

**SWOT Analysis
Of
Nepal Bank Limited**

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RECOMMENDATION

This is to certify that the thesis

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Of
Nepal Bank Limited**

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**SWOT Analysis of Nepal Bank Limited**)” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Assoc. Prof. Shilu Manandhar Bajracharya** of Shanker Dev Campus, T.U.

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ABBREVIATIONS

A/C	:	Account
ABBS	:	Anywhere Branch Banking System
ANOVA	:	Analysis of Variance
ATM	:	Automatic Teller Machine
C.V	:	Coefficient of Variation
d.f.	:	Degree of Freedom
DPS	:	Dividend per Share
EBL	:	Everest Bank Limited
EPS	:	Earning per Share
F/Y	:	Fiscal Year
HBL	:	Himalayan Bank Limited
i.e.	:	That is
JVBs	:	Joint Venture Banks
MPS	:	Market Price per Share
NABIL	:	Nabil Bank Limited
NBL	:	Nepal Bank Limited
NRB	:	Nepal Rastra Bank
PNB	:	Punjab National Bank
ROA	:	Return on Assets
ROCE	:	Return on Capital Employed
ROE	:	Return on Equity
SCT	:	Smart Choice Technology
SMEs	:	Small and Medium Sized Enterprises
SWOT	:	Strength, Weakness, Opportunities and Threats
U.K.	:	United Kingdom
UAE	:	United Arab Emirates
viz.	:	Namely

Chapter – One

INTRODUCTION

1.1 Background:

Human activities are normally directed towards the well being of the people. Energy and effort devoted by people of the society aim at enhancing material benefits to the community. To enable people to enjoy the material benefits is possible only when production base is expanded. In other words, this requires economic growth. In order to contribute in the process of economic development of the country, banking industry has been established and operating to provide the financial resources to the economic activities as well as government need to focus itself in formulation and implementation of the proper strategies for overall industrializations of the nation. Because of industrialization of the country is regarded as a precondition for providing employment opportunities to the people. This leads to the active participation of the people in the national development and the upliftment of their present economic condition.

Capital is that thing which is regarded as the main vital factor for the economic development of a nation. Each and every development program needs capital. The main problem of under developed countries is lack of capital formation and their mobilization. In the field of capital formation, the collecting scattered resources and mobilization of the capital, the banking role is indisputable. That is why banks are interpreted as the king of business world. Loan is needed for rapid economic development of a country. Banks render other services like remittances of fund, purchase and sale of bills, supplying of timely credit and other services like remittances of fund, purchase and sale of bills, supplying of timely credit and other market information. There services are also necessary for rapid and smooth business and economic activities.

History shows the requirements of economic development of nay country heavily realize upon the banking system of the country. During its industrial development period, U.K. used bank credit to fulfill its working capital need. In 19th century, during the industrialization process of France and Germany, banks played an important role in industrial finance and the growth of the nation.

Bank in general means, an institution that deals with money. A bank performs several financial, monetary and economic activities which are initials for the economic development of a country. It is a monetary institutional vehicle for domestic resources mobilization of the country that accepts deposits from various sources and invests such accumulated resources in the fields of agriculture, trade, commerce etc. generally, the term “bank” refers commercial banks. Commercial banks are the foundation of the national economy. This transfer is monetary sources from savers to users. They involve in various functions like creation of money, facilitating credit, and facilitating foreign trade, safe keeping of the values etc. Commercial bank has its own role and contribution in the economic development. It is a source for economic development and it maintains economic confidence of various segments and extends credit to people. Thus, the activities of commercial banking sector have contributed to eliminate poverty, reduce unemployment and economic growth.

Modern commercial banks can be identified by different names such as business banks, retail banks, clearing banks, Joint venture banks, Merchant banks etc. No matter what name we give to bank, they all perform the same basic function: i.e. they provide a link between lenders, those who have surplus money and do not wish to spend immediately with borrowers, they who do not have surplus money but wish to borrow for investment in productive purpose.

Basically, by charging a rate of interest to borrowers slightly higher than they pay to lenders, the banks make their profit. This is known as financial intermediation. Commercial banks provide the following major products and services:

- Acceptance of deposits.
- Granting of Advances.
- Remittance collection and distribution.
- Cash management.
- Insurance of letters of credit and Guarantee.
- Merchant banking business.
- Credit cards.
- Technology based services-Internet Banking services.
- Loan distribution.

- Safe keeping services /Lockers.
- Handling government Business.
- Automated Teller Machines (ATMs)

History of Bank:

The first public bank “The bank of Venice “was established in Italy in 1357A.D. Different countries in the world followed the steps of this bank to incorporate banking institution in their countries. The evaluation of “The bank of England” in the kingdom of 1694 A.D. brought remarkable changes in the process of establishing banking institution in the world. The establishment of this bank was a big milestone in the history of banking development. It is believed that the idea of commercial banks rapidly spread all over the world only after the inception of this bank.

In Nepal development of banking is relatively recent. The record of banking system in Nepal given detail account of mixture life. Landlord and rich merchants had acted as lender in the unorganized money market. At the end of 8th century, Gunakama Dev had borrowed money to rebuild the Kathmandu valley. In 11th century during Malla regime, there was an evidence of professional money lenders and bankers. However, due to the absence of regulatory bodies, the money lenders used to charge high rate of interest and other extra dues on loans extended. After the establishment of “Tejarath Adda” during the year 1877 A.D. by the government of Kathmandu Valley, the banking system was flourished which helped general public to provide credit facilities at very low interest rate. The Tejarath Adda extended the loan to the public against collateral of gold and silver. Hence, the establishment of Tejarath Adda could be taken as pioneer foundation of banking in Nepal. The Tejarath Adda could not run and extended the advance required to general public due to the lack of financial support, as no other financial institution were setup. Again the organized money lender became active. In the meantime, government started to establish trade relationship between Tibet and India. The need to banking institution was realized when there was a need of finance for the reconstruction of work on 1934 A.D. in earthquake. Considering this, Industrial Development Board was formed in 1936 A.D. which formulated the “Company Act” and “Nepal Bank Act” in 1937 A.D.

Nepal Bank Limited (NBL) was established in 1937 A.D. as the first commercial bank of Nepal. At that time, limited industrial undertaking and trading activities were created in the economy and NBL was set up for their financial needs. With the growth of diverse economic activities were created in the economy and NBL was set up for their financial needs with the growth of diverse economic activities in the country. Other commercial banks were felt necessary at a later stage. As a result, the central bank of Nepal, Nepal Rastra Bank was established in 1965 A.D. with the mission of developing banking system in the country to promote industry, trade and agriculture in addition to its main function of circulating Nepalese currency all over the country with the advent of economic liberalization in late 1980 A.D. Different financial institutions were established to carry out the banking activities considering the role of commercial banks in the financial system for the promotion of industry, trade and business sectors, Government permitted to run the joint venture commercial banks in the country in late 1980 A.D. Presently 1 Central Bank, 31 commercial Banks, 83 Development Banks, 80 Finance Companies, 19 Micro Credit Development Banks, 16 Cooperative societies and 45 Non Government Organizations are operating presently in Nepal.

Nepal Bank Limited a pioneer Commercial bank is the oldest bank in the history of modern banking system of Nepal. The bank was established on 13th of Kartik, 1994 B.S. (1937 A.D.) in the technical assistance of Imperial Bank of India under “Nepal Bank Act 1993”. The establishment of Nepal Bank Limited laid the foundation of modern financial system in the country. The significance of launching of this bank was highlighted in the speech by the late Prime Minister Juddha Shamsheer Jung Bahadur Rana on the occasion of its inauguration as “The work which is being done in the larger interest of the nation, is a great moment for me. Until today a bank could not be opened in Nepal. Therefore, this bank, which is being established under the name of Nepal Bank Limited to full that need and to be inaugurated by His Majesty the King is a moment of great joy and happiness. The banks objective is to render service to the people whether rich or poor and to contribute to the nations development will also need the support and best wishes of all. I am confident will be forthcoming”.

As this bank was established prior to the Nepal Rastra Bank i.e. the central bank, it used to perform the function of a commercial bank as well as of a Central Bank until the inception of

Nepal Rastra Bank. Now in the presence of a separate central bank, it carries out the functions of a commercial bank only. Being the oldest bank in the banking history of the country, it has played a vital role in the development of banking system for the country. It has expanded its branches throughout the kingdom including far remote areas having very poor profitability and some of the parts having income not sufficient to meet breakeven. The bank has given more priority to the service of common and poor class people rather than to the profit and it has been able to achieve some objectives, which were set at the time of its inception. The main objective of setting up of the Nepal Bank Limited under the circumstances prevailing at that time were highlighted in the preamble of the Nepal Bank Act 1993, as “In the absence of any bank in Nepal, the economic progress of the country was being happened and causing inconvenience to the people and for the betterment of the country, this nearby promulgated for the establishment of the bank and its operations.”

At the time of inception, it had an Authorized capital of Rs. 10 Million, Issued capital of Rs. 2.5 Million and Paid-up capital of Rs. 0.842 Million. But now, they are Rs. 1000, Rs.500 and Rs.380.4 Million respectively. The bank, which was started with a single branch in 1994 B.S. currently, it has 101 offices together with head office, branch and sub branch offices spread through the country. It was established to provide the services; to accept deposits, to extend credit facilities for the promotion of trade, cottage industries and agriculture, to render customer related service, i.e. issue of bill of exchange, hundis etc. to invest on government bond and securities to carry out agency functions and to act as banker to the government. The first bank in Nepal, Nepal Bank Limited was originally incorporated under a special character “Nepal Bank Limited Act 1993”. After the enactment of commercial Bank act 2031 B.S., Nepal Bank Limited was brought under this act. In addition to the major banking functions of the Nepal Bank Limited as described by commercial Bank Act 2031; section 12 may be:

- i. To accept deposits with or without interest under current, saving and other deposit schemes.
- ii. To provide loans against the collateral of government securities, movable properties, company’s shares or debentures, bill of exchange, promissory notes or to investment on them
- iii. To issue, accept, discount, buy and sell bill of exchange, promissory notes, cheque etc.

- iv. To work as an agent of the Nepal Rastra Bank and to remit or transmit amount to different places with in or outside the kingdom of Nepal.
- v. To operate off balance sheet operations subject to the conditions specified by the Nepal Rastra Bank.
- vi. To buy and sell the securities issued by the government and non-government organizations.
- vii. To make necessary arrangements for performing the functions of the commercial banks.
- viii. To provide Clearing /collection facility, Bank guarantee, Locker facility and Fund transfer services for the customers and banks.
- ix. To provide loans and advance on Vehicle loan, Home loan and also invest on Trade finance.

Nepal Bank Limited has been playing a momentous role in the development of Nepalese economy. The bank is highly successful to create banking habits among the Nepalese people and to create monetization in the non- monetized areas of Nepal. It has been helping to business communication and government in different ways since its incorporation. The bank not only holds its capital but also holds the deposits of people, which make it responsible to society. The increase in assets and deposits of the bank indicates that the bank has made a significant progress and the progress of financial institution in always positively associated with the progress of a country's economy. Its contribution to government revenue in terms of the tax was also good and the facility provided to staff was recommendable. In recent some years, its financial performance and position was satisfactory to all the concerned parties. Now, it has been able to give good facilities to personnel and service to general people. Its bad debts are reducing from some years. It has been able to compete with other joint venture banks, able to attract the customers, in one word it is able to go with time. Shareholding structures of Nepal Bank Limited are as follows:

-) Government holding 40.49% of the capital.
-) Corporate institutions holding 8.86% of the capital.
-) General public holding 49.94% of the capital.
-) Others holding 0.71% of the capital.

Shareholding Composition

S.N	Ownership	Percent
1	Government of Nepal	40.49
2	'A' Class Financial Institutions	4.92
3	NRB Licensed Financial Institutions	3.42
4	Other Institutions	0.52
5	General Public	49.94
6	Others	0.71
	Total	100

NBL Network Overview

Region wise branches	No of Branches
Kathmandu Region	27
Biratnagar Region	28
Birgunj Region	17
Pokhara Region	20
Nepalgunj Region	16
Total no of Branches*	108

Number of staff of Nepal Bank Limited as of January 16, 2011 is 2,963.

Area of Investments:

The bank shall make investments in the following areas:

- 1) Short-term Investments:
 - a. Treasury Bills
 - b. Other HMG's securities and securities issued by NRB.
 - c. Inter Bank lending
 - d. Foreign- Bank placement
 - e. Consumption loan
 - f. Margin lending

g. Overdraft and Hypothecation

2) Long –term Investments:

- a. HMG securities.
- b. Housing loan.
- c. Auto loan.
- d. Consortium loan.
- e. Project financing.

3) Other Investment:

- a. As decided by the Board.

Conditions precedence to investments:

1) Short –Term Investments:

- a. The Bank must have excess liquidity over the compulsory Cash Reserve Ratio.
- b. The return on investment should be analyzed and be in line with prevailing market rate.
- c. There should not be immediate necessity of funds for lending or other core banking activities.
- d. Ready convertibility.
- e. In case of Inter-bank lending or placement of funds, limits assigned to individual banks should be strictly adhered.

2) Long-Term Investment:

- a. The bank must have excess long term deposit or core (stable) deposits over requirement of funds for lending or other core banking activities.
- b. Critical analysis should be made in terms of risk and return on such investments.
- c. In case of investment in the shares and securities of a company, the following factors should be considered while analyzing the risk and return on such investments.

- i. Management quality
- ii. Business Risk
- iii. Profitability of the company
- iv. Expected return
- v. Limitation and restriction as per NRB directives.

Approving Authority:

The Board delegates the authority for making investment as specified in this policy to the Chief Executive Officer, Chief Credit Officer and Head Corporate/Consumer Lending of the Bank as under:

1) Corporate Loan :

- a) Chief Executive Officer (CEO) has authority for secured funded limits of existing and new is NPR 200 Million & 100 Million and also for secured non funded limits of existing and new is NPR 400 Million & 200 Million respectively.
- b) Chief Credit Officer (CCO) is authorized to approve secured funded limits of existing and new is NPR 150 Million & 75 Million and also for secured non funded limits of existing and new is NPR 300 Million & 150 Million respectively.
- c) Head Corporate / consumer lending is authorized to approve secured funded limits of existing and new is NPR 100 Million & 10 Million and also for secured non funded limits of existing and new is NPR 200 Million & 100 Million respectively.

2) Consumer Loan :

- a) Chief Executive Officer (CEO) has authority for Margin Lending, Home Loan & Auto Loan are 200Million, 400Million & 100Million respectively.
- b) Chief Credit Officer (CCO) is authorized to approve for Margin Lending, Home Loan & Auto Loan are 150 Million, 300Million & 75 Million respectively.

- c) Head Corporate / Consumer Lending and KBO Branch Manager is authorized to approve for Margin Lending, Home Loan & Auto Loan are 5 Million, 2.5 Million & 2 Million respectively.

1.2 Focus of the study:

This study “SWOT Analysis of financial performance of Nepal Bank Limited” concentrates on the financial performance of NBL operating in Nepal and implications of new directives of Nepal Rastra Bank towards the performance. The performance of the NBL is evaluated along with the brief analysis of the state of the economy which provides the opportunities as well as threats to the commercial banks. This study is basically focused on the national economy as a whole. The financial performance of the bank can be evaluated on the basis of meeting of their objectives and fulfilling of the function analyzing financial performance in a process of evaluating relationship between components parts of financial statements to obtain a better understanding of a banks position and performances.

1.3 Statements of the Problem:

Mainly, the study emphasis lay upon the performance of Nepal Bank Limited of Nepal. The struggle and survival, pros and cons, up-down and ability of the bank to adopt in the changing economic condition effectively would be deals and analyzed. Besides commercial banks, development banks and joint venture banks are also being registered by Nepalese and foreign promoters. Other institution offering similar nature of services like finance companies, co-operative societies and saving bank are growing in large number. The study would be focused on finding the financial ability, performance and its contribution. Today we are in a position to judge that the government banks are lagging behind in term of profitability when compared to joint venture banks. The financial performance of government banks is visibly low. Government banks have deal with various social obligations and gave to provide different subsidies. At the same time, Joint venture banks can merely operates for profit making. With the prevailing economic condition of the country, the investment in manufacturing, productive, agriculture and industrial sectors has not grown satisfactorily. Hence, in this study we have try to find out why the NBL is also not succeeding perfectly to shift the deposit in profitable sectors and what are the

challenges to achieve the targets in highly competitive market. The problem of the study will be focused on finding out the reasons of the different financial performance.

1.4 Objectives of the Study:

The main objective of this thesis is to examine discuss and evaluate the financial operation and the financial statement of the Nepal Bank Limited. Therefore, to attain the mentioned objective, following specific objectives have been set:

- a) To Review strength & weakness of NBL in it's major areas of operation.
- b) To explore areas of opportunities and threats to NBL prevailing in the changing context.
- c) To show a suggestive package based on the findings of the study for the improvement of the financial performance of Nepal Bank Limited.

1.5 Significance of the study:

This study basically helps to ascertain the financial performance of government bank as NBL. Regarding the economic structure of the country, the banks do not have sufficient investment opportunities. Banking business is growing very slowly, Because of rapidly increasing financial institution and the joint venture banks. They are creating threats to the government banks. Most of the investors are investing their money and assets without any proper knowledge and information. So till now, investment is just like "Shooting in the dark".

This study will be beneficial for the entire person who is directly or indirectly related to banking business.

This study will give the information about the financial condition of NBL and it will definitely help to increase to analytical power of the investors, depositors, shareholders, debenture holders, suppliers, debtors, creditors etc.

Apart from it, this study will be a mater of interest for academicians, students, teachers or practicing in the field of finance.

1.6 Limitation of the study:

As every research has its own limitation, this study is not biased. Basically, the research is done for the partial fulfillment of M.B.S. So this study has some limitations, which are listed below:

- ❖ The study covers the relevant data information only for five years.
- ❖ Major portion of analysis and interpretation have been done on the basis of available secondary data and information. So the consistency of findings & conclusion is strictly dependent upon the reliability of secondary data & information.
- ❖ Time and financial constraints are also the major limitations of the study. The report has to submit within the time period.
- ❖ This report cannot remain without flaws. Best effort has been done to make this report with minimum error. Being almost impossible without error, existence of unnoticed error is also major limitation of the study.
- ❖ The research is concerned with NBL only.

1.7 Organization of the study:

This study is divided into five chapters which are as follows:

Chapter-1 includes the introduction and general background of the study, focus of the study, statements of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter-2 includes review of literature. In this chapter, the review from books, journals, thesis and independent studies are taken into account.

Chapter-3 includes research methodology. It includes the research design, data collection procedures, tools for analysis, method of analysis and presentation.

Chapter-4 includes data presentation and analysis part. It is the main body of our research. It includes data presentation, interpretation and analysis.

Chapter-5 includes the summary and conclusion of the research. And finally suggestions and recommendation are given.

Chapter-Two

Review of Literature

2.1 Conceptual framework

To explore the relevant and true facts for the research purpose, this chapter highlights the literature available related to the study. An attempt has been made to look into bank publications, periodicals, and central bank's rules and regulations. In addition, informal activities with the bank personnel and a few customers/borrowers have been aimed to receive. Further, interaction programs related with the financial issues transmitted by the various television channels will be taken as a supportive concept.

2.1.1 Conceptual Review

A Commercial Bank is business organization that receives and holds deposits of fund from others makes loans or extends credits and transfers funds by written order of deposits.

Commercial Bank is a corporation, which accepts demand deposits subject to check and makes short –term loans to business enterprises, regardless of the scope of its other services.

A commercial banker is a dealer in money and substitute for money such as cheques or bill of exchange. He also provides a variety of financial services.

Commercial Bank Act 2031 B.S. of Nepal has defined that “ 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 mean for cooperative, agriculture, industries for such specific purpose.”

But, recently, The Bank and Financial Development Institutions Ordinance, 2060 has accumulated the five banking acts including commercial bank act 2031, which defines the bank with respect to their transactions. This Act is trying to categories the banking institutions in two ways that is based on their transactions. According to this Act, “Bank is the institution which performs its transaction under the provisions mentioned on section 47 of this Act.”

This Act has laid emphasis on the functions of commercial bank while defining it. Commercial banks provide short- term debts necessary for trade and commerce. They take deposits from the public and grant loans in different forms. They purchase and discount bills for exchange, promissory notes and exchange foreign currency. They discharge various functions on the behalf of their customers provided that they are paid for their services.

Financial activities are necessary for the economic development of the country and commercial banking in this context is the heart of financial system. Optimal investment decision plays a vital role in each and every organization. But especially for the commercial banks and other financial institutions the sound knowledge of investment is the must because this subject is relevant for all surrounding that mobilize funds in different sectors in view of return.

As it is concerned to the commercial banks and other financial institution, they must mobilize (i.e. investment in different sectors) their collections (deposits) and other funds towards the profitable, secured and marketable sectors so that they will be in profit. For this purpose these banks and financial institutions should gather the sufficient information about the firm (client) to which supposed to be invested, these information include as financial background, nature of business as well as its ability to pay the loan back. These all information should be gathered from the viewpoint of security.

The income and profit of the bank depend upon the lending procedure applied by the bank. And, lending policy and investment in different securities also affect the income and profit. In the investment procedures and policies it is always taken in mind that “the greater the credit created by the bank, the higher will be the profitability”. A sound lending and investment policy is not only prerequisite for bank’s profitability but also crucially significant for the promotion of commercial savings of a developing country like Nepal.

The sound policies help commercial banks maximize quality quantity of investment and there by, achieve the own objective of profit maximization and social welfare. Formulation of sound investment policies and coordinated and planned efforts pushes forward the forces of economic growth.

Commercial banks as financial institutions perform a number of internal functions. Among them, providing credit is considered as most important one. “Commercial banks bring into being the most important ingredient of the money supply, demand deposit through the creation of credit in the form of loan and investment”.

2.2 Review of Related Studies

Sound, vibrant and competitive financial sector is a key to the economic development. As the countries are becoming more and more interdependent through globalization and liberalization, most of the poor and developing nations are finding themselves way behind the developed countries in terms of trade and development. To become a successful trade partner and to achieve economic development, development of a financial sector is a must.

(Khan & Jain, 1988: 116) views in the book ‘Financial Management’, “The type of relationship to be investigated depends upon the objective and purpose of evaluation. The purpose of evaluation of financial statements differs among various groups (creditors, shareholders, potential investors, management, government, labor leaders and so on) interested in the results and relationships reported in the financial statements. For example, short- term creditors are primarily interested in judging the firm’s ability to pay its currently maturing obligation.”

Again, (Khan & Jain, 1988: 669) the same author opine that “ While it is true that general economic conditions and industry practices have a strong impact on the level of receivables, a firm’s investment in these type of current assets is also greatly affected by its internal policy.”

(Dr. Shyam Joshi and Dr. Hari Prasad Shrestha, 2058: 152) in the book “principal of Bank and Insurance”, mentions the principle of sound investment policy of commercial bank. In this topic the authors identify the investment policy as profitability, liquidity, shift ability, safety, diversification of risks, capital adequacy, solvency, social welfare etc.

In the book, Accounting for Financial Analysis and Planning the writers Ratna Man Dongol and Keshab Prasad Prajapati mention the use of Ratio Analysis as follows:

-) For expressing trend
-) For showing changes in financial statement
-) For explaining plan for future

-) For setting standard
-) For comparing efficiency
-) For maintain uniformity

Likewise, (Peter S. Rose, 2003: 206) has emphasized on the factors affecting default risk and interest rates. He opines that “Another important factor causing one interest to differ from another in the global market place is the degree of default risk carried by individual assets. Investors in financial asset face many different kinds of risk, but one of the most important is default risk, the risk that a borrower will not make all promised payments at the agreed upon times. All debt except some government securities is subject to varying degrees of default risk.

In an article, (Ashwini Kumar Thakur, 2059: 49) raises the issue of risk management in the banking sector. According to him, “Risk should be taken as one of the challenges of the banking industry but it is not sufficient to minimize the potential disasters. Banking risk should be managed as a separate part of the management”.

In article, (Mahesh Bhattarai, 2059: 62) is trying to indicate the problem of bank’s bad debt and non- performing asset. According to him “If a bank cannot recover its loan lending, bank’s cash flow will be badly affected. “Similarly it can affect the close relationship between depositors.”

In an article, “Challenges of non- performing loan management in Nepal”, Uma Karki has mentions the causes of increasing trend of non-performing loan. She identifies the major causes such as poor loan analysis, guarantee oriented loan system, depreciation on valued assets, misuse of loan, lack of regular supervision of loan.

In his article, “Need for macro prudential appraisal of the financial system soundness” Gunakar Bhatta has presented the interest of multilateral donor agencies in the financial soundness of the recipient countries. He writes “vulnerabilities in the financial system along with its development have become a common word in the recent years. There have been several efforts in the local, regional and global fronts of mitigate the risk and uncertainties in the financial system. Episodes of turmoil in the international financial markets particularly after mid nineties have underscored the need for better tools to monitor financial risks and vulnerability. Realizing this emerging need, the International Monetary Fund (IMF) initiated to strengthen its assessment of financial system soundness as part of its surveillance work”.

In an article “Nepal’s Financial Reform: A Tardy Pace of Deliberate Race” (Bill Pendleton, 2061: 1) is trying to explore the need and relevancy of financial reform program in Nepal. In this article he suggest that ‘HMGN’ has way to go for complete financial reform, restore financial soundness to deserving public much work is left to do; however, the government had set to ‘Road Map’ to complete this phase and continues to improve the reform process, a process vision to sustain the economy for generations to come. It is important that the citizens of Nepal, particularly the media services, support this effort as well.

(Jack Clark Francis, 2003: 19) opines, “An investment of money that is expected to generate additional money. Every investment entails some degree of risk; it requires a present certain sacrifice for a future uncertain benefit. This book describes various ways to select the investment that will provide the maximum future return at an acceptable level of risk. It examines such marketable financial instruments as common stocks, preferred stocks, bonds, put options, call options, combination options, and future contracts on the traditional commodities, financial futures and other investments, as well as the risk associated with each. It analyses these assets, the markets in which they are traded, the laws governing the trading, the valuation of the assets, the construction if a diversified portfolio and other important investment management techniques”.

In an article, “WTO and Challenges of Financial Services Liberalization in Nepal” Gautam Biji, has put his opinion in the context of financial service liberalization and financial reform in Nepal. According to him “the process of financial services liberalization in Nepal is very recent phenomenon. It has been gathering pace gradually, the process of liberalization was started with the financial sector reform in mid eighties. It was surged up after the initiation of Structural Adjustment Program and enhanced Structural Adjustment Program with respective loan and assistance of the World Bank and International Monetary Fund. Financial sector reform was implemented on a phase wise basis. It was designed to address the institutional deficiencies and closed and controlled financial system. Various macroeconomic policies were modified and adjusted during the period to facilitate the liberalization process. The procedural relaxation on the entry of joint venture banks (with collaboration), determination of interest rate (first, in 1986 with certain limit and then in 1989 without any limit) and operation of various financial transactions are mainly attributable for the reform.

2.3 Important Terminologies

In this section of the study efforts have been made to clarify the meaning of some important terms frequently used in this study, they are given as:

a. Deposits

Deposits mean the amount in a current, saving or fixed account of a bank or financial institution. For a commercial bank, deposit is the most important source of liquidity for bank's financial strength; it is treated as a barometer. In the word of Eugene, "A bank deposits are the amounts that it owes to its customers" deposits are the lifeblood of the commercial banks. Through they constitute the great bulk liabilities; the success of a bank greatly depends upon the extent to which it may attract more and more deposits. The deposit of a bank is affected by various factors like:

- Ñ Types of customers
- Ñ Physical facilities of bank
- Ñ Management and accessibility of customers
- Ñ Types and range of the services offered by the bank

In addition to above, the prevailing economic conditions exert a decisive on the amount of deposit the bank receives.

b. Loan and Advances

Loan advances and overdraft are the main source of income for a bank. Bank deposits can be crossed beyond a desired level but the level of loans, advances and overdrafts will never cross it, the facilities of granting loan, advances and overdrafts are the main services in which customers of the bank can enjoy. Funds borrowed from banks are much cheaper than those borrowers from unorganized money lenders. The demand for loan has excessively increased due to cheaper interest rates; further an increase in economic and business activities always increase the demand for funds. Due to limited resources and increasing demand for loans, there is some fear those commercial banks and other financial institutions too. It may take more preferential collateral while granting loans causing unnecessary botheration to the general customers. Such loans from these institutions would be available on special request only and there is a chance of utilization

of resources in economically less productive fields. These are the undesirable effects of too low interest rate.

c. Investment on Government Securities, Shares and Debentures

Commercial banks invest on government securities, shares and debentures to earn some interest and dividend. This is the secondary sources of income to the bank. A commercial bank may extend credit by purchasing government securities, bond and shares for several reasons, some of them are:

- Ñ It may want to space its maturities so that the inflow of cash coincide with expected with expected withdrawals by depositors of large loan demands of its customers.
- Ñ It may wish to have high grade marketable securities to liquidate, if its primary source of reserves becomes inadequate.
- Ñ It may also be forced to invest because the demands for loans have decreased of, is most sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained with a view to the mature of bank's liabilities. That is because depositors may demand funds in great volume without previous notice to banks; the investment must be of a type that can be marketed quickly with little or no shrinkage in value.

d. Other Use of Funds

Commercial banks must maintain the minimum bank balance with Nepal Rastra Bank as prescribed by the bank. Similarly, they have to maintain the cash balance in local currency in the value of the bank. Again a part of the funds should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers and stationery etc.

e. Off- Balance Sheet Activities

Off-balance sheet activities cover the contingent liabilities etc. Off-balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities in balance sheet. Some good examples of these items are letter of credit (L/C), letter of guarantee, commission, bills for

collections etc. nowadays, such activities are stressfully highlighted by some economists and finance specialists to expand the modern transactions of a bank. These activities are very important as they are the good source of profit to the bank, though they have risk.

f. Lending and Investment Procedures

The income and profit of the bank depends upon its lending procedures, lending policy and investment of its fund in different securities. The greater the credit created by the bank, the higher will be the prodigality. A sound lending and investment policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial saving of a backward countries like Nepal.

Some necessities or some of the main characteristics for sound lending and the investment policies which must be considered by the commercial banks have been by many authors as:

-) Safety and security
-) Profitability
-) Liquidity
-) Purpose of loan diversification
-) Diversification
-) Tangibility
-) Legality

g. Non-Performing Assets (NPA)

According to NRB Guidelines all substandard, doubtful and loss graded accounts are non-performing assets.

The major activity of a bank is effective conservation of its assets to obtain optimal profit. Failure to notice the value depletion and liquidity of assets at appropriate times in bank leads to the emergence of NPA – induced losses. However, all NPAs need not necessarily end up as losses for banks. An alert banker who monitors the quality of the assets portfolio, adopting innovative measures and strategies never losses an opportunity to keep in check the revenue depletion potential of an account.

2.4 A Case of Service Profit Chain Model at NBL

Nepal Bank Limited is a bank having oldest legacy of banking. Today, it is not as it was. It is in restructuring and healing process. Treatment is going on. In the due process of its restructuring, it has been felt that corporation of the bank is needed basically starting from re-visioning its customer service delivery process. That's why management of the bank recently organized a management conference with the theme "NBL Vision: Customer Service - The Key to Profitability". This became the best ever event to criticize ourselves and receive criticism from other and synthesize the course of action to be followed for better customer service. Actually this needs a paradigm shift in a perceiving and viewing the customer's value with completely new perspective.

Only a satisfied and delighted customer remains with the bank, shares his perpetual partnership for mutual benefits. So, the better way to assure profitability is to retain customer as much as for their conversion to clients towards an advocating partner.

Research of modern days also shows that a 5 percent point increase in customer retention yields a profit, in net present value terms, of between 20 and 125 percent. Although many of us are cow familiar with these findings, our observation shows that few managers/employees at NBL know the profit impact of retention in their own business. In this connection, Sears, Roebuck and Company (1993) USA explored some interesting observations. The interesting part of the Sears, Roebuck and Company case was that after further refinement, the model is now used as a predictor of revenue growth. The model was like that – 5 unit increases in employee attitude drives 1.3 unit increases in customer impression, 0.5 increases in revenue growth and a quantifiable increase in company's profitability.

Implication of the case of Sears and applicability of the model can be observed in the context of NBL. Because nature of the difficulties NBL was facing before restructuring is similar with what Sears passed through in 1992. Nepal bank should follow service profit chain model to obtain the desired profitability digits. To successfully implement the service profit chain model it is necessary for Nepal bank to change the behavior of leadership to take responsibility for the company's culture and understand how this impact on revenues. In Sears's case also, the results

have been impressive- employee satisfaction at Sears has risen by 4 percent and customer satisfaction by almost 4 percent. More than US\$ 200 million additional revenues have been achieved through this value creation process.

2.5 Economic Growth of NBL

Nepal Bank Limited (NBL) is the first and biggest commercial bank of the nation. NBL, through its size, service and networks, is a key player of banking and the national economy as well. Nepal Bank Limited (NBL) is pleased to announce completion of fiscal year 2065/66 with an operating profit of Rs. 146 million and net profit for the year of Rs. 894 million. These results represent 505% growth in operating results and a 274% increase in net profit over prior year results.

The net profit of the bank during the FY 2065/66 has reached Rs. 894 million. This net result includes extraordinary items like provisions made for probable expenses and losses, provision for staff gratuity and accumulated leave and Voluntary Retirement Scheme payments.

The primary reason supporting the growth in operating results are increased interest income aided by strong recovery in NPA's, tight control in overhead costs and a significant reduction in the cost of funds. These results reflect newly implemented systems and procedures installed during the restructuring project. The bank has been successful in collecting Rs. 676 million (principal + interest) cash from NPA accounts during FY 2065/66. To cope with the existing competitive business environment, NBL has introduced 3 new products namely, Home Loan, Auto Loan and Margin Lending, which will have a continuing positive impact on income in the years to come.

Since the initiation of the restructuring project at NBL on July 21, 2002 under the World Bank/DFID Financial Sector Reform Project administered by the Nepal Rastra Bank, NBL has shown significant improvement in operating results. Prior audited financial statements show the bank posted a loss of Rs. 3,071 million during FY 2001/02. In the first year of the project itself the bank has posed operating profit of Rs. 44 million and the net loss came down to Rs.252 million from the Rs. 3,071 million of 2001/02, a 92% reduction. In 2003/04 NBL returned to

sustainable profitability with net profits of Rs. 710 million and operating profits of Rs.511 million during FY 2003/04.

The bank has made a provision of Rs. 1,945 million till the end of FY 2065/66, which sufficient to cover all loan losses. Due to effective recovery of NPAs during FY 2065/66, the actual provision required might be less than the existing provision amount, which ultimately might increase the net profit of the bank. The information regarding actual requirement of LLP based on the loan classification is being gathered by the credit department and will be finalized within very short period of time.

The management and staff at NBL are dedicated to returning Nepal Bank Limited to the prior leadership position enjoyed in earlier years.

2.6 Conceptual Review of “SWOT” Analysis:

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the terms of the balance sheet and the profit and loss account. Management of the firm can undertake it or by parties outside the firm. The focus of the financial analysis is on the key figure contained in the financial statement and significant relationship existed. Management of the firm is generally interested in every aspect of the financial analysis; they are responsible for the overall efficient and effective utilization of the available resource and the financial position of the firm.

The vertical and horizontal analysis could be done for the SWOT analysis. The vertical analysis consists on financial Balance Sheet, Profit and Loss account of a certain period time only, which is known as static analysis. Likewise, the horizontal analysis consists on a series of statement relating to the number of years are reviewed and analyzed. It is also known as dynamic analysis that measures the change of the position or trend of the business over the number of the years. In this study, the horizontal analysis has been adopted to find out the financial indicator of the Nepal Bank Limited (NBL) over the period of FY 061/062 to 065/066 B.S. The steps of analysis are as follows:

1. Selection of the information relevant to the decision.

2. Arrangement of the selected information to highlight the significant relationship of the financial yardsticks.
3. Interpretation and drawing of inferences and conclusion.

To evaluate the financial performance of a firm, the analyst needs a certain parameters of the company by which the quantitative relationship and its position come out. The most widely used effective tool of the financial analysis is the ratio analysis. Financial ratio helps us to find the symptoms of the operational and financial problems of a corporation which can be ascertained by examining the behavior of these ratios.

Ratio analysis is the systematic way of financial indicator, which can achieve the information of the firm's strength and weakness as its historical performance, and current financial condition can be determined. After calculation various ratios, we need to compare with the certain standard and draw out the conclusion of the result.

Chapter- Three

Research Methodology

3.1 Introduction

This study attempts to have an insight into the financial performance of Nepal Bank Limited. A sound and systematic methodology is required to carry out any study, if it is to be worthwhile. This chapter is designed to throw light on the methodology used to undertake this study which aims at analyzing the overall financial performance of Nepal Bank Limited and drawing some patient conclusion from this. For this purpose, the following research methodology has been adopted which includes research design, procedures of gathering data, data collection, processing of data, procedure of analysis and the various performance indicators used.

3.2 Justification of the Selection of the study

Commercial Banks are the principal agents of the money market, which, in turn, is the major instrument of the financial system. Thus, commercial banks and their lending transaction obviously affect the national economy. Moreover, lending and borrowing transaction that takes place through the commercial banks influence the daily livings of each national. And at the same time from the government side, a great concern should be taken as the misleading by the commercial banks can violate the total economic system. Commercial bank's financial management system can contribute the economic growth too because these banks are the major variable of financial market. In this way, the relationship of government financial policy and the commercial banks might be considered as a keen subject to study.

3.3 Research Design

As the main objective of this study is to evaluate financial performance of Nepal Bank Limited, the researcher has collected necessary data relating to overall performance of this bank. The study is so designed as to give a clear picture of the bank's financial performance. On the basis of financial statement and other available data and adopting this proposed research design attempt is made to investigate into financial performance of the bank followed by some useful suggestion and recommendations.

3.4 Nature and sources of Data

Specifically, the nature of the data is about to be secondary, as the basic purpose of the study is to fulfill the requirement for the degree of M.B.S., T.U. Any primary data has not been collected for the study however, some informative data been aimed to achieve to some extent through personal interviews of staffs of NBL. Taking consideration into the sources of data, the secondary sources of data are about to be bank publications, central bank's rules and regulations, audited financial statements etc.

3.5 Data collection procedure

As the present study is being undertaken to evaluate the performance of the bank, the secondary sources of data are used in the study. Data have been collected from various sources like annual reports and financial statement of the bank, official records, Monthly Bulletins of Nepal Bank Limited, various published periodicals, magazines and dissertations and all available reports and material of Nepal Rastra Bank on commercial banks. The data used in the study are secondary in nature.

Beside this, bank officers of various departments have directly been approached to understand their real grievances and discussions have been held with the officers of Nepal Rastra Bank and with other financial experts.

3.6 Presentation of Data

The collected data for five years period i.e. from FY 2061/62 to 2065/66 are presented in tabular form. Various tables of deposit, liabilities, investment, loans and advances, net profit, shareholder's equity, dividend earning and payout have been prepared. Tables are also prepared to show various financial ratios of the same period. These tables are accompanied by corresponding percentages, growth trend, changes and averages. Statistical tools are used to present the relation of data with the help of five years balance sheet of Nepal Bank Limited.

3.7 Procedure of Analysis

In order to carry out this study, data collected from various sources have been classified and tabulated. Indexes have been prepared and percentages, ratios, averages and changes have been calculated to reveal the true picture of the bank's financial performance. Based on the summary and conclusion some useful recommendations are put forwarded for the betterment of Nepal Bank Limited.

3.8 Financial Indicators

The main indicator used in this performance analysis is the operating efficiency, which gives the operational result of the bank, i.e. operational profit or loss. Beside this various financial indicators like Trend Analysis, Correlation Coefficient, and Financial Ratios like Liquidity ratio, Leverage ratios, Activity ratio, and Profitability ratio have been used to measure the financial performance of the bank.

3.9 Methods of Analysis

The data are collected and arranged to analyze through financial and statistical tools viz. Trend analysis, Karl Pearson's Coefficient of Correlation and ratio analysis and its growth and average indexes.

3.9.1 Financial ratio Analysis

The formulas of the various ratios calculations are as follows:

3.9.1.1 Liquidity ratio

1. **Cash to Total Deposit:-** Cash in hand divided by total deposit.
2. **Cash and Bank Balance to Total Deposit:-** Cash and Balance with NRB and other banks divided by Total Deposit.
3. **NRB Balance to total deposit:-** Nepal Rastra Bank Balance divided by total Deposit.
4. **Cash and Bank Balance to Current Deposit:-** All the cash and bank balances divided by the Current deposit.

3.9.1.2 Leverage ratio

1. **Total Debt to Total Assets Ratio:-** Total debt = total Liabilities – (Profit + Reserve Fund + Paid up Capital) divided by Total Assets.
2. **Debt Equity Ratio:-** Total Debt divided by Net Worth.
Net Worth = Paid up Capital + Reserve Fund
3. **Total Debt to Shareholder's Fund Ratio:-** Total Debt divided by Shareholder's fund = Paid up Capital + Reserve Funds + Profit
4. **Shareholder's Equity to Total Assets Ratio:-** Shareholder's equity divided by Total Assets.
(Shareholder's Equity = Paid up capital + Reserve Fund)

3.9.1.3 Activity Ratio

1. **Investment to Total Deposit:-** Total Investment In various institutions divided by Total Deposit.
2. **Investment to Total Assets:-** Total Investment divided by Total Assets.
3. **Investment, Loan and Advances to Total Assets:-** Total of Investment, Loan and Advances divided by Total Assets.
4. **Investment, Loan and Advances to Total Deposit:-** Total to Investment, Loan and Advances to Total Deposit.
5. **Loan and Advances to Total Deposit:-** Total Loan and Advances excluding Investment divided by Total Deposit.
6. **Non-Performing Assets to Total Loan:-** Non- Performing Assets divided by Total Loan.
(Non –Performing Assets = All substandard, doubtful and loss graded loan)
7. **Non-Performing Assets to Total Assets:-** Non-Performing Assets divided by Total Assets.
8. **Interest Suspense to Non-Performing Assets:-** Interest Suspense divided by Non-Performing Assets.
9. **Non- Performing Assets to Loan Loss Provision:-** Non- Performing Assets divided by Loan Loss Provision.

3.9.1.4 Profitability Ratio

1. **Earning Power Ratio or Return on Assets:-** Net Profit After Tax divided by Total Assets.
2. **Return on Equity:-** Net Profit After tax divided by Shareholder's Equity.
3. **Return on Net Loan and Advance:-** Net Profit After Tax divided by Net Loan and Advance.
4. **Earning Per Share:-** Net Profit After Tax and Preference dividend divided by No. of Ordinary Share Issued.

3.9.2 Trend Analysis

Trend Analysis of deposit, loan and advances and deposit utilization analysis have been conducted.

3.9.3 Statistical Tools

Some important tools are used to achieve the objective of this study. In this study statistical tools such as Mean, Coefficient of Correlation and Coefficient of Correlation of Probable Error (P.E).

3.9.3.1 Arithmetic Mean

Arithmetic mean of a given set of observation is their sum divided by the number of observation. In general X_1, X_2, \dots, X_n are the given number of observation, their arithmetic mean can be derived in this way.

$$\bar{X} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N}$$

Where,

X = Variables

\bar{X} = Arithmetic Mean

N = Number of Observation

The arithmetic mean is a single value of selection which represents them in average. Out of the various central tendencies a mean is one of the useful tools to find out the average value of the given data. Furthermore it is very much useful with respect of financial analysis and it is also easy to calculate.

3.9.3.2 Karl Pearson's Coefficient of Correlation

Out of several mathematical method of measuring correlation the Karl Pearson is popularity known as Pearson's Coefficient of Correlation widely used in practice to measure the degree of relationship between two variables. Two variables are said to have correlation when the value of one

variable is accompanied by the change in the value of the other. So, it is measured by following formula using two variables:

$$\text{Coefficient of Correlation (r)} = \frac{N \sum XY - \sum X * \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Here,

r = Karl Pearson's Coefficient of Correlation

N = Number of Pairs of X and Y observed

$\sum XY$ = Sum of product of deviation in two series

$\sum X^2$ = Sum of squared deviation in X series

$\sum Y^2$ = Sum of squared deviation in Y series

Probable Error (P.E) of the Coefficient of Correlation

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

If r is less than its P.E., it is not significant at all. If r is more than P.E. there is significant correlation. And if r is more than 6 times its P.E. and r equals to or greater than ± 0.5 then the correlation is considered significant.

CHAPTER- FOUR

PRESENTATION AND ANALYSIS OF DATA

In this chapter, data and information regarding overall financial performance of Nepal Bank Limited are presented and analyzed. This analysis, attempts to throw light on various aspects of the bank's performance such as: deposit trend, investment, loan and advance, liquidity, leverage, efficiency and earning power. The data are presented and analyzed in different tables to arrive at some concrete and explicit obtained from various published and unpublished financial statements, reports, bulletins, articles and so on. However, conclusions have been derived on the basis of personal observation, informal interviews and discussions with the concerned officials and other financial experts.

4.1 Ratio Analysis

To evaluate the financial performance of a firm, the analysis needs certain key factors which factors are two numerical expressions of the particular firm or sector, by which the two variables are divided into each other and get the ratio. A ratio is widely used as a financial analysis to find out the position and performance of Nepal Bank Limited. The ratio analysis has been grouped into four categories which reflect the Liquidity, Leverage, Activity and Profitability of the bank. A ratio is calculated by dividing one nature of the relationship with the other.

4.1.1 Liquidity Ratio

The liquidity ratios are analyzed to judge the bank's ability to meet the short- term obligations. The liquidity ratio shows the present cash solvency and the ability to solvent in adverse situation. In this category, we calculate the comparison between short- term obligation and short term resources.

4.1.1.1 Cash to Total Deposit Ratio

Table No. 4.1 (Rs. '000')

Year	Cash	Total Deposit	Ratio %
2061/62	1,069,614	3,59,34,163	2.98
2062/63	1,110,953	35,829,765	3.10
2063/64	1,086,067	39,014,204	2.78
2064/65	1,181,792	41,829,391	2.83
2065/66	1,515,654	45,194,232	3.35
		Average	3.01%

The highly liquid ratio of the bank is derived in Table no. 4.1. The ratio of cash to total deposit is highest rate of 3.35% in FY 2065/66 and lowest rate of 2.78% in FY 2063/64. The ratio is swinging each year in between 2.78% to 3.35%. The ratio of 2.98% is almost exactly equals to an average in FY 2061/62. The ratio is below the average in FY 2063/64 and 2064/65 whereas the ratio is above the average in FY 2062/63 and 2065/66 i.e. 3.10% and 3.35% respectively.

[NOTE: Here, cash is only cash in hand and total deposit is the combination of (current + saving + fixed + call + other) deposit]

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

Table No. 4.2 (Rs. '000')

Year	Cash and Bank Balance	Total Deposit	Ratio %
2061/62	6,159,337	35,934,163	17.14
2062/63	7,174,057	35,829,765	20.02
2063/64	7,117,294	39,014,204	18.24
2064/65	6,616,992	41,829,391	15.82
2065/66	9,171,789	45,194,232	20.29
		Average	18.30%

The ratio of Cash and Bank Balance to Total Deposit is exhibited in Table no. 4.2. The lowest ratio in FY 2064/65 is 15.82% and the highest is 20.29% in FY 2065/66. The ratio is slightly exceeded than the average 18.30% is 20.02% and 20.29% in FY 2062/63 and 2065/66 respectively. In the other remaining fiscal year, the ratios are below the average.

[NOTE: Here, Cash and Bank Balance is Cash plus Bank Balance. Cash means cash in hand only and Bank Balance means the combination of Nepal Rastra Bank Balance plus Domestic Banks Balance plus Foreign Banks Balance]

4.1.1.3 NRB Balance to Total Deposits Ratio

Table No. 4.3 (Rs. '000')

Year	NRB Balance	Total Deposits	Ratio %
2061/62	4,508,554	35,934,163	12.55%
2062/63	5,353,964	35,829,765	14.94%
2063/64	5,224,860	39,014,204	13.39%
2064/65	4,430,641	41,829,391	10.59%
2065/66	6,619,700	45,194,232	14.65%
		Average	13.22%

The NRB Balance to Total Deposit Ratio is shown in Table no. 4.3. The ratio is below the average 13.22% with 10.59% and 12.55% in the FY 2064/65 and 2061/62 respectively whereas the ratio is above the average i.e. 14.94%.13.39% and 14.65% in the FY 2062/63, 2063/64 and 2065/66 respectively.

4.1.1.4 Cash and Bank Balance to Current Deposit Ratio

Table No. 4.4 (Rs. '000')

Year	Cash and Bank Balance	Current Deposits	Ratio %
2061/62	6,159,337	6,135,632	100.39%
2062/63	7,174,057	6,479,234	110.72%
2063/64	7,117,294	7,193,560	98.94%
2064/65	6,616,992	8,256,074	80.15%
2065/66	9,171,789	10,313,162	88.93%
		Average	95.83%

The above table reveals the Cash and Bank Balance to Current Deposit Ratio. The highest ratio is 110.72% in FY 2062/63. The ratio is below the average 95.83% in FY 2064/65 and 2065/66 which is 80.15%, and 88.93% respectively and in the other years, the ratio is above the average i.e. 100.39%, 110.72% and 98.94% in FY 2061/62, 2062/63 and 2063/64 respectively.

4.1.2 Leverage/ Capital Structure Ratio

The long- term solvency position of the bank can be measured by using this leverage ratio and also called it capital structure ratio. It is defined as ability to assure the long term creditors with regard the periodic interest payment and the principal. In this category, we examine the debt equity ratio, shareholder's equity ratio and total debt ratio of the bank..

4.1.2.1 Total Debt to Total Assets Ratio

Table No. 4.5 (Rs. '000')

Year	Total Debt	Total Assets	Ratio %
2061/62	54,470,699	47,045,154	115.78%
2062/63	42,220,360	35,918,905	117.54%
2063/64	45,506,309	39,258,794	115.91%
2064/65	48,061,745	42,053,444	114.29%
2065/66	52,413,422	47,559,110	110.21%
		Average	114.75%

The above table shows the Total Debt to Total Assets ratio of Nepal Bank Limited. Under the study period of five years, the ratio is almost constant in each year except in FY 2065/66. The highest ratio is 117.54% in FY 2062/63 and the lowest ratio is 110.21% in FY 2065/66. The ratio is below the average in FY 2064/65 and 2065/66 which is 114.29% and 110.21% respectively and the ratio is above the average is 115.78%, 117.54% and 115.91% in FY 2061/62, 2062/63 and 2063/64 respectively. The average ratio is 114.75%.

4.1.2.2 Debt- Equity Ratio

Table No. 4.6 (Rs. '000')

Year	Total Debt	Shareholder's Equity	Ratio %
2061/62	54,470,699	380,383	143.20%
2062/63	42,220,360	380,383	110.99%
2063/64	45,506,309	380,383	119.63%
2064/65	48,061,745	380,383	126.35%
2065/66	52,413,422	380,383	137.79%
		Average	127.59%

The above table reflects the Debt-Equity Ratio. Under the study period of five year the ratio is going upward in each year after FY 2061/62. The highest ratio is 143.20 times in FY 2061/62 and the lowest is 110.99 times in FY 2062/63. The ratio below the average is 110.99 times, 119.63 times and 126.35 times in FY 2062/63, 2063/64 and 2064/65 respectively and the ratio is above the average is 143.20.80 times and 137.79 times in FY 2061/62 and 2065/66 respectively.

4.1.2.3 Total Debt to Shareholder's fund ratio

Table No. 4.7 (Rs. '000')

Year	Total Debt	Shareholder's Fund	Ratio %
2061/62	54,470,699	2,110,513	25.81
2062/63	42,220,360	1,587,647	26.59
2063/64	45,506,309	607,336	74.93
2064/65	48,061,745	619,597	77.57
2065/66	52,413,422	1,274,637	41.12
		Average	49.20

The Debt to Shareholder's Fund is represented in Table no. 4.7. The ratio is fluctuating in each year. During the study period, the lowest point ratio is 25.81 times in FY 2061/62 and the highest point ratio is 77.57 times in FY 2064/65. The ratio is above the average is 74.93 times and 77.57 times in FY 2063/64 and 2064/65 respectively and the ratio is below the average is 25.81 times, 26.59 times and 41.12 times in FY 2061/62, 2062/63 and 2065/66 respectively.

4.1.2.4 Shareholder's Equity to Total Assets Ratio

Table No. 4.8 (Rs. '000')

Year	Shareholder's Equity	Total Assets	Ratio %
2061/62	380,383	47,045,154	0.81%
2062/63	380,383	35,918,905	1.06%
2063/64	380,383	39,258,794	0.97%
2064/65	380,383	42,053,444	0.90%
2065/66	380,383	47,559,110	0.80%
		Average	0.91%

The Shareholder's Equity to Total Assets Ratio is revealed in above table. The average of shareholder's equity to total assets ratio of Nepal Bank Limited during the five years study period is 0.91%. The ratio is near to an average all over the study period except in the FY 2062/63. The highest ratio is recorded 1.06% in FY 2062/63 and the lowest ratio is 0.80% in FY 2065/66.

4.1.3 Activity Ratio

The activity ratios are concerned with the efficiency of assets management of the bank. The efficiency of the firm shows how the assets managed and utilized. Greater turn over, higher the efficient management of the company and vice-versa. To evaluate the activity ratio, we analyze the investment, loan and advances and non- performing assets against the resources as deposit, assets and total loan of the bank.

4.1.3.1 Investment to Total Deposit

Table No. 4.9 (Rs. '000')

Year	Investment	Total Deposit	Ratio %
2061/62	14,199,216	35,934,163	39.51%
2062/63	14,490,247	35,829,765	40.44%
2063/64	16,072,180	39,014,204	41.20%
2064/65	16,570,756	41,829,391	39.62%
2065/66	13,397,559	45,194,232	29.64%
		Average	38.08%

The above table reflects the Investment against Total Deposit Ratio. It gives the picture of how the deposit is mobilized in investment sector. The ratio is above the average is in last four FY 2061/62, 2062/63, 2063/64 and 2064.65 which are 39.51%, 40.44%, 41.20% and 39.62% respectively. In the FY 2065/66, the ratio is under the average i.e. 29.64%.

4.1.3.2 Investment to Total Assets Ratio

Table No. 4.10 (Rs. '000')

Year	Investment	Total Assets	Ratio %
2061/62	14,199,216	47,045,154	30.18%
2062/63	14,490,247	35,918,905	40.34%
2063/64	16,072,180	39,258,794	40.94%
2064/65	16,570,756	42,053,444	39.40%
2065/66	13,397,559	47,559,110	28.17%
		Average	35.81%

The Investment to Total Assets ratio of Nepal Bank Limited is exhibited in the above table. The investment ratio is increased to 40.94% in FY 2063/64 and it decreased to 28.17% in FY 2065/66. In the FY 2062/63, 2063/64 and 2064/65, the ratio is above the average which is 40.34%, 40.94% and 39.40% respectively. And in the FY 2061/62 and 2065/66, the ratio is under the average i.e. 30.18% and 28.17% respectively. The average ratio is 35.81%.

4.1.3.3 Investment, Loan and Advance to Total Assets

Table No. 4.11 (Rs. '000')

Year	Investment, Loan and Advance	Total Assets	Ratio %
2061/62	22,418,126	47,045,154	47.65%
2062/63	24,246,410	35,918,905	67.50%
2063/64	27,130,658	39,258,794	69.11%
2064/65	29,822,719	42,053,444	70.92%
2065/66	31,012,458	47,559,110	65.21%
		Average	64.08%

The Total Lending against the Total Assets ratio is reflected in the above table of NBL. The highest ratio of lending reached to 70.92% in FY 2064/65 which is continuous incremental from FY 2061/62 i.e. 47.65%. The ratio is above the average i.e. 67.50%, 69.11%, 70.92% and 65.21% in FY 2062/63, 2063/64, 2064/65 and 2065/66 respectively and the ratio is under the average i.e. 47.65% in FY 2061/62. After continuous increment for last four year the ratio is decreased to 65.21% in FY 2065/66 which is almost equal to average of 64.08%.

4.1.3.4 Investment, Loan and Advance to Total Deposit Ratio

Table No. 4.12 (Rs. '000')

Year	Investment, Loan and Advance	Total Deposit	Ratio %
2061/62	22,418,126	35,934,163	62.39%
2062/63	24,246,410	35,829,765	67.67%
2063/64	27,130,658	39,014,204	69.54%
2064/65	29,822,719	41,829,391	71.30%
2065/66	31,012,458	45,194,232	68.62%
		Average	67.90%

The Total Investment, Lending and Advance against the Total Deposit Ratio of Nepal Bank Limited are shown in above table. This ratio shows how much available resources have been utilized in income generating sector. The ratio is above the average i.e. 69.54%, 71.30% and 68.62% in the FY 2063/64, 2064/65 and 2065/66 respectively. But in the first two FY, the ratio is under the average which is 62.39% and 67.67% respectively. And the average is 67.90%.

4.1.3.5 Loan and Advance to Total Deposit Ratio

Table No. 4.13 (Rs. '000')

Year	Loan and Advance	Total Deposit	Ratio %
2061/62	8,218,910	35,934,163	22.87%
2062/63	9,756,163	35,829,765	27.23%
2063/64	11,058,478	39,014,204	28.34%
2064/65	13,251,963	41,829,391	31.68%
2065/66	17,614,899	45,194,232	38.98%
		Average	29.82%

The Loan and Advance excluding Investment against Total Deposit is reflected in this table for five years of study period. The loan and advance to total deposit ratio 29.82% is an average of Nepal Bank Limited over the study period. The lowest ratio reveals in FY 2061/62 which is 22.87% and the highest ratio is 38.98% in FY 2065/66. In the first two FY 2061/62 and 2062/63, the ratio is under the average and in the other three years, the ratio is above the average which is 28.34%, 31.68% and 38.98% respectively.

4.1.3.6 Non - Performing Assets to Total Loan

Table No. 4.14 (Rs. in Million)

Year	Non – Performing Assets	Total Loan	Ratio %
2061/62	8,372	16,867	49.64%
2062/63	2,262	12,442	18.18%
2063/64	1,856	13,757	13.49%
2064/65	2,067	15,765	13.11%
2065/66	967	19,560	4.94%
		Average	19.87%

Table No. 4.14 depicts the ratio of Non- Performing Assets to Total Loan of Nepal Bank Limited for the financial year of 2061/62 to 2065/66. This was 49.64%, 18.18%, 13.49%, 13.11% and 4.94% respectively. The ratio is continuously decreased which shows the good performance of the bank in recovery.

According to the direction of NRB to the commercial Banks, the ratio of non- performing assets to total loan should be about 5%. But with referring to this table, NBL is not able to minimize the level of non – performing assets as an adequate position which is on an average 19.87%. However the bank has decreased its NPA below 5% in FY 2065/66.

4.1.3.7 Non – Performing Assets to Total Assets Ratio

Table No. 4.15 (Rs. in Million)

Year	Non- performing Assets	Total Assets	Ratio %
2061/62	8,372	47,045	17.80%
2062/63	2,262	35,919	6.30%
2063/64	1,856	39,259	4.73%
2064/65	2,067	42,053	4.92%
2065/66	967	47,559	2.03%
		Average	7.15%

Table No. 4.15 depicts the ratio of Non- Performing Assets to Total Assets of Nepal Bank Limited for the financial year of 2061/62 to 2065/66. This was 17.80%, 6.30%, 4.73%, 4.92% and 2.03% respectively. The ratio is increased up to 17.80% in FY 2061/62 and decreased up to 2.03% in FY 2065/66. The ratio is above the average 7.15% in 2061/62 respectively. And the ratio is under the average in remaining last four years due to decrease in NPA. It shows the good recovery process of NBL in terms of bad loan.

According to the direction of NRB to the commercial Banks, the ratio of non – performing assets to total assets should be about 10%. But with referring to this table, NBL is not able to keep the level of non- performing assets as an adequate position in FY 2061/62 but then after the bank is able to meet the NRB requirement.

4.1.3.8 Interest Suspense to Non – Performing Assets Ratio

Table No. 4.16 (Rs. in Million)

Year	Interest Suspense	Non-Performing Assets	Ratio %
2061/62	13,039	8,372	155.75%
2062/63	5,227	2,262	231.08%
2063/64	5,087	1,856	274.08%
2064/65	4,502	2,067	217.80%
2065/66	3,966	967	410.13%
		Average	257.77%

The above table reflects the Interest Suspense to Non- Performing Assts Ratio of Nepal Bank Limited for the financial year of 2061/62 to 2065/66. This was 155.75%, 231.08%, 274.08%, 127.80% and 410.13% respectively. Under the study period of five year, the ratio is going upward in each year. The higher ratio is 410.13% in FY 2065/66 and the lowest ratio is 155.75% in FY 2061/62. The ratio is below the average is 155.75%, 231.08% and 217.80% in FY 2061/62, 2062/63 and 2064/65 respectively and the ratio is above the average is 274.08% and 410.13% in FY 2063/64 and 2065/66 respectively.

This table shows that Non-Performing assets of Nepal Bank Limited is decreasing but interest suspense amount is also decreasing each year. Therefore, Nepal Bank Limited should further try to decrease the volume of Non-Performing Assets and the Interest Receivable in an efficient way.

4.1.3.9 Loan Loss Provision to Non- Performing Assets Ratio

Table No. 4.17 (Rs. in Million)

Year	Loan Loss Provision	Non-Performing Assets	Ratio %
2061/62	8,647	8,372	103.28%
2062/63	2,685	2,262	118.70%
2063/64	2,698	1,856	145.37%
2064/65	2,513	2,067	121.58%
2065/66	1,945	967	201.14%
		Average	138.01%

Table No. 4.17 presents the ratio of Loan Loss Provision to Non- Performing Assets of Nepal Bank Limited for the study period of 2061/62 to 2065/66. High amount of non- performing assets and its provision is not good for the banks performance. Even though, banks should make a provision for non-performing assets according to the reasonable standards. According to NRB Guidelines substandard, doubtful and loss graded accounts are non- performing assets. And Nepal Rastra Bank has set a standard for the loan loss provision for non-performing assets from 25% to 100%. The ratio is increased up to 201.14% in FY 2065/66 and decreased up to 103.28%

in FY 2061/62. The ratio is above the average is 145.37% and 201.14% in FY 2063/64 and 2065/66 respectively and the ratio which is under the average is 103.28%, 118.70 and 121.58% in FY 2061/62, 2062/63 and 2064/65 respectively. The trend of loan loss provision and non-performing assets is decreasing each year which is good for Nepal Bank Limited to improve its financial performance.

4.1.4 Profitability Ratio

The overall financial efficiency for the both short term and the long term obligations are reflected by this ratio. The bank should earn legitimate amount of profit to survive in the market and its growth. The profit is an essential factor, but it would be in just if every action of the management enhances the profit. So, we are going to analyze how the bank is operating the activities in connection of profit maximization. In this regard we calculate earning power and return of the bank and interpret it.

4.1.4.1 Earning Power Ratio or Return on Assets Ratio

Table No. 4.18 (Rs. '000')

Year	Net Profit	Total Assets	Ratio %
2061/62	1,730,129	47,045,154	3.68%
2062/63	1,207,265	35,918,905	3.36%
2063/64	226,953	39,258,794	0.58%
2064/65	239,214	42,053,444	0.57%
2065/66	894,254	47,559,110	1.88%
		Average	2.01%

The above table reveals the earning power against the total assets available in the Nepal Bank Limited during the study period of FY 2061/62 to 2065/66. The earning power ratio, in other words return on assets ratio is very nominal for Nepal Bank Limited. In FY 2061/62 to 2065/66 the earning power ratio is 3.68%, 3.36%, 0.58%, 0.57% and 1.88% respectively. Also the average of return on assets ratio is 2.01%.

4.1.4.2 Return on Equity

Table No.4.19 (Rs. Million)

Year	Net Profit	Net Worth	Ratio %
2061/62	1,730	(9,015)	(19.19)
2062/63	1,207	(6,652)	(18.14)
2063/64	227	(6,248)	(3.63)
2064/65	239	(6,008)	(3.98)
2065/66	894	(1,431)	(62.47)
		Average	(21.48)

Table no. 4.19 exhibits the ratio of net profit and net worth as return on equity of Nepal Bank Limited for the financial year of 2061/62 to 2065/66. These are 19.19%, 18.14%, 3.63%, 3.98% and 62.47% respectively for consecutive five years which are all negative. The mean ratio is 21.48% which is also negative.

The negative figure shows the poorer situation of Nepal Bank Limited with its return on equity (net worth). This table clearly shows the amount of profit is positive and amount of net worth is negative in all five FY 2061/62 to 2065/66. Previously the financial position of Nepal Bank Limited was disastrous. But from 2060/61, Nepal Bank Limited is able to make profit and it shows its financial situation is improving.

4.1.4.3 Return on Net Loan and Advance Ratio

Table No. 4.20 (Rs. '000')

Year	Net Profit	Net Loan and Advance	Ratio %
2061/62	1,730,129	8,218,910	21.05%
2062/63	1,207,265	9,756,163	12.37%
2063/64	226,953	11,058,478	2.05%
2064/65	239,214	13,251,963	1.81%
2065/66	894,254	17,614,899	5.08%
		Average	8.47%

Table no. 4.20 exhibits the ratio of net profit and net loan and advances of Nepal Bank Limited for the financial year of 2061/62 to 2065/66. The ratio is 21.05%, 12.37%, 2.05%, 1.81% and 5.08% respectively. The average of return on loan and advance is 8.47%.

This ratio shows the poorer situation of Nepal Bank Limited with its return on loan and advances in FY 2063/64 to FY 2065/66. It can be clearly seen that Nepal Bank Limited is not being able to make profit through the loan and advances but from 2065/66, it is starting to earn profit and it shows Nepal Bank Limited is utilizing its loan and advances efficiently in profitable sector.

4.1.4.4 Earning Per Share

Table No. 4.21 (Rs. '000')

Year	Net Profit	No. of Share	EPS
2061/62	1,730,129	3803826	0.45
2062/63	1,207,265	3803826	0.32
2063/64	226,953	3803826	0.06
2064/65	239,214	3803826	0.06
2065/66	894,254	3803826	0.24
		Average	0.23

Table no. 4.21 depicts the earning per share. In the last some decades, there was a pitiable situation of Nepal Bank Limited because amount of net profit was in negative and the calculation

does not give even single digit figure. In that period the shareholders of Nepal Bank Limited have no chance to get the earning because of the negative return each year. But the bank is able to earn profit significantly in the above financial year of 2061/62 to FY 2065/66. Earnings per share of Nepal Bank Limited for FY 2065/66 are NPR 240.

4.2 Trend Analysis

To overview the trend of deposit, lending and the relationship of the lending and deposit, trend analysis has been performed.

4.2.1 Deposit Growth Trend

The main function of a commercial bank is the collection of deposits and its utilization, collection of deposit show the bank's efficiency in performance and reliability of its activities. It indicates the success of profitability and its service orientation. Banks have to pay interest on its deposit and also pay dividends to its shareholders. So, more earning and more interest distribution can be achieved through deposit collection and its productive use. The efficient deposit and its utilization in productive sector relating to the industry, commerce, foreign trade, tourism, service and business area, ultimately contribute to the national economy. Thus collection of deposit of Nepal Bank Limited is analyzed as follows:

Year	Total Deposit	Growth Rate %	Fixed Deposit	Growth Rate %	Current Deposit	Growth Rate %	Saving Deposit	Growth Rate %	Other Deposit	Growth Rate %
2061/62	35,934,164	-	6,191,011	-	5,840,826	-	23,489,130	-	413,197	-
2062/63	35,829,765	(0.29)	5,222,448	(15.64)	6,037,290	3.36	24,122,924	2.70	447,103	8.21
2063/64	39,014,204	8.89	5,393,446	3.27	6,766,342	12.08	26,427,198	9.55	427,218	(4.45)
2064/65	41,829,391	7.22	4,757,924	(11.78)	7,819,756	15.57	28,565,392	8.09	686,319	60.65
2065/66	45,194,232	8.04	3,586,190	(24.63)	9,923,275	26.90	31,284,261	9.52	400,506	(41.64)
Average	39,560,351	5.96	5,030,204	(12.20)	7,277,498	14.48	26,777,781	7.46	474,869	5.69

Table No. 4.22 (Rs. '000')

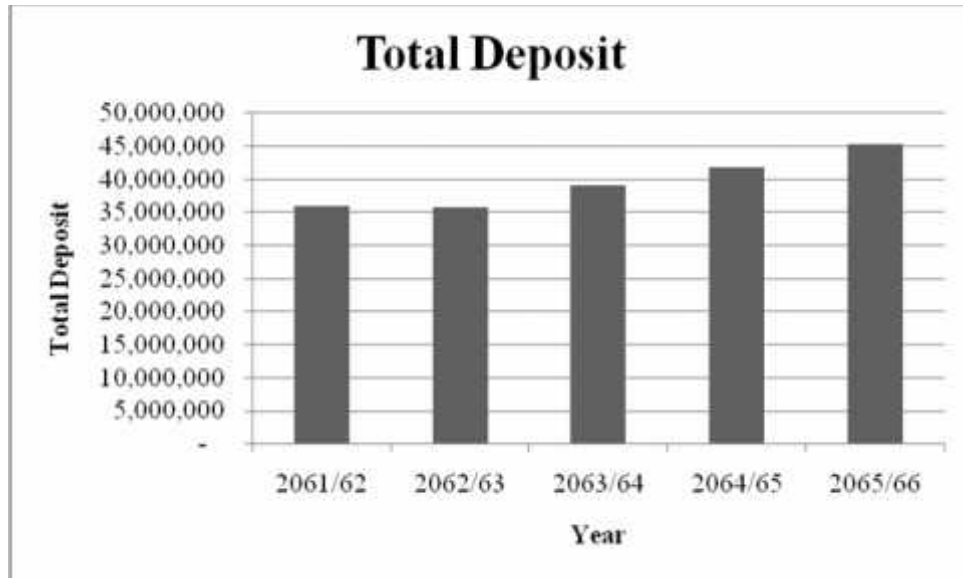


Figure – 1

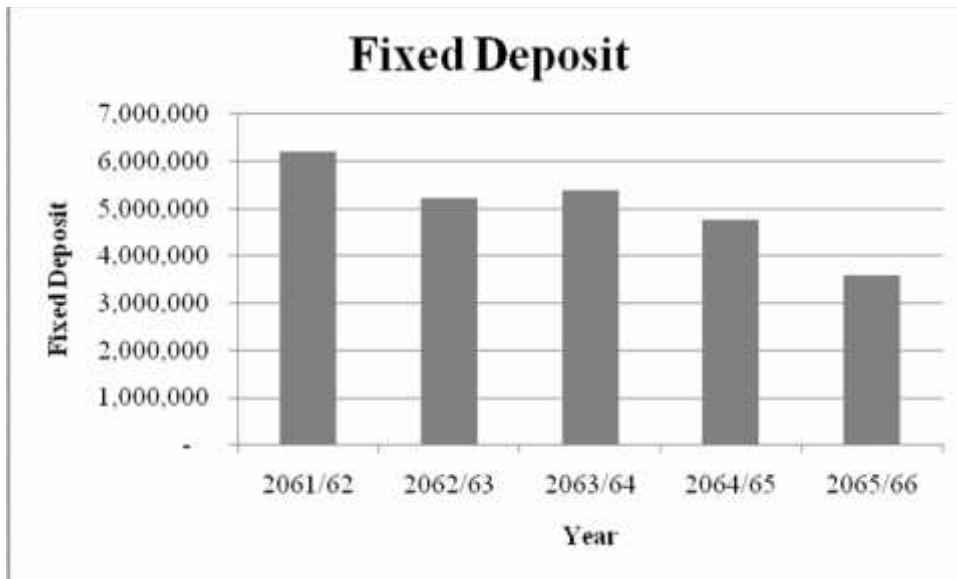


Figure – 2



Figure - 3

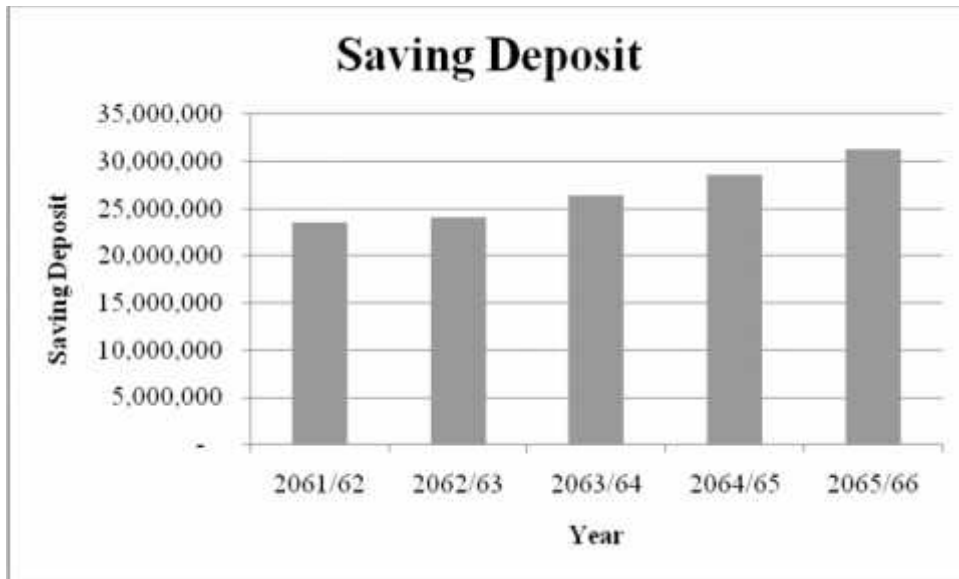


Figure - 4

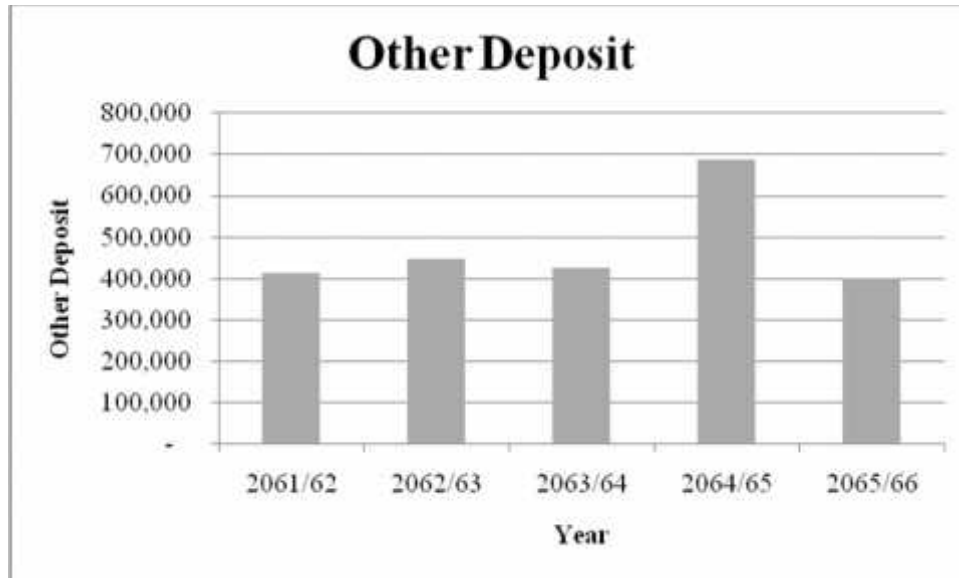


Figure – 5

The deposit growth trend is shown in the above table. The total deposit's growth rate is increasing trend after FY 2062/63. The total deposit of NBL is increased by 7% and 8% in FY 2064/65 and 2065/66 respectively over its previous year. Similarly, the fixed deposit's growth rate is declining trend and average growth rate is negative i.e. (12.20%). Likewise, the growth rate of current deposit is also in increasing trend over the years. In the same way, growth rate of saving deposit is also in increasing trend and average growth rate is 7.46%. But the growth rate of other deposit is volatile. It is increased in FY 2062/63 and 2064/65 where as in FY 2063/64 and 2065/66 it are significantly decreased. By this analysis we can say that there is no relationship in different deposits.

4.2.2 Deposit Trend

The deposit trend shows the contribution of the various deposit mix like current, saving, fixed and other. The deposit mix shows the picture of the nature of deposit, liability of deposit and liquidity condition of the bank. The lending strategy would be adopted by analyzing the deposit mix. The current deposits are very short – term mature and the fixed deposits are long – term i.e. one year or more years. Likewise, saving deposits are the semi-short term deposit. The deposit mix is shown here in table below as following:

Year	Total Deposit	Mix %	Fixed Deposit	Contribution%	Current Deposit	Contribution %	Saving Deposit	Contribution %	Other Deposit	Contribution %
2061/62	35,934,164	100	6,191,011	17.23	5,840,826	16.25	23,489,130	65.37	413,197	1.15
2062/63	35,829,765	100	5,222,448	14.58	6,037,290	16.85	24,122,924	67.33	447,103	1.25
2063/64	39,014,204	100	5,393,446	13.82	6,766,342	17.34	26,427,198	67.74	427,218	1.10
2064/65	41,829,391	100	4,757,924	11.37	7,819,756	18.69	28,565,392	68.29	686,319	1.64
2065/66	45,194,232	100	3,586,190	7.94	9,923,275	21.96	31,284,261	69.22	400,506	0.89
Average	39,560,351	100	5,030,204	12.99	7,277,498	18.22	26,777,781	67.59	474,869	1.20

Table No. 4.23 (Rs. '000')

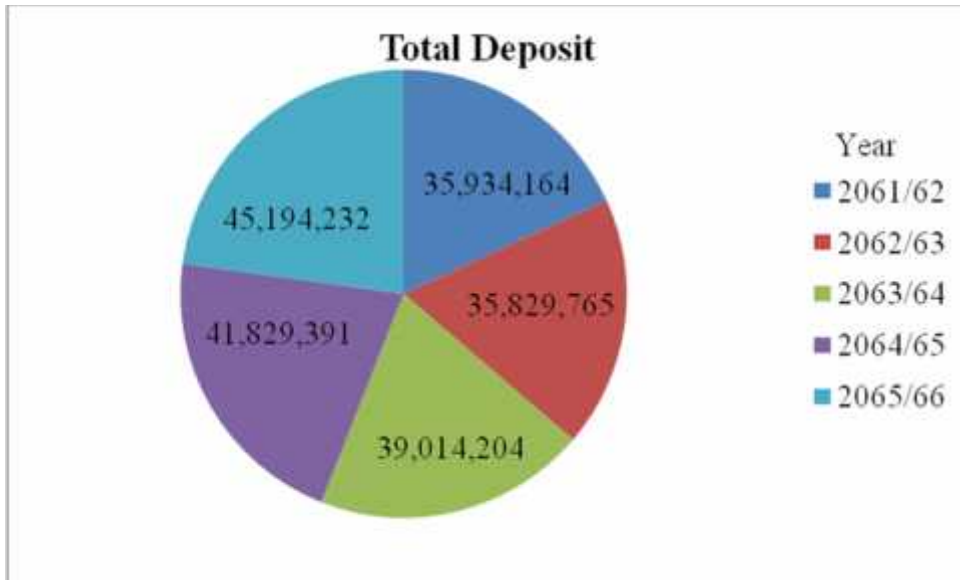


Figure – 6

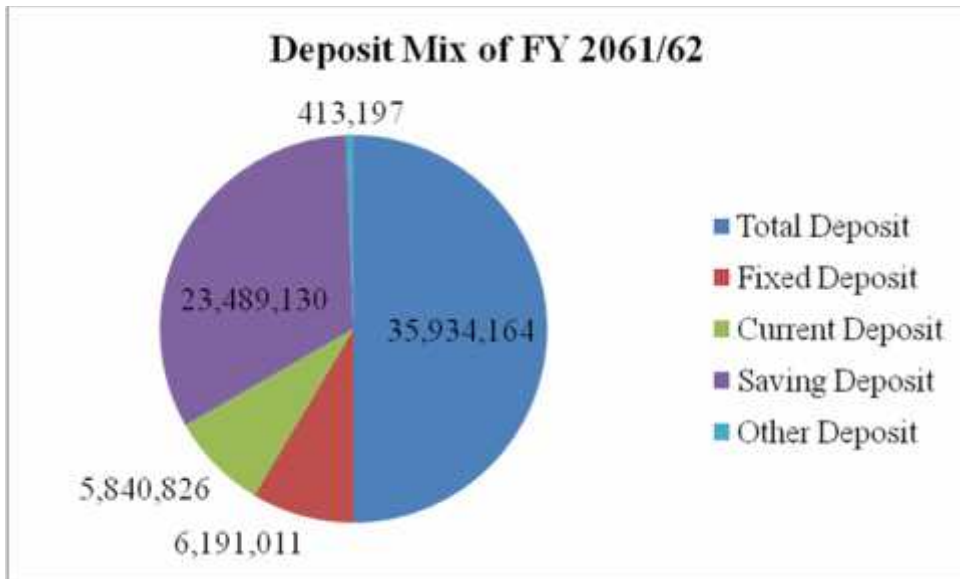


Figure – 7

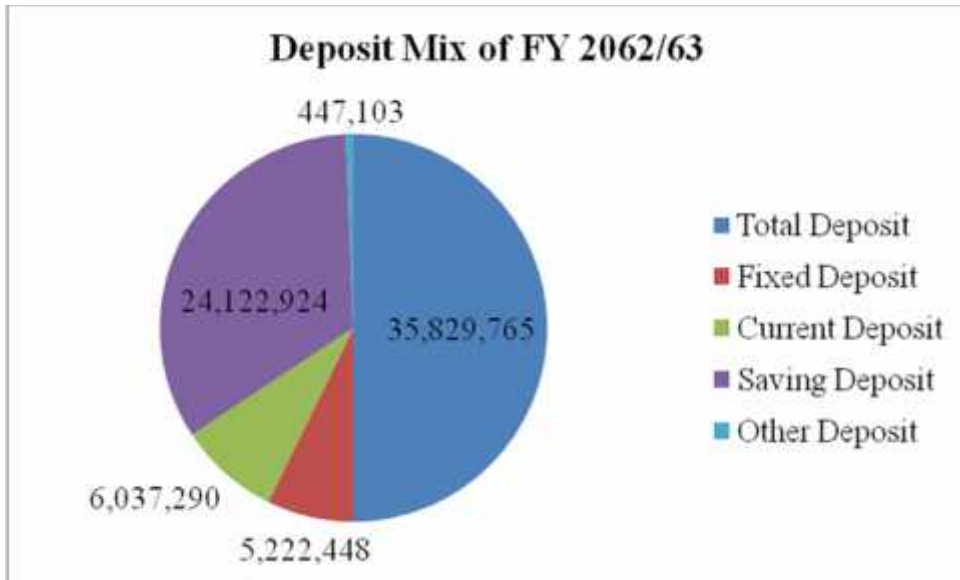


Figure – 8

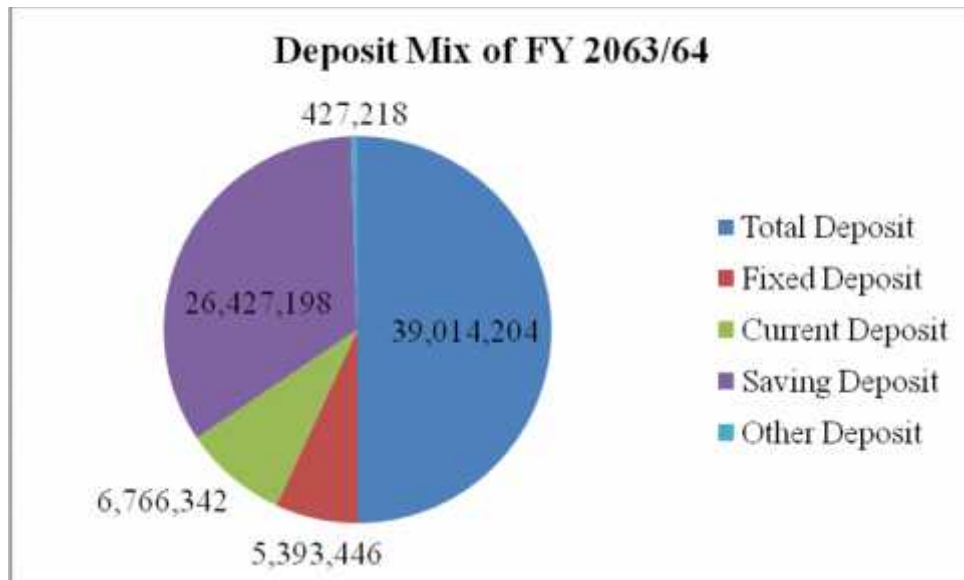


Figure – 9

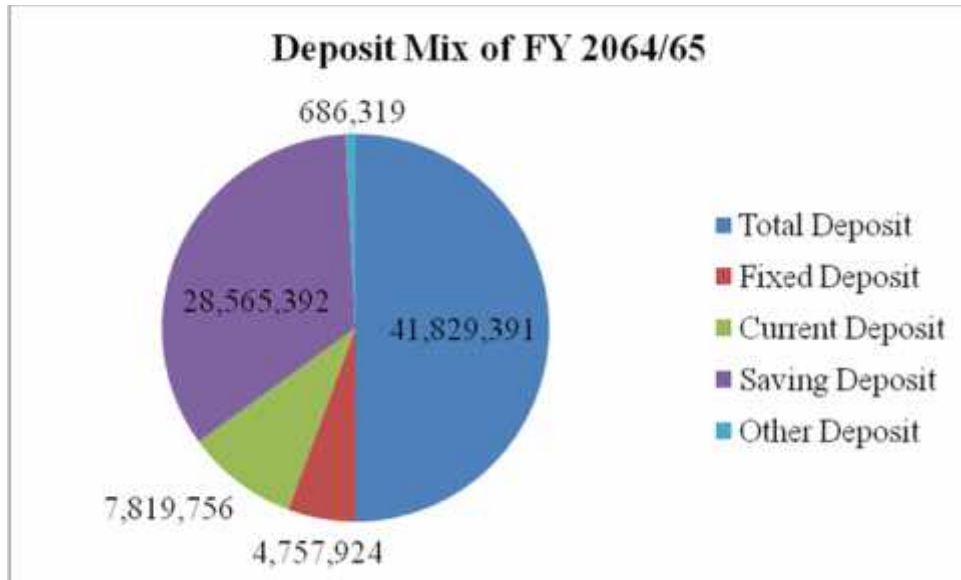


Figure – 10

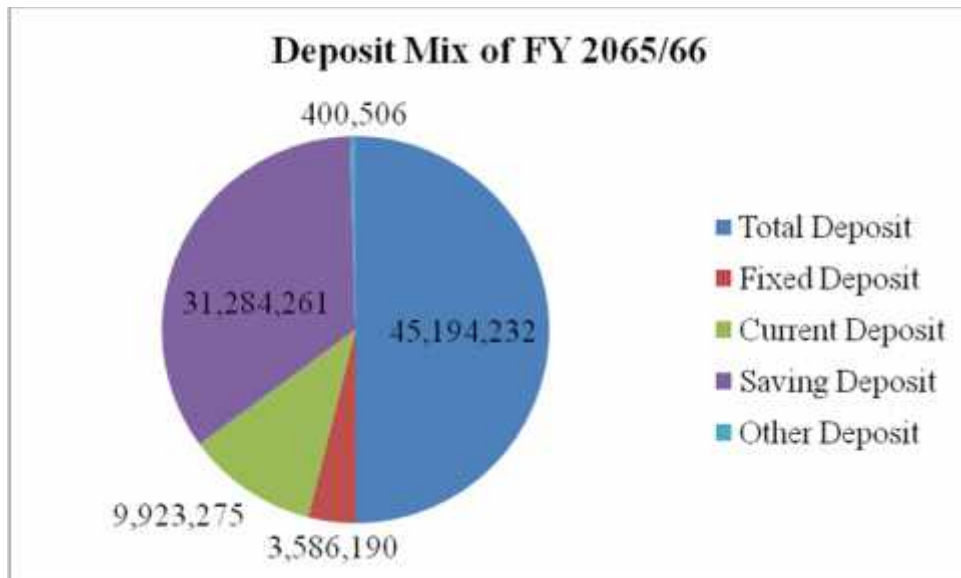


Figure – 11

The table no. 4.23 shows the deposit mix trend of Nepal Bank Limited for the five years study period. The contribution of fixed deposit is gradually declining trend with the average 13% of the total deposit whereas, the contribution of saving deposit is gradually increasing trend with the average of 67.59% of the total deposit. But the contribution of current deposit is smoothly increasing trend with the average of 18.22% of total deposits. Similarly, the contribution of other

deposits is in decreasing trend with the average of 1.20% of total deposit in the study period of five years from 2061/62 to 2065/66.

4.2.3 Investment, Loan and Advance Trend

When we say the bank, everyone thinks about the deposit and side by side the loan. The deposit and lending are the unanimously two jobs of the bank as a same category or we can say two sides of a coin. The efficient management is not only to accelerate the deposit but also invest in a proper and suitable sector to the available resources. The proper and efficient utilization of bank's deposit and other resources can enhance the bank's performance and credibility. The value and worthiness of the bank are esteemed the sound investment portfolio of the resources. The investment, loan and advance are analyzed as follows:

Table No. 4.24 (Rs. '000')

Year	Investment, Loan and Advance	Growth rate %
2061/62	22,418,126	-
2062/63	24,246,410	8.16
2063/64	27,130,658	11.90
2064/65	29,822,719	9.92
2065/66	31,012,458	3.99
Average	26,926,074	8.49

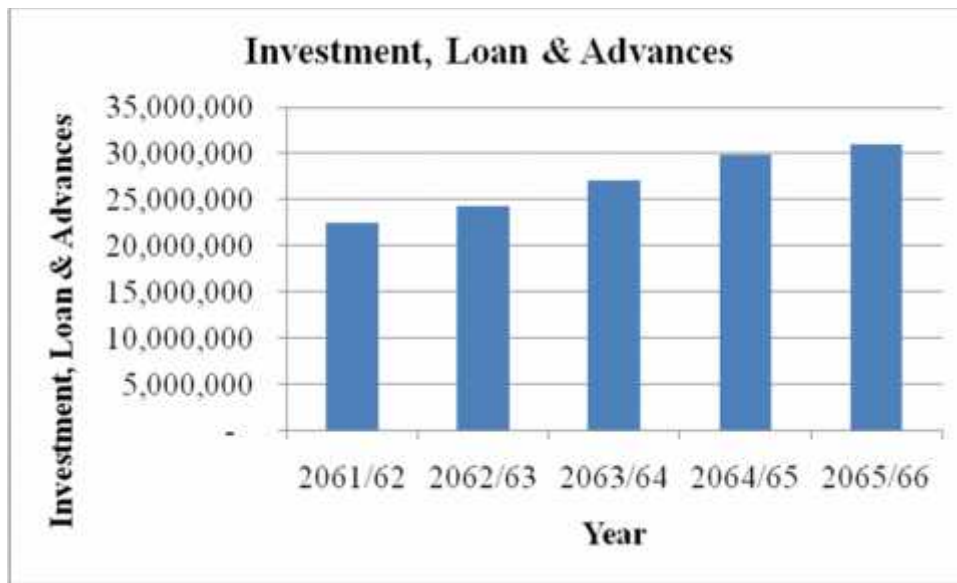


Figure - 12

The table no. 4.24 shows the trend of the loans and advances with investments. If we assume the base year to the FY 2061/62, the loan and advances with investments are in increasing trend with an average of 8.49%. There is maximum of 11.90% growth rate in FY 2063/64 and minimum of 3.99% in FY 2065/66.

4.2.4 Deposit Utilization Trend

The chief function of the bank is the utilization of its deposit effectively. The indicator of the efficiency of the bank is the quality of the resources mobilization i.e. management of loans and advances. The deposit utilization is analyzed as follows

Table No. 4.25 (Rs. '000')

Year	Investment, Loan and Advance	Growth Index	Total Deposit	Growth Index	Deposit Utilization Rate
2061/62	22,418,126	-	35,934,163	-	62.39
2062/63	24,246,410	8.16	35,829,765	(0.29)	67.67
2063/64	27,130,658	11.90	39,014,204	8.89	69.54
2064/65	29,822,719	9.92	41,829,391	7.22	71.30
2065/66	31,012,458	3.99	45,194,232	8.04	68.62
Average	26,926,074	8.49	39,560,351	5.96	69.28

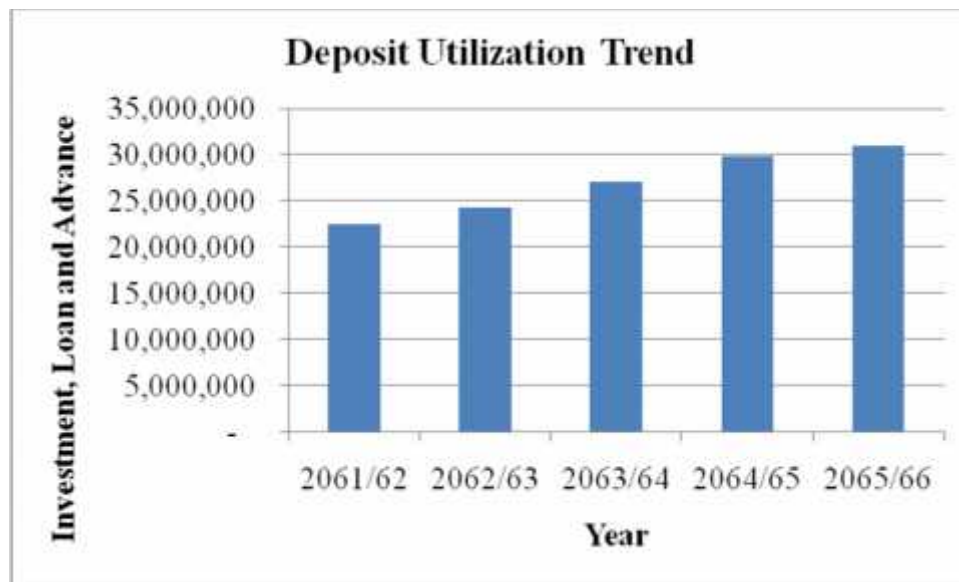


Figure - 13

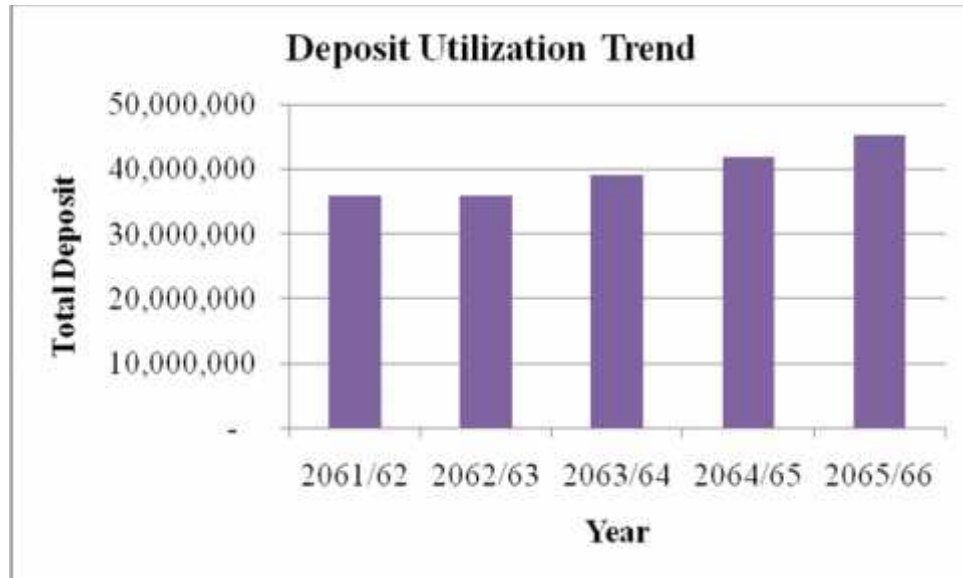


Figure - 14

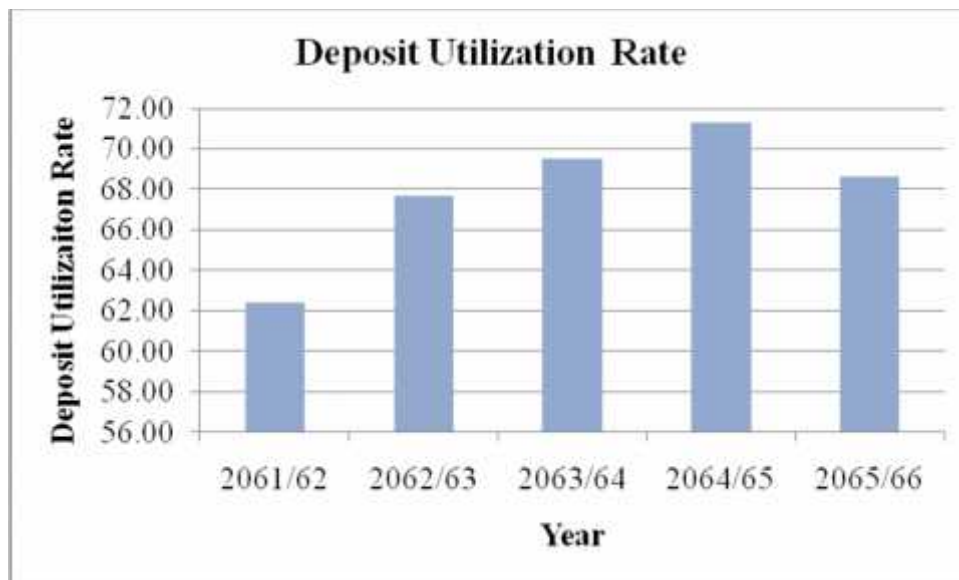


Figure - 15

The utilization of deposit through bank's investment, loan and advances of Nepal Bank Limited is shown in the above table. Table no. 4.25 exhibits the deposit utilization ratio from FY 2061/62 to 2065/66. The highest ratio is 71.30% which has been utilized in FY 2064/65 and the lowest ratio is 62.39% in FY 2061/62. The deposit utilization ratio is above the average i.e. 67.90% is 69.54%, 71.30% and 68.62% in the last three FY 2063/64, 2064/65 and 2065/66 respectively. But in the first two FY, the deposit utilization ratio is below the average which is 62.39% and 67.67% in FY 2061/62 and 2062/63 respectively. Deposit utilization rate of NBL is increasing trend, which shows NBL is utilizing its deposit efficiently towards investment, loan and advances.

4.3 Analysis of Correlation Coefficient of Various Variables in NBL

The statistical tool of coefficient of correlation has been studied to find out whether the available variables are inter-correlated or not. Now to find out the correlation of net worth and net profit, total deposit and investment, and also non-performing assets and total loan, the widely used method of Karl Pearson's Correlation coefficient has been adopted.

$$\text{Coefficient of Correlation (r)} = \frac{N \sum XY - \sum X * \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

4.3.1 Correlation Coefficient of net worth and net profit of NBL

Table No. 4.26 (Rs. in Million)

Year	Net Worth	Net Profit
2061/62	(9,015)	1,730
2062/63	(6,652)	1,207
2063/64	(6,248)	226
2064/65	(6,008)	239
2065/66	(1,431)	894
Correlation (r)		-0.84
Probable Error (P.E.)		0.13

Table no. 4.26 depicts the correlation coefficient between net worth and net profit for five sample years of NBL remained -0.84. Similarly the probable error of correlation coefficient remained 0.13. Since 'r' is less than ± 0.5 and also less than six times of the probable error (P.E.), the coefficient of correlation is not significant. In other words, the net profit is not correlated to the net worth of Nepal Bank Limited (NBL) in the study period of five years from FY 2061/62 to 2065/66.

4.3.2 Correlation Coefficient of Total Deposit and Investment of NBL

Table No. 4.27 (Rs. in '000')

Year	Investment	Total Deposit
2061/62	14,199,216	35,934,163
2062/63	14,490,247	35,829,765
2063/64	16,072,180	39,014,204
2064/65	16,570,756	41,829,391
2065/66	13,397,559	45,194,232
Correlation (r)		-0.0617
Probable Error (P.E.)		0.45

Table no. 4.27 depicts the correlation coefficient between investment and total deposit for five years of NBL remained -0.0617. Similarly, the probable error of correlation coefficient remained 0.45. Since 'r' is less than ± 0.5 and also less than six times of the probable error (P.E.), the coefficient of correlation is not significant. In other words, the investment is not correlated to the total deposits of NBL in the study period of five years from FY 2061/62 to 2065/66. This means that there is not much increment of investment with respect to the increment in the total deposit.

4.3.3 Correlation Coefficient of NPA and Total Loan of NBL

Table No. 4.28 (Rs. in Million)

Year	Non-Performing Assets	Total Loan
2061/62	8,365	16,867
2062/63	2,255	12,442
2063/64	1,851	13,757
2064/65	2,060	15,765
2065/66	967	19,560
Correlation (r)		0.0905
Probable Error (P.E.)		0.44

Table no. 4.28 demonstrates the correlation coefficient and probable error between non-performing assets and total loan in NBL remained 0.0905 and 0.44 respectively. Since 'r' is less than ± 0.5 but 'r' is less than six times of probable error i.e. $0.44 < 6 * 0.0905$. It indicates that there was positive correlation between non-performing assets and total loan. This means there is not much increasing of non-performing assets with respect to the increasing in the total loan.

4.4 Major findings of this study are presented below:

- 1) The liquidity position of the Nepal Bank Limited is higher than the requirement. The cash balance to total deposit ratio is an average of 3.01%, the cash and bank balance to total deposit ratio is an average of 18.30%, the NRB Balance to total deposit ratio is an average of 13.22% and cash and bank balance to current deposit ratio is an average of 95.83%. In this reason, the liquidity position is sound and high level compared to the directives prescribed by Nepal Rastra Bank in time to time.
- 2) The capital adequacy position in terms of total debt to total assets is found so much higher in an average of 114.75%, likewise total debt to shareholder's fund is in an average 49.20 times. In this regard, the bank has very low equity capital as compared to other capital. By utilizing more debt capital, the bank has to pay more charge which adversely affects its profitability.
- 3) The shareholder's equity to total assets ratio is in an average of 0.91%. It means that the Nepal Bank Limited is utilizing a low shareholder's equity. The contribution of shareholder's equity to the total assets is very nominal.
- 4) The activity ratio in terms of investment to total deposit ratio is increasing in first three fiscal years. The average of investment to total deposit ratio is 38.08%. Likewise, investment to total assets ratio is also in more synchronized position. The ratio is in

decreasing trend now. The average of investment to total assets ratio is 35.81%. This shows that the Nepal Bank Limited is discouraging the investment of its resources.

- 5) The total lending position of Nepal Bank Limited is very low. As the ratio of total lending to total assets is an average of 64.08% and total lending to total deposit is 67.90%. It means that the bank is holding more funds rather to invest it.
- 6) The loan and advance to total deposit ratio of Nepal Bank Limited is an average of 29.82% only. It means that, Nepal Bank Limited is not lending its available deposit but holding the fund and deposit to own custody. The pending of more than 70% of its deposit is quite big amount for the investment or in earning sector. It makes adverse effect to the bank in terms of efficiency and profitability also.
- 7) Obviously, the fund of Nepal Bank Limited is not utilizing. The resources are in liquid position, which do not give any return. Then the profit definitely moves down. The net profit to total assets ratio is 2.01% in an average.
- 8) Variables : It measures Coefficient of Correlation (r) and Probable Error (P.E). The measure criteria, is 6 times of its P.E with compared to the coefficient of correlation. Thus, net worth and net profit, investment and total deposit are not correlated. Similarly, the non-performing assets and total loan of NBL is also negative correlation.
- 9) The net worth of the bank would be minus to nearly 1.43 billion and the capital adequacy is also in negative position.

Chapter–Five

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of the study

A brief overlook of previous chapters, major findings and conclusions of the study are presented in this fifth and the last chapter. At the end, some valuable suggestions and recommendations are put forwarded for the benefit of Nepal Bank Limited as well as concerned persons and groups.

This study has been concluded with a vision to assess financial performance of NBL. Financial tools and statistical tools have been used to make this study more effective and informative. This study has covered five years data from 2061/62 to 2065/66 of NBL. In this section, the researcher has tried to summarize the financial performance of NBL.

The banking institutions are also not free from competitions prevailing in the country as well as international market. Various international and domestic unrest and threats have affected very much in the financial sector. All sectors of the economy have also affected to the financial sector. Therefore, all sectors of the economy have suffered as set back due to those and many other reasons. However, in line with the current market trend, the bank is making all possible efforts to consolidate its business portfolio and cut down the cost in all operating areas to gain or maintain the profit.

The role of the commercial bank is a crucial task of capital formation and its utilization in proper way, which is the key variable of the national economic development too. Scattered resources held no meaning unless they are mobilized in effective and productive sector. The bank can contribute the process of capital investment in order to industry, trade, commerce and agriculture for the economic development of a nation. The goal of economic development can not be achieved without strong capital base and the commercial banks play the pivotal role for the nation of such base.

In this study, some of the financial tools such as; ratio analysis, trend analysis and coefficient of correlation has been used. The role of Nepal Bank Limited, in the country can not over emphasize. Today NBL has already spend more than sixty years in serving the nation, apart from its traditional function, it has served as a major institution for the development of the nation. Thus, it has contributed the major role for the betterment of the country.

The financial analysis is the process of identifying the financial strength and weakness of the firm. The financial analysis has been adopted to know the performance of NBL over the period of five years i.e. FY 2061/62 to 2065/66. In this study, horizontal or dynamic type of financial analysis has been adopted as a series of statements relating to five years. The trend analysis and mostly used ratio analysis and statistical tools of Karl Pearson's correlation coefficient are adopted. The four types of ratio analysis viz. liquidity, capital structure, leverage, and profitability ratios have been calculated, analyzed and interpreted in this study to evaluate the

financial performance of Nepal Bank Limited. From the study, the findings are categorically emphasized in brief as such.

5.2 Conclusion

The following conclusions are derived from the study: Nepal Bank Limited has not maintained a balanced ratio among its deposit liabilities. Consequently, the bank does not seem to be able to utilize its high cost resources in high yielding investment portfolio. The investment portfolio of the bank has not been managed so efficiently as to maximize the returns. There is lack of demarcation of between operational and non-operational activities of the bank. The result shows that the bank is more inclined towards non-operational activities.

The operational efficiency of the bank is found unsatisfactory because of the series of operational loss over first three years. The allocation of loans and advances by the bank does not seem as meaningful as the productive sector portfolio. As compare to social and other loans, agriculture sector and service sector loans are quite negligible. As a result, the profitability of the bank is not very sound as compare to other banks. The lower return on investment of the bank and prevailing pay-out ratio is not justified at all. Lower market value is a reflection of a weaker financial performance of the bank. The growth rate of total investment is not proportionate. The trend ratio of the total assets and total investment is increasing and their ratio is fluctuating.

In the statistical analysis, the net worth and net profit, investment and total deposit and non-performing assets & total loan of NBL is not correlated. The liquidity ratio is much higher than that required of the bank or as prescribed by the Nepal Rastra Bank. But all the other activity, leverage and profitability ratios are very low and negative position. Basically, the return on equity and earning per share are in nominal level.

5.3 Recommendation

A clear financial picture can be viewed from all above presentation. Now, some valuable and timely suggestions and recommendations are put forwarded on the basis of findings and conclusion or literally their financial pictures in order to revitalize and improve the financial position of Nepal Bank Limited.

- 1) The liquidity position is relatively more than the minimum requirement criteria of Nepal Rastra Bank to 5% of its total deposit only. In the changing context and the situation of serious security environment, Nepal Bank Limited has to minimize its cash position in their vault for the sake of security and the utilization of its fund in income generating sectors.
- 2) The leverage ratio of Nepal Bank Limited is in very high position. The NBL should decrease its debt ratio position more and more. The bank should increase its equity position for the future contingency.

- 3) The activity ratio measuring the efficiency achievement towards the income generating activities of the NBL. The bank should invest all the excess balance of liquid fund in income generating sector.
- 4) Due to the creeping lending position of the bank, the profitable position of the bank seems to be very serious. The earning power ratio to total assets is in negative way. This is a very serious matter. Near to double digit inflation rate of Nepalese context, the bank should rethink towards the revitalization of its position and must boost- up the earning power.
- 5) NBL should move towards the modern banking facilities and prompt service in each branch and provide new product to the customer to attract relative growth trend of deposit.
- 6) The lending growth rate of NBL is in creeping position and downward position in somehow. That is why, the following lending processes are recommended.
 - i. Follow the liberal lending policy.
 - ii. Develop a special investment promotion unit.
 - iii. Identify new portfolio investment opportunity.
 - iv. Grand mid-term and short term loan.
 - v. Should launch productive credit programs.
- 7) The bank should look forwarded to maximize the profit through good lending and sound management. The bank is able to minimize the NPA over the years and this should be continued in next coming years also.
- 8) Total deposit is not correlated with the bank's loan and advance. This is very serious matter and the main cause of over liquidity. Thus, try to make the correlation between total deposit and loan and advance.
- 9) The bank should adopt efficient and modern management concept to make more capable to their activities as well as fulfill the growing demand of current financial services.
- 10) The bank should sponsor and encourage to social activities like sports, music and others. The marketing of the bank should be adopted through social obligation as a partner in the society.
- 11) Necessary to diversify the bank's credit investment from commercial and consumption sector to productive sector. It can make capable utilizing its resources efficiently and fulfill the goal of flourishing industry and agriculture in the country.
- 12) The bank should encourage the staffs through the modern approach of reward and punishment. The traditional file promotion system only would not be the promotion factor of the job.
- 13) The bank should built local channel to collect deposit and lending opportunity. Similarly, in this twenty first century, in the time of globalization, the bank should provide prompt service to its customer.

- 14) Make strength the banking operation through hiring the efficient staff and firing the inefficient staffs. In other words, the golden handshake would be introduced.
- 15) Maximize the profitability by gearing up the irregular credits and make proper evaluation of the credit norms while sanctioning the loan.
- 16) Enhance the profitability through effective and efficient in arrangement and accountability with credit worthiness.

The contribution of the bank in the mobilization and utilization of resources becomes ineffective and the goal of commercial banks remains unfulfilled. Thus, it should carefully examine safety of principle as well as sources of repayment, capital structure and credit worthiness of a borrower for providing credits. In other words, credit risk by considering well-known five C's credit viz. character, capacity, capital, collateral and condition.