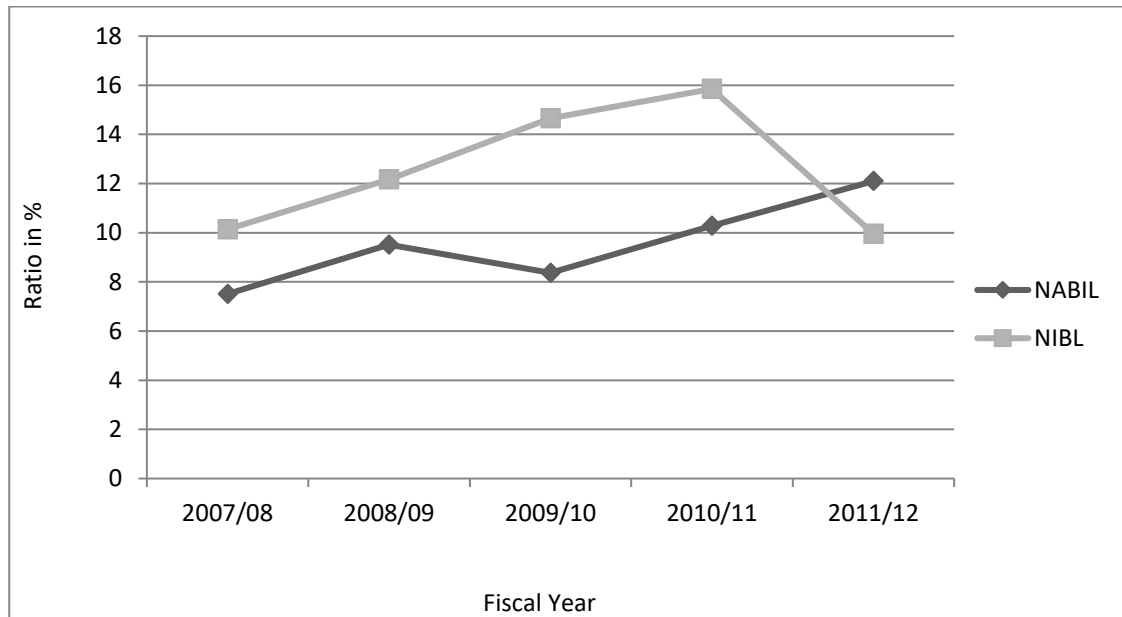
Table 4.7
Return on Total Investment Ratio

(Rs. In Thousands)

Bank	NABIL			NIBL		
	NPAT	Total Investment	Ratio (%)	NPAT	Total Investment	Ratio (%)
2007/08	746468	9939771	7.51	696732	6874024	10.14
2008/09	1031053	10826379	9.52	900619	7399812	12.17
2009/10	1138571	13600917	8.37	1265949	8635530	14.66
2010/11	1344179	13081206	10.28	1176641	7423106	15.85
2011/12	1700376	14055850	12.10	1039276	10438487	9.96
Mean			9.56			12.55
S.D.			1.77			2.65
C.V.			18.55			21.09

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

Figure 4.7
Return on Total Investment Ratio



The above table and figure shows the total profit to total investment ratio of NABIL and NIBL from the fiscal year 2007/08 to 2011/12. The ratios in NABIL are in increasing trend except in fiscal year 2009/10. The ratios are 7.51%, 9.52%, 8.37%, 10.28% and 12.10% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In an average NABIL earns 9.56% return from its investment. Likewise, the net profit to total investment ratio of NIBL is in increasing trends except in final fiscal year 2011/12 and started from 10.14% in the fiscal year 2007/08 increased to 15.85% in the fiscal year 2011/12 and finally decreased to 9.96. The average net profit to total investment of NIBL is 12.55% with 21.09% variation.

The mean net profit to total investment ratio of NIBL (12.55%) is higher than that of NABIL (9.56%) so it can be conclude that NIBL invest in more profitable area than NABIL.

4.1.23 Return On Loan and Advance

The ratio expresses one of the key measurements in management discretion in the primary function of commercial banks. The main source of income of commercial banks is lending. Interest earned from loan and advance is more important income base than interests earned from other investment and inter bank borrowing.

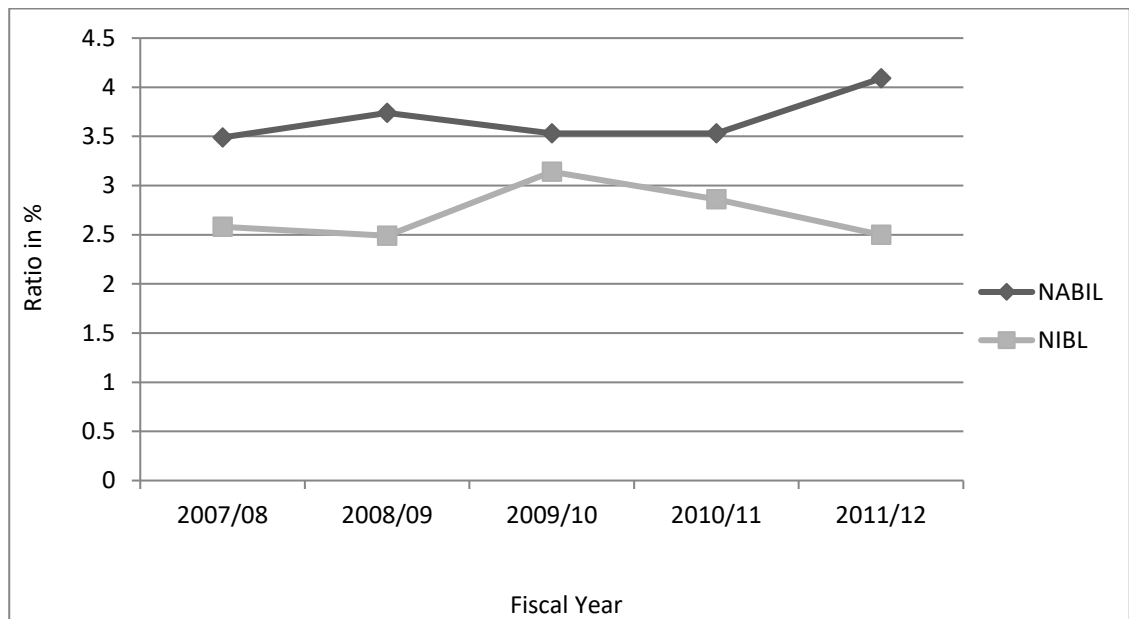
Table 4.8
Return on Total Loan and Advance Ratio

(Rs. In Thousands)

Bank	NABIL			NIBL		
	NPAT	Loan and Advance	Ratio (%)	NPAT	Loan and Advance	Ratio (%)
2007/08	746468	21365053	3.49	696732	26996652	2.58
2008/09	1031053	27589933	3.74	900619	36241207	2.49
2009/10	1138571	32268873	3.53	1265949	40318308	3.14
2010/11	1344179	38034097	3.53	1176641	41095514	2.86
2011/12	1700376	41605683	4.09	1039276	41636999	2.50
Mean			3.68			2.71
S.D.			0.25			0.28
C.V.			6.77			10.45

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

Figure 4.8
Return on Loan and Advance Ratio



The above table and figure shows the return on loan and advance ratio of NABIL and NIBL during the study period 2007/08 to 2011/12. The return on loan and advance ratio of NABIL is in fluctuating trends over the study period. The ratio is ranged from 3.53% in the fiscal year 2009/10 to 4.09% in the fiscal year 2011/12. The average ratio of NABIL is 3.68% with 6.77% of variation. Similarly, the ratio of NIBL also is in fluctuating trends and ranged from 2.49% in the fiscal year 2008/09 to 3.14% in the fiscal year 2009/10. The mean return on loan and advance ratio of NIBL is 2.71% with 10.45% of variation. As compare to average loan and advance of NABIL and NIBL, NABIL has higher return than NIBL.

4.1.24 Loan and Advance to Total Deposit Ratio

This ratio is used to see extent to which the banks are successful to mobilize the outsider's funds. It is calculated to measure the percentage of total deposit invested in loan, advance and overdraft. It is the proportion of efficiency i.e. loan the advance among the total deposit of the commercial banks.

Table 4.9
Loan and Advance to Total Deposit Ratio

(Rs. In Thousands)

Bank	NABIL			NIBL		
	Loan and Advances	Total Deposit	Ratio (%)	Loan and Advances	Total Deposit	Ratio (%)
2007/08	21365053	31915047	66.94	26996652	34451726	78.36
2008/09	27589933	37348256	73.87	36241207	46698100	77.61
2009/10	32268873	46340701	69.63	40318308	50094725	80.48
2010/11	38034097	49696113	76.53	41095514	50138122	81.96
2011/12	41605683	55023695	75.61	41636999	57010604	73.03
Mean			72.52			78.29
S.D.			4.09			3.41
C.V.			5.64			4.35

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

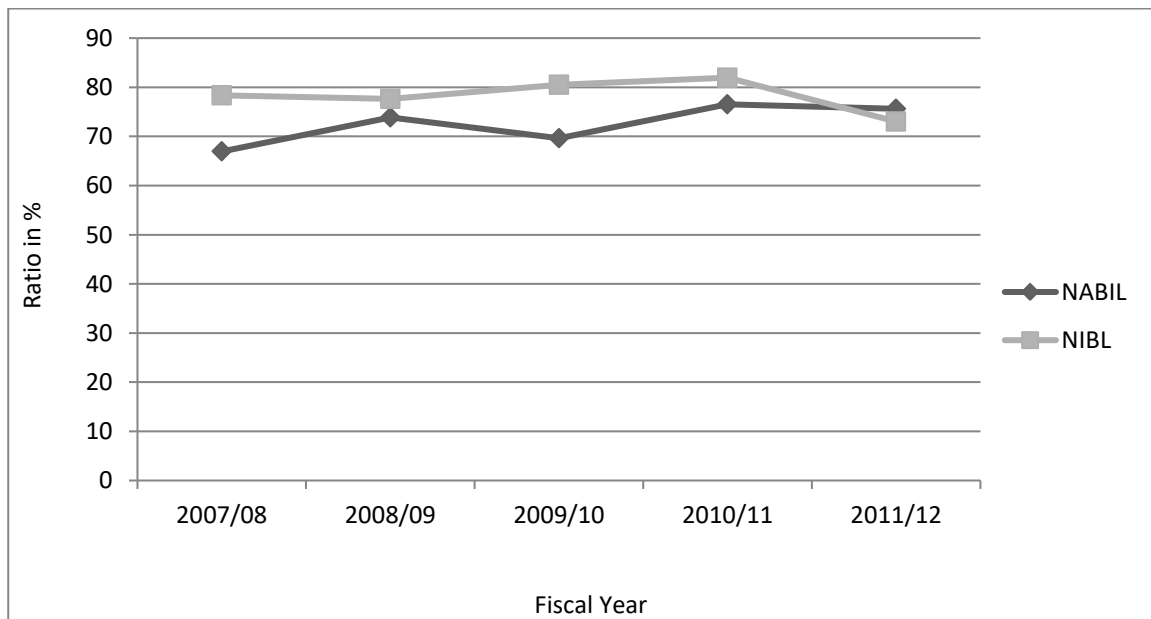
The above table shows the loan and advances to total deposit of NABIL and NIBL. The table depicts that the ratio of loan and advances to total deposit of NABIL is in fluctuating trend during the periods, i.e. ranged from 66.94% in the fiscal year 2007/08 to 76.53% in the fiscal year 2010/11. In average, NABIL has mobilized 72.52% of the total deposit in granting loans and advances.

Similarly, the loan and advance to total deposit ratio in NIBL in fluctuating trend during the study period. The ratio is lowest, 73.03%, in the fiscal year 2011/12 and highest, 81.96%, in the fiscal year 2010/11. In average, 78.29% of the total deposit has been mobilized in providing loans and advances and the coefficient of variation on such ratio is 4.35% only.

From the above analysis, it can be concluded that NIBL is aggressive then NABIL in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is highly consistent in both of the banks.

Figure 4.9

Loan and Advance to Total Deposit Ratio



4.1.25 Interest Expenses to Interest Income Ratio

This ratio measures the relationship between the interest payment and interest income of the bank. Higher ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income and vice versa.

Table 4.10
Interest Expenses to Interest Income Ratio

(Rs. In Thousands)

Bank	NABIL			NIBL		
	Fiscal Year	Interest Expenses	Interest Income	Ratio (%)	Interest Expenses	Interest Income
2007/08	1978696	2428861	81.47	2194275	2542321	86.31
2008/09	2798486	3374263	82.94	3267941	3705883	88.18
2009/10	4047725	4724196	85.68	4653521	5233031	88.93
2010/11	5254030	6001558	87.54	5803440	6378839	90.98
2011/12	6133739	7145969	85.83	5982641	6724475	88.97
Mean			84.69			88.67
S.D.			2.44			1.68
C.V.			2.89			1.90

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

The table and figure shows the interest paid to interest income ratio of NABIL and NIBL. The table shows that the NABIL has remained unable to control the interest expenses. Although both the interest expenses and interest income of the bank has followed increasing trend, the pace of growth in interest expenses is greater than that in interest income. The interest expense to interest income ratio of NABIL has ranged from 81.47% in the fiscal year 2007/08 to 85.83% in the fiscal year 2011/12. In average, 84.69% of the interest income has been used to meet interest expenses, and there is just 2.89% variation in the rate, signaling greater uniformity in the ratio.

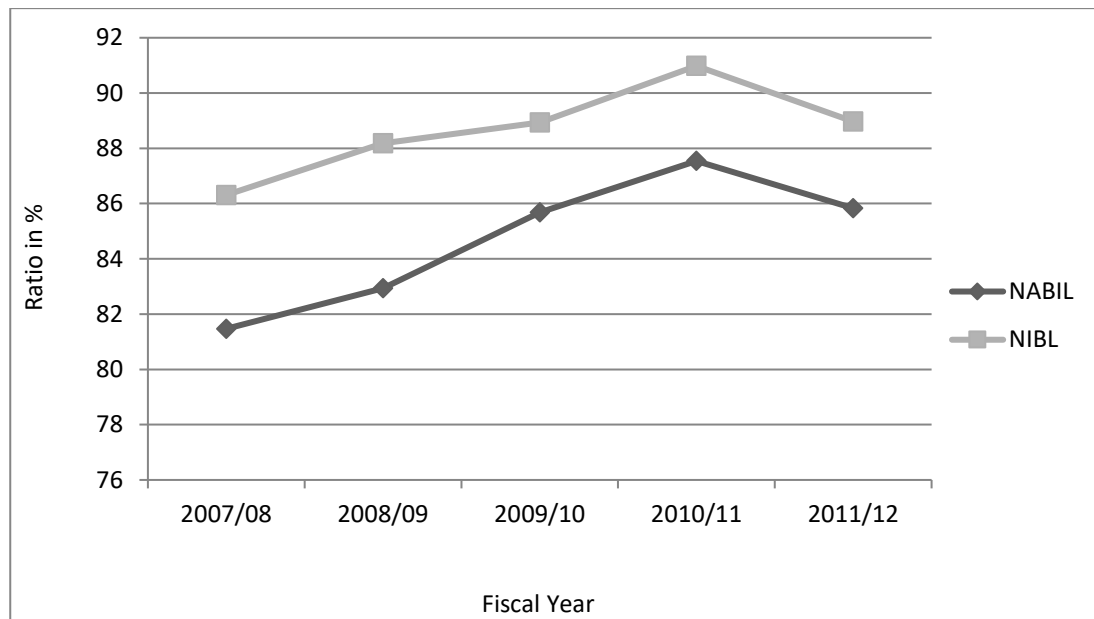
Similarly, the interest paid to interest income ratio of NIBL follows the increasing trends except in final fiscal year. The ratio has ranged from 86.31% in the fiscal year

2007/08 to 90.98% in the fiscal year 2010/11. In average, NIBL paid 88.67% of the total interest income as interest expenses and the variation in the ratio is just 1.90% indicating highly consistency in the ratio.

Comparing the banks, it can be concluded that NABIL has the higher control on interest expenses than NIBL, as the interest paid to interest income of NABIL is lower than that of NIBL.

Figure 4.10

Interest Expenses to Interest Income Ratio



4.1.26 Interest Coverage Ratio

The primary function of the bank is to collect deposit and land money. The banks pay interest on the deposits collected and receive interest in the loans and advances. Interest coverage ratio is the most conventional coverage ratio used to test the firm's debt- servicing capacity. The table below shows the computations of interest coverage ratio of both the bank for the five years study period.

Table 4.11
Interest Coverage Ratio

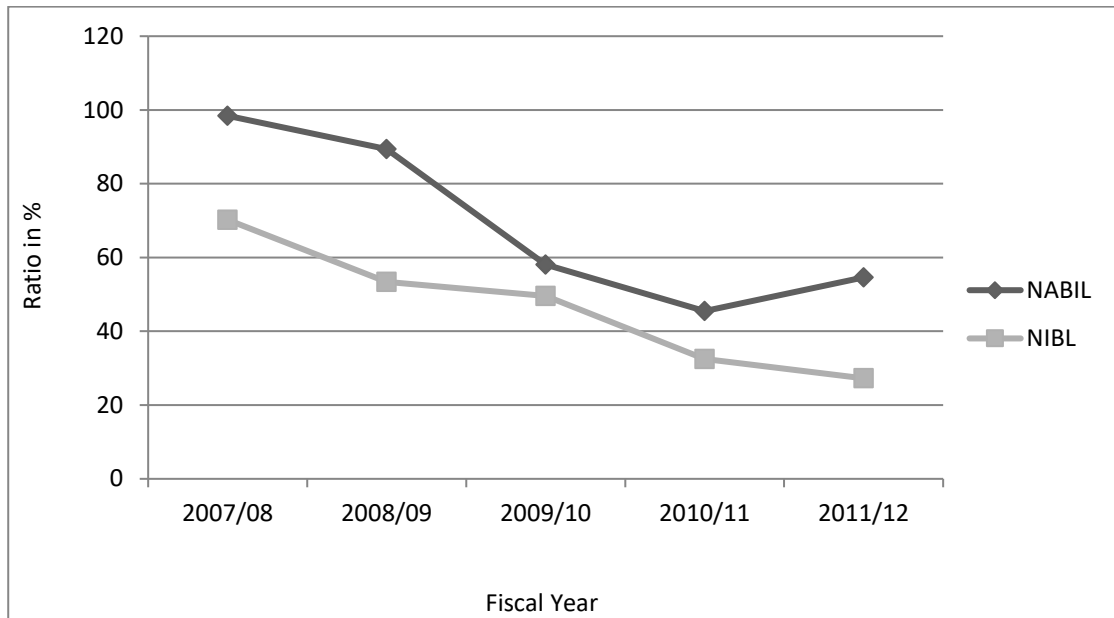
(Rs. in Thousands)

Bank	NABIL			NIBL		
	EBIT	Interest	Ratio (%)	EBIT	Interest	Ratio (%)
2007/08	746468	758436	98.42	696732	992158	70.22
2008/09	1031053	1153280	89.40	900619	1686973	53.39
2009/10	1138571	1960108	58.09	1265949	2553847	49.57
2010/11	1344179	2955431	45.48	1176641	3620337	32.50
2011/12	1700376	3115549	54.58	1039276	3814411	27.25
Mean			69.19			46.59
S.D.			23.25			17.22
C.V.			33.60			36.97

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

The above table shows the interest coverage ratio of NABIL and NIBL and for sampled years 2007/08 to 2011/12. The interest coverage ratios of the NABIL are in decreasing trends except in fiscal year 2011/12. The ratio over the period of NABIL are 98.42%, 89.40%, 58.09%, 45.48% and 54.58%, in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average ratio and C.V of the bank are 69.19% and 33.60% are respectively. Similarly, the interest coverage ratios of NIBL are in decreasing trends and ratio is ranged from 27.25% in the fiscal year 2011/12 to 70.22% in the fiscal year 2007/08. The average ratio of NIBL is 46.59% and the C.V. of the bank is 36.97%. The average interest coverage ratio of NABIL is greater than the NIBL. From here it can be concluded that the interest paying ability of NABIL in an average is more than NIBL and more consistent in NABIL than NIBL.

Figure 4.11
Interest Coverage Ratio



4.1.27 Staff Expenses Per Employee

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

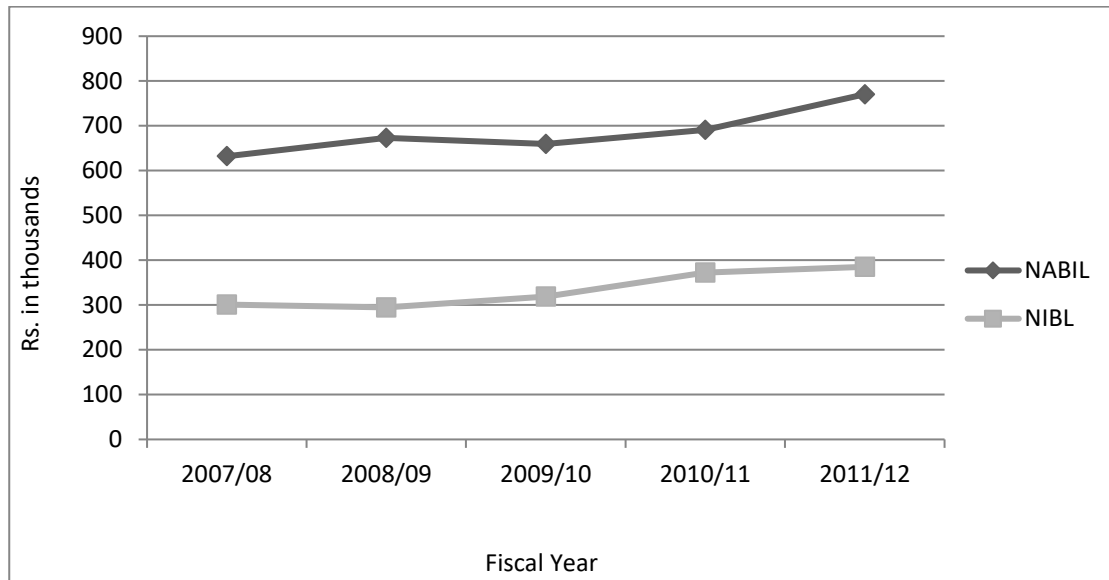
Table 4.12
Staff Expenses per Employee

(Rs. in Thousands)

Bank	NABIL			NIBL			
	Fiscal Year	No of Staff	Staff Expenses	Ratio in Rs	No of Staff	Staff Expenses	Ratio in Rs
	2007/08	416	262907	631.99	622	187150	300.88
	2008/09	505	339898	673.07	766	225721	294.67
	2009/10	557	367162	659.18	877	279851	319.10
	2010/11	657	454042	691.08	877	326543	372.34
	2011/12	650	500713	770.33	883	340160	385.23
	Mean			685.13			334.45
	S.D.			52.29			41.71
	C.V.			7.63			12.47

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

Figure 4.12
Staff Expenses per Employee



The above table and figure shows the staff expenses of the NABIL and NIBL over the study period. The per staff expenses of the NABIL is in increasing trends. The staff expenses per employee of NABIL is ranged from 631.99 thousands in fiscal year 2007/08 to 770.33 thousands in fiscal year 2011/12. The average staff expense of the NABIL is Rs. 685.13 thousands. Similarly the staff expense in the NIBL also is in increasing trends and ranged from 300.88 thousands in fiscal year 2007/07 to 385.23 thousands in fiscal year 2011/12. The average staff expense in NIBL is Rs. 334.45 thousands. The above table demonstrates that NIBL has higher staff expenses than that of NABIL. Although this is not good from the cost aspect but other influences like staff motivation cannot be ignored. The ratios generally show an increasing trend.

4.1.28 Non Performing Loan Ratio

The non performing ratio measures the risk on the total loan and thus represents the quality of the assets the bank is carrying on. Higher the ratio indicates higher risk on

the assets and vice-versa. The ratio of NABIL and NIBL for the five year periods are presented in the table below.

Table 4.13
Non Performing Loan Ratio

Fiscal Year	NABIL	NIBL
2007/08	0.74	1.12
2008/09	0.8	0.58
2009/10	1.48	0.67
2010/11	1.77	0.94
2011/12	2.33	3.32
Mean	1.42	1.33
S.D.	0.67	1.14
C.V.	47.12	85.61

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

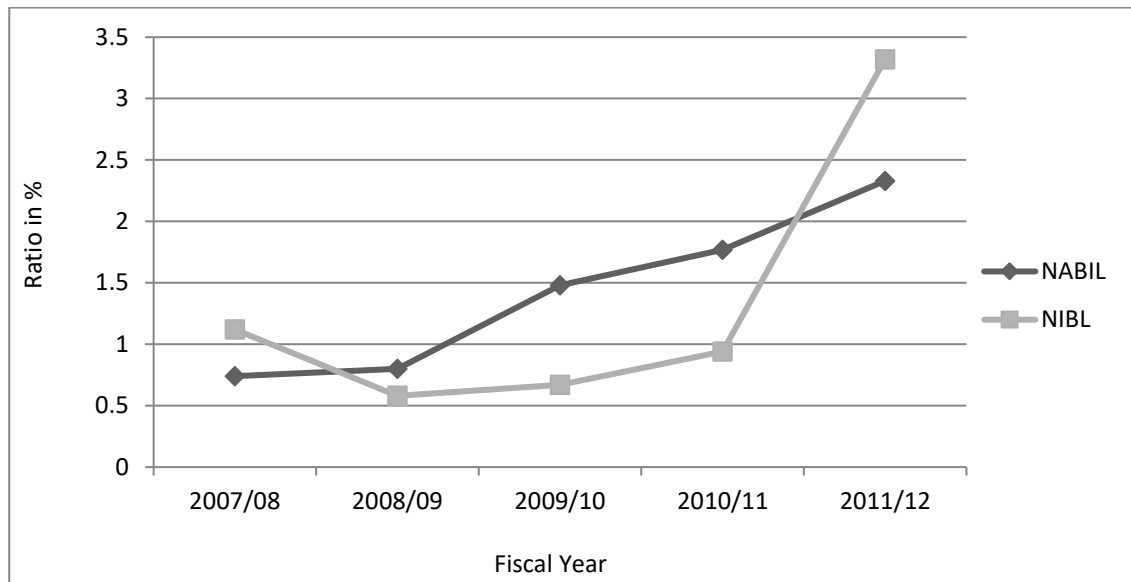
The table 4.13 shows the efficiency of bank in controlling non performing loan/asset. The table reveals that NABIL has not been able to deduce the non performing loan to total loan ratio within the five fiscal year periods. The ratio is in increasing trends and ranged from 0.74% in fiscal year 2007/08 to 2.33% in fiscal year 2011/12. This increment symbolizes that NABIL has not made better recovery policy within these five year periods and thus increased the chances of turning loan into loss loan. In average, the non performing loan to total loan of NABIL is 1.42%.

Likewise, NIBL has remained success in reducing the non performing assets ratio in the first three years and then it has stated to increase. The ratios are 1.12%, 0.58%, 0.67%, 0.94% and 3.32% in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. In addition, NIBL has maintained 1.33% as the average nonperforming assets ratio with 85.61% of coefficient of variation which indicates inconsistency in the ratio.

Both of the bank's non performing ratios are in almost in increasing trends but in an average both of the banks have satisfactorily decreased the non performing assets ratio less than 2%, and thus indicated of having sound loan management policy. Further, comparing two banks, NIBL is superior than NABIL in controlling the non performing loan/assets.

Figure 4.13

Non Performing Loan Ratio



4.1.29 Earnings per Share (EPS)

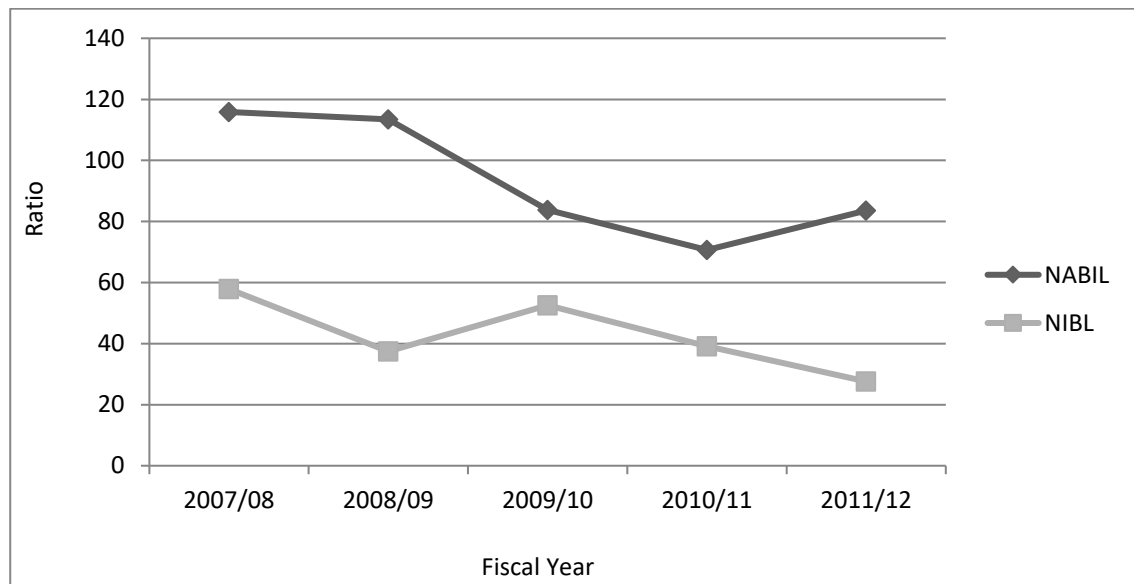
Earnings per share measure the profit available to the each equity holders. EPS does not indicate how many dividends are being paid on each share. It only measures the overall operational efficiency of the bank. It is the profit after tax figure that is dividend by the number of common shares to calculate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

Table 4.14
Earnings per Share

Fiscal Year	NABIL	NIBL
2007/08	115.86	57.87
2008/09	113.44	37.42
2009/10	83.81	52.55
2010/11	70.67	39.10
2011/12	83.57	27.60
Mean	93.47	42.91
S.D.	20.07	12.20
C.V.	21.47	28.44

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

Figure 4.14
Earnings per Share



The above table and figure shows the earning per share of NABIL and NIBL over the study period 2007/08 to 2011/12. The earning per shares the ratios of NABIL are in decreasing trends except in final fiscal year and the ratios are Rs.115.86, Rs.113.44, Rs. 83.81, Rs.70.67 and Rs. 83.57 in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively where as the ratios of NIBL are in fluctuating

tends and the ratios are Rs. 57.87, 37.42, 52.55, 39.10 and 27.60 in the fiscal year 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. The average earning per share of NABIL and NIBL are 93.47% and 42.91% respectively. Higher average ratio indicates that NABIL is able to earn more profit per share to the common shareholders than that of NIBL, EPS has been used as the measure of profitability, because it does not considered the amount of asset of capital required to generate that level of earning.

4.1.30 Dividend per Share

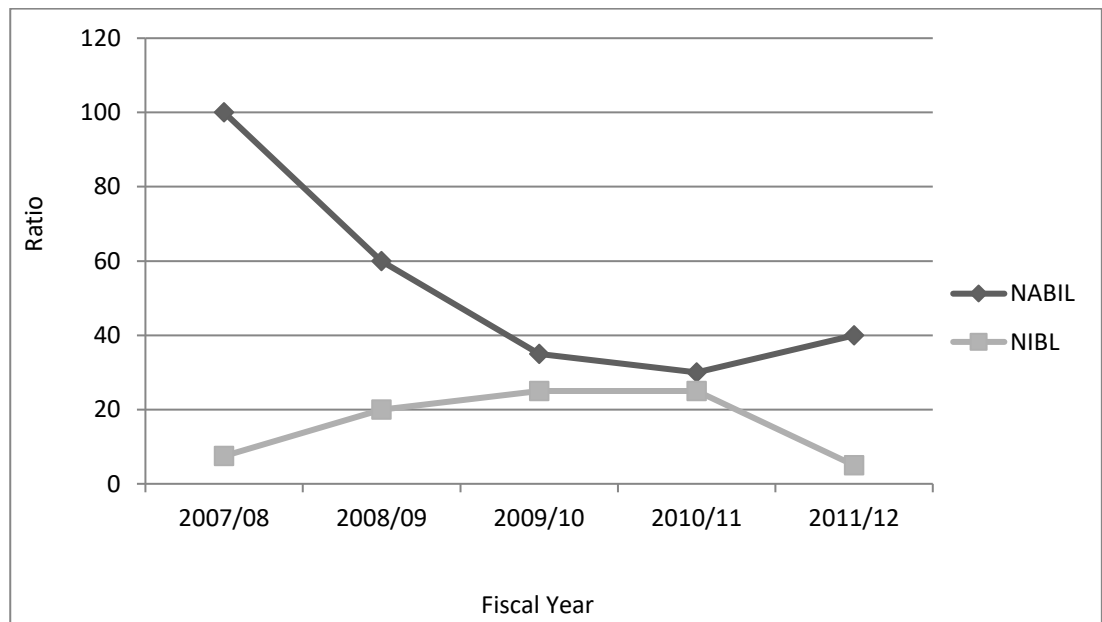
The net profit after taxes belongs to shareholders. But the income, which they really receive, is the amount of earnings distributed as dividends. The dividend per share presented includes both cash dividend paid per share and the bonus share dividend given for holding unit share, which has been turned into rupees by multiplying the face value by the percentage declared to provide.

Table 4.15
Dividend per Share

Fiscal Year	NABIL	NIBL
2007/08	100	7.5
2008/09	60	20
2009/10	35	25
2010/11	30	25
2011/12	40	5
Mean	53.00	16.50
S.D.	28.64	9.62
C.V.	54.03	58.29

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – I

Figure 4.15
Dividend per Share



The above table and figure reveals the dividend policy of NABIL and NIBL during the study period 2007/08 to 2011/12. The dividend per share of NABIL has followed decreasing trend in the study fiscal years except only in 2011/12, i.e. ranged from Rs. 30 in the fiscal year 2010/11 and Rs. 100 in the fiscal year 2007/08. In average, NABIL has distributed Rs. 53 per share in the last five fiscal years.

Similarly, NIBL has followed almost increasing trends of dividend per share during the study period except in final fiscal year. NIBL paid dividend worth Rs. 7.5 in fiscal year 2006/07, Rs. 20 in fiscal year 2008/09, Rs. 25 in 2009/10 and 2010/11 and finally decreased to Rs. 5 in the fiscal year 2011/12. In aggregate the bank has paid dividend worth Rs. 16.50 per share. On the basis of DPS, it can be concluded that NABIL remained more success to retain its existing shareholders and to attraction the potential shareholders toward it.

4.4 Statistical Analysis

4.2.1 Coefficient of Correlation Analysis

Coefficient of correlation analysis is the mathematical method of measuring the degree of association between the two variables i.e. one dependent and one independent. This analysis interprets and identifies the relationship between two or more variables. In the case of highly correlated variables, the effect of one variable may have an effect on other correlated variables. Under this topic, this study tries to find out the relationship between the following variables:

- Correlation between Investment and Net Profit
- Correlation between Total Deposit and Net Profit
- Correlation between Loan and Advance and Net Profit

To find out those relationships, the following formula is used:

$$\text{Coefficient of correlation (r)} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

$$\text{P.Er.} = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

The result of the coefficient is always between -1 to $+1$, when $r = +1$, it means there is a significant relationship between two variables and when -1 , it means there is no significant relationship between two variables.

A. Correlation Analysis between Investment and Net Profit

Let the dependent variable, net profit be denoted by Y and the independent variable, investment be denoted by X . Then the correlation between these two variables of NABIL and NIBL has been presented in Table 4.16.

Table 4.16**Correlation and Regression Analysis between Investment and Net Profit**

(Rs in Thousands)

Bank	NABIL		NIBL	
Fiscal Year	Investment (X)	Net Profit (Y)	Investment (X)	Net Profit (Y)
2007/08	9939771	746468	6874024	696732
2008/09	10826379	1031053	7399812	900619
2009/10	13600917	1138571	8635530	1265949
2010/11	13081206	1344179	7423106	1176641
2011/12	14055850	1700376	10438487	1039276
Correlation Coefficient (r)		0.8631	0.4268	
Coefficient of Determination (r ²)		0.7449	0.1822	
Probable Error (P.E)		0.0769	0.2467	
6 × P. E.		0.4616	1.4802	
Remarks		Significant	Insignificant	

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – II

The above table has indicated that there exists positive correlation coefficient between investment and total deposit in both NABIL and NIBL. The correlation coefficient between investment and net profit of NABIL is 0.8631 and NIBL is 0.4268. Also, the coefficient of determination indicates that 74.49% variation in profit of NABIL and 18.22% variation in profit in NIBL are explained by change in investment.

However, since the value of 'r' is higher than the calculated 6*P.E. in NABIL ($r = 0.8631 > 6*P.E. = 0.4616$) it can be said that there exists significant relationship between total investment and net profit. Similarly in NIBL the value of 'r' is lower than the calculated 6*P.E. ($r = 0.4268 < 6*P.E. = 1.480$), it can be said that there exists insignificant relationship between total investment and net profit.

B. Correlation Analysis between Net Profit and Total Deposit

Let the dependent variable, net profit be denoted by Y and the independent variable, total deposit be denoted by X . Then the correlation between these two variables of NABIL and NIBL has been presented in the Table 4.17.

Table 4.17
Correlation Analysis between Total Deposit and Net Profit

(Rs. In Thousands)

Bank	NABIL		NIBL	
	Total Deposit (X)	Net Profit (Y)	Total Deposit (X)	Net Profit (Y)
2007/08	31915047	746468	34451726	696732
2008/09	37348256	1031053	46698100	900619
2009/10	46340701	1138571	50094725	1265949
2010/11	49696113	1344179	50138122	1176641
2011/12	55023695	1700376	57010604	1039276
Correlation Coefficient (r)		0.9596	0.7413	
Coefficient of Determination (r ²)		0.9208	0.5495	
Probable Error (P.E)		0.0239	0.1359	
6 × P. E.		0.1433	0.8153	
Remarks		Significant	Insignificant	

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – II

The above table represents the relationship between net profit and total deposit of NABIL and NIBL. The table shows that the positive correlation coefficient between net profit and total deposit of NABIL is 0.9596 and that of NIBL is 0.7413. The coefficient of determination indicates that 92.08 % change in net profit of NABIL and 54.95% change in net profit of NIBL is explained by the change in total deposit of the respective banks.

Since, the value of 'r' is greater than the 6*P.E. in NABIL ($r = 0.9596 > 6 \times P.E. = 0.1433$), it can be considered that there exists significant relationship between net

profit and total deposit, and hence net profit increases/decreases with the increase/decrease of total deposit. But in NIBL value of 'r' is lower than that of 6*PE, so it can be consider that there exists insignificant relationship between net profit and total deposit.

C. Correlation Analysis between Net Profit and Loan & Advance

Let the dependent variable, net profit be denoted by *Y* and the independent variable loan and advance be denoted by *X*. Then the correlation between these two variables of NABIL and NIBL has been presented in the Table 4.18.

Table 4.18
Correlation Analysis between Loan and Advance and Net Profit

(Rs. in Thousands)

Bank Fiscal Year	NABIL		NIBL	
	Loan and Advance (X)	Net Profit (Y)	Loan and Advance (X)	Net Profit (Y)
2007/08	21365053	746468	26996652	696732
2008/09	27589933	1031053	36241207	900619
2009/10	32268873	1138571	40318308	1265949
2010/11	38034097	1344179	41095514	1176641
2011/12	41605683	1700376	41636999	1039276
Correlation Coefficient (r)		0.9746	0.8826	
Coefficient of Determination (r ²)		0.9498	0.7790	
Probable Error (P.E)		0.0151	0.0667	
6 × P. E.		0.0908	0.4000	
Remarks		Significant	Significant	

Source: Annual Reports of NABIL & NIBL (2007/08 to 2011/12) and Appendix – II

The above table shows the relationship between loan and advance of and net profit of NABIL and NIBL over the study period. The table shows that, there is highly positive correlation loan & advance and net profit for NABIL and positive correlation in NIBL. Comparatively, NABIL has more positive correlation (0.9746) then NIBL

(0.88.26). Since, the value of 'r' (0.9746 is greater than $6 \times P. E.$ (0.0908) the coefficient of correlation between loan and advance and net profit for NABIL is significant.

In the case of NIBL, since the value of 'r' (0.8826) is higher than $6 \times P. E.$ (0.400). The coefficient of correlation of loan and advance and net profit of NIBL is significant. From the above analysis, the co-efficient of correlation between loan & advance and net profit is significant for both NABIL and NIBL.

4.5 Major Findings

- On the basis of net profit margin, it can be concluded that the NABIL is more successful than NIBL in controlling the operating and other non operating cost; as a result their net profit margin is higher. Comparing between two, certainly NABIL made the higher net profit than of NIBL.
- The return on equity ratios of the NABIL is higher than that of NIBL and there is more consistency in the ratio of NABIL than of NIBL.
- Comparing the sampled banks, it can be concluded that NABIL is more efficient in mobilizing the funds in credit and advances, since the interest yielded to total credit ratio is highest in comparison with that of NIBL.
- On the basis of return on total deposit it can be concluded that NABIL is more efficient in mobilizing the deposit in productive sector, since the net profit to total deposit of NABIL is higher (2.67%) in comparison with that of NIBL (2.13%).
- The mean net profit to total investment ratio of NIBL (12.55%) is higher than that of NABIL (9.56%) so it can be conclude that NIBL invest in more profitable area than NABIL.

- The mean return on loan and advance ratio of NIBL is 2.71% with 10.45% of variation. As compare to average loan and advance of NABIL and NIBL, NABIL has higher return than NIBL.
- From the above analysis, it can be concluded that NIBL is aggressive then NABIL in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is highly consistent in both of the banks.
- Comparing the banks, it can be concluded that NABIL has the higher control on interest expenses than NIBL, as the interest paid to interest income of NABIL is lower than that of NIBL.
- The above table demonstrates that NIBL has higher staff expenses than that of NABIL. Although this is not good from the cost aspect but other influences like staff motivation cannot be ignored. The ratios generally show an increasing trend.
- Both of the bank's non performing ratios are in almost in increasing trends but in an average both of the banks have satisfactorily decreased the non performing assets ratio less than 2%, and thus indicated of having sound loan management policy. Further, comparing two banks, NIBL is superior than NABIL in controlling the non performing loan/assets.
- The average earning per share of NABIL and NIBL are 93.47% and 42.91% respectively. Higher average ratio indicates that NABIL is able to earn more profit per share to the common shareholders than that of NIBL, EPS has been used as the measure of profitability, because it does not considered the amount of asset of capital required to generate that level of earning.
- On the basis of DPS, it can be concluded that NABIL remained more success to retain its existing shareholders and to attraction the potential shareholders toward it.
- The correlation coefficient between investment and net profit of NABIL is 0.8631 and NIBL is 0.4268. Also, the coefficient of determination indicates that

74.49% variation in profit of NABIL and 18.22% variation in profit in NIBL are explained by change in investment and there is significant relationship between net profit and loan and advance in NABIL but insignificant in NIBL.

- The above analysis shows that the positive correlation coefficient between net profit and total deposit of NABIL is 0.9596 and that of NIBL is 0.7413. The coefficient of determination indicates that 92.08 % change in net profit of NABIL and 54.95% change in net profit of NIBL is explained by the change in total deposit of the respective banks.
- There is highly positive and significant correlation loan & advance and net profit for NABIL and positive correlation in NIBL. Comparatively, NABIL has more positive correlation (0.9746) than NIBL (0.88.26). Since, the value of 'r' (0.9746 is greater than $6 \times P. E. (0.0908)$) the coefficient of correlation between loan and advance and net profit for NABIL is significant.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This is the last chapter of the study. This chapter is presented shortcut summary of this study and some valuable suggestion & recommendation for improving their performance in coming periods.

5.1 Summary

Nepal is developing country. Industrialization is essential for national development and sound banking system is necessary for industrial development. Banks are an intuition, which collect various deposit from people and mobilize such resource in different income generating sector. These activities of banks help to build industrial environment, which creates employment opportunities and investment opportunities for the people. Therefore overall economic growth is particularly impossible without considering the contribution of a sound banking system.

Now, thirty two commercial banks are operating in Nepalese financial market. But this study is concern only NABIL Bank Limited and Nepal Investment Bank Limited to evaluate profitability position using various ratios. Finally with the help of analysis and major finding gives some useful recommend for improvement their future performance.

Financial analysis is the process of identifying financial strength and weakness of the business firms. It also provides a framework for financial planning and control. Financial analysis is based on financial statements and significant relationship that exist between them. This study is relating to five years financial statement from fiscal year 2007/08 to 2011/12 for the analyzed. Ratio analysis is most useful tool of

financial analysis therefore this study also concerned different financial ratios to evaluate the financial performance of the bank.

This study follows descriptive research design. The population of the study is thirty two commercial banks, which are operating in Nepalese financial market among them NABIL Bank Limited and Nepal Investment Bank Limited is selected as sample for the evaluation. The study is mainly based on secondary data, which optioned from various sources such as financial statement, annual report of relevant bank, Newspaper, bulletins, academic journal and text books etc. these reviewing materials are collection from central library of T.U, library of Shanker Dev Campus, other public libraries, and personnel of banks etc. This collected data has been arrange in proper form and analyzed & interpreted through various financial and statistical tool such as ratio analysis, Karl Pearson's correlation coefficient and simple average etc.

5.2 Conclusion

On the basis analysis and interpretation of various ratios indicating the performance of NABIL Bank Limited and Nepal Investment Bank Limited following conclusion are derived from the major finding of the study.

NABIL is more successful than NIBL in controlling the operating and other non operating cost; as a result their net profit margin is higher. Comparing between two, certainly NABIL made the higher net profit than of NIBL. The return on equity ratios of the NABIL is higher than that of NIBL and there is more consistency in the ratio of NABIL than of NIBL. Comparing the sampled banks, it can be concluded that NABIL is more efficient in mobilizing the funds in credit and advances, since the interest yielded to total credit ratio is highest in comparison with that of NIBL.

On the basis of return on total deposit it can be concluded that NABIL is more efficient in mobilizing the deposit in productive sector, since the net profit to total

deposit of NABIL is higher in comparison with that of NIBL. The mean net profit to total investment ratio of NIBL is higher than that of NABIL, so it can be conclude that NIBL invest in more profitable area than NABIL.

NIBL is aggressive then NABIL in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is highly consistent in both of the banks. NABIL has the higher control on interest expenses than NIBL, as the interest paid to interest income of NABIL is lower than that of NIBL. Similarly, NIBL has higher staff expenses than that of NABIL. Although this is not good from the cost aspect but other influences like staff motivation cannot be ignored. The ratios generally show an increasing trend. Both of the bank's non performing ratios are in almost in increasing trends but in an average both of the banks have satisfactorily decreased the non performing assets ratio less than 2%, and thus indicated of having sound loan management policy. Further, comparing two banks, NIBL is superior than NABIL in controlling the non performing loan/assets.

The average earning per share of NABIL is higher than NIBL. Higher average ratio indicates that NABIL is able to earn more profit per share to the common shareholders than that of NIBL, EPS has been used as the measure of profitability, because it does not considered the amount of asset of capital required to generate that level of earning. Likewise, NABIL remained more success to retain its existing shareholders and to attraction the potential shareholders toward it.

The correlation coefficient between investment and net profit of NABIL and NIBL is positive and there is significant relationship between net profit and loan and advance in NABIL but insignificant in NIBL. Likewise, there is highly positive and significant correlation loan & advance and net profit for NABIL and positive correlation in NIBL. Comparatively, NABIL has more positive correlation then NIBL.

5.3 Recommendations

On the basis of the major findings drawn on the previous chapter and the conclusion made in this chapter, the following recommendations have been given for the enhancement of the profitability position NABIL Bank Limited and Nepal Investment Bank Limited.

- The net profit earned and the net profit margin of NIBL is in fluctuating trend. It would be better if NIBL reengineers the portfolio of its investment to achieve higher profit. And the profit margin of NABIL is also in fluctuating trends, so it also reengineers the portfolio of its investment to achieve higher profit.
- The return on total deposit of NIBL is lower than that of NABIL. So it would be better if NIBL try to maximize the deposit collection through non-interest bearing deposit in order to increase profit.
- Both of the banks should focus on optimally utilizing the total assets to generate return and should concentrate on generating return from utilizing net worth.
- The EPS and DPS of NABIL are higher than that of NIBL. So, it is recommended that NIBL should increase the EPS by tracing out the fruitful and secured sector of investment and thus, increase DPS and dividend payout ratio to retain the existing shareholders as well as to fascinate the potential shareholders.
- The non performing loan to total loan of NABIL is higher than NIBL. It would be better if NABIL formulates better recovery policy and thus reduces the chances of default loan.

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APPENDIX- I

A) Calculation of Major Financial Ratios of NIBL (Rs in Thousands)									
Fiscal Year	NPAT	Total Assets	Ratio	NPAT	Total Equity	Ratio	Interest Income	Loan and Advances	Ratio
2007/08	696732	38873306	1.79	696732	2686786	25.93	2194275	26996652	8.13
2008/09	900619	53010803	1.70	900619	3907840	23.05	3267941	36241207	9.02
2009/10	1265949	57305413	2.21	1265949	4585393	27.61	4653521	40318308	11.54
2010/11	1176641	58356827	2.02	1176641	5159760	22.80	5803440	41095514	14.12
2011/12	1039276	65756232	1.58	1039276	6049941	17.18	5982641	41636999	14.37
Mean	1015843		1.86			23.31			11.44
S.D.	225869		0.25			3.98			2.86
C.V.%	22.23		13.58			17.06			24.97
Fiscal Year	NPAT	Total Deposit	Ratio	NPAT	Total Investment	Ratio	NPAT	Loan and Advances	Ratio
2007/08	696732	34451726	2.02	696732	6874024	10.14	696732	26996652	2.58
2008/09	900619	46698100	1.93	900619	7399812	12.17	900619	36241207	2.49
2009/10	1265949	50094725	2.53	1265949	8635530	14.66	1265949	40318308	3.14
2010/11	1176641	50138122	2.35	1176641	7423106	15.85	1176641	41095514	2.86
2011/12	1039276	57010604	1.82	1039276	10438487	9.96	1039276	41636999	2.50
Mean			2.13			12.55			2.71
S.D.			0.30			2.65			0.28
C.V.%			13.91			21.09			10.45
Fiscal Year	Loan and Advances	Total Deposit	Ratio	Interest Income	Total Income	Ratio	EBIT	Interest Expenses	Ratio
2007/08	26996652	34451726	78.36	2194275	2542321	86.31	696732	992158	70.22
2008/09	36241207	46698100	77.61	3267941	3705883	88.18	900619	1686973	53.39
2009/10	40318308	50094725	80.48	4653521	5233031	88.93	1265949	2553847	49.57
2010/11	41095514	50138122	81.96	5803440	6378839	90.98	1176641	3620337	32.50
2011/12	41636999	57010604	73.03	5982641	6724475	88.97	1039276	3814411	27.25
Mean			78.29			88.67			46.59
S.D.			3.41			1.68			17.22
C.V.%			4.35			1.90			36.97
Fiscal Year	No of Staff	Staff Expenses	Ratio	NPL	EPS	DPS	Net Profit Margin		
2007/08	622	187150	300.88	1.12	57.87	7.5	26.4		
2008/09	766	225721	294.67	0.58	37.42	20	24		
2009/10	877	279851	319.10	0.67	52.55	25	23.9		
2010/11	877	326543	372.34	0.94	39.10	25	18.2		
2011/12	883	340160	385.23	3.32	27.60	5.00	15.5		
Mean			334.45	1.33	42.91	16.50	21.60		
S.D.			41.71	1.14	12.20	9.62	4.55		
C.V.%			12.47	85.61	28.44	58.29	21.07		

Note: Mean, Standard Deviation and Coefficient of Variation have been calculated by using Microsoft Excel Formulae.