

**A COMPARATIVE STUDY ON PROFITABILITY
ANALYSIS OF NABIL LTD AND NEPAL
INVESTMENT BANK LTD.**

Submitted By:

Saraswati Silwal

Birendra Multiple Campus

Campus Roll No: 11/2064

T.U. Registration No: 7-1-240-662-2000

Exam Symbol No: 190168 (1st year)

Exam Symbol No.: 190105 (2nd Year)

A Thesis Submitted To:

Office of the Dean

Faculty of Management

Tribhuvan University

**In Partial Fulfillment of the Requirement for the Degree of
Master's of Business Studies (MBS)**

BHARATPUR, CHITWAN

July, 2013

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Saraswati Silwal

Birendra Multiple Campus

Campus Roll No: 11/2064

T.U. Registration No: 7-1-240-662-2000

Exam Symbol No.: 190105

Entitled:

**Comparative Study On Profitability Analysis Of Nabil Bank Ltd. And
Nepal Investment Bank Ltd.**

Has been prepared as approved by this Department in the prescribed
Format of Faculty of Management. This thesis is forwarded for examination.

.....

Sushil Dahal

(Thesis supervisor)

.....

Baikuntha Prasad Bhusal

Head of Research Department)

.....

Dr. keshav Bhakta Sapkota

(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva –voce examination of the thesis presented

By:

Saraswati Silwal

entitled:

**A COMPARATIVE STUDY ON PROFITABILITY ANALYSIS OF NABIL
BANK LTD AND NEPAL INVESTMENT BANK LTD.**

**And found the thesis to be the original work of the student and written
according to the prescribed format we recommended the thesis to be
accepted as partial fulfillment of the requirement for the degree
of Master of Business Studies (M.B.S.)**

VIVA-VOCE COMMITTEE

Head Research Department

Members (Thesis Supervisor)

Member (External Expert)

DECLARATION

I hereby declare that the work reported in this thesis entitled “A COMPARATIVE STUDY ON PROFITABILITY ANALYSIS OF NEPAL ARAB BANK LTD. AND NEPAL INVESTMENT BANK LTD.” 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 Master’s Degree in Business Studies (M.B.S.) Under the Supervision of thesis supervisor Lect. Mr. Sushil Dahal of Birendra Multiple Campus.

.....

Saraswati Silwal

Birendra Multiple Campus

Campus Roll No.: 11/2064

T.U. Registration No.: 7-1-240-662-2000

2nd Year Exam symbol No.: 190105

ACKNOWLEDGEMENT

It is my great pleasure and satisfaction to present this research study in prescribed form for partial fulfillment of the requirement for the degree of Master of Business Studies under the Faculty of Management Tribhuvan University Nepal. First of all, I would like to acknowledge Tribhuvan University and its policy making Unit for providing this opportunity.

I wish to express my profound gratitude to my thesis supervisor, Mr. Sushil Dahal Birendra Multiple Campus, Bharatpur Chitwan for his /their valuable guidance for making this research work. His/their continual inspiration and support since beginning has resulted in the completion of this research work. I would like to express my sincere thanks to campus chief Dr. Keshav Bhakta Sapkota, Birendra Multiple Campus. Likewise, I would like to express my sincere gratitude to Baikuntha Prasad Bhusal, Head of Research Department.

I am indebted to the manager, department chief, respected authorities and staff member of NABIL and NIBL, who have helped me by providing all necessary data and information for the study. In this regard, I express sincere thanks to staff member of Birendra Multiple Campus Library, Shanker Dev. Campus Library and Central Library.

I extend my hearty thanks to Bikash Thapa, Pratima Silwal, Raju Paudel for providing suggestions. At last but not least, I would like to thank all my family members who whole-heartedly supported me to complete my thesis work. I heartily thanks to Mr. Shubarna Neupane of Fonet Computer Institute, Bharatput-10, Chitwan for Computer setting and printing of this thesis. I hope that the research work will be useful to all the interested persons and institutions to use as per their facility and necessity.

I am solely responsible for any typing errors or omission in this thesis.

Saraswati Silwal
Birendra Multiple Campus

TABLE OF CONTENTS

Recommendation

Viva-voce sheet

Declaration

Acknowledgement

Table of contents

List of table

List of figures

Abbreviations

	Page No.
CHAPTER –I: INTRODUCTION	
1.1 background of the study	1
1.2 focus of the study	3
1.3 statement of problem	4
1.4 objectives of the study	4
1.5 significance of the study	4
1.6 limitation of the study	5
1.7 Organization of the study	5
CHAPTER –II: REVIEW OF LITERATURE	
2.1 Introduction	7
2.1.1 Concept of profit and profitability	7
2.1.2 Meaning of profit	9
2.1.3 Theories of profit	11
2.1.4 Need of profit	12
2.1.5 Profitability of commercial bank	13
2.2 Review of previous studies	14
2.2.1 Review of journal and article	14
2.2.2 Review of old thesis	17
2.2.3 Research gap	23
CHAPTER III: RESEARCH METHODOLOGY	
3.1 Introduction	25
3.2 Research Design	25

3.3 Population and sample	25
3.4 Source of Data	28
3.5 Method of Data Analysis	28
3.5.1 Financial tools	29
3.5.2 Statistical tools	33
3.6 Limitation of the Methodology	34

CHAPTER IV PRESENTATION AND ANALYSIS OF DATA

4.1 Financial tools	36
4.2 Profitability ratio	36
4.2.1 Net profit ratio	37
4.2.2 Operating ratio	39
4.2.3 Return on total assets ratio	40
4.2.4 Return on common shareholders' equity	42
4.3 Other ratio	44
4.3.1 Earnings per share	44
4.3.2 Dividend per share	45
4.3.3 Dividend payout ratio	46
4.3.4 Dividend Yield ratio	48
4.3.5 Earnings Yield ratio	49
4.3.6 Price earnings ratio	50
4.4 Statistical Analysis	52
4.4.1 Trend analysis of net profit and projection	52
4.5 Major findings of the study	54

CHAPTER V SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Summary	56
5.2 Conclusion	58
5.3 Recommendation	59

BIBLIOGRAPHY

APENDIX

LIST OF TABLE

Table No	Title	Page No
4.1	Net profit ratio	38
4.2	Operating profit ratio	39
4.3	Return on total assets ratio	41
4.4	Return on shareholders' equity	42
4.5	Earnings per share	44
4.6	Dividend per share	45
4.7	Dividend payout ratio	47
4.8	Dividend Yield ratio	48
4.9	Earnings Yield ratio	49
4.10	Price earnings ratio	51
4.11	Trend analysis of net profit and projection	53

LIST OF FIGURE

Fig No	Title	page no.
4.1	Net profit ratio	38
4.2	Operating profit ratio	40
4.3	Return on total assets ratio	41
4.4	Return on shareholders' equity	43
4.5	Earnings per share	44
4.6	Dividend per share	46
4.7	Dividend payout ratio	47
4.8	Dividend Yield ratio	48
4.9	Earnings Yield ratio	50
4.10	Price earnings ratio	51
4.11	Trend analysis of net profit and projection	53

ABBREVIATIONS

AD	:	Anno Domini
ABBS	:	Any Branch Banking System
ADB	:	Agriculture Development Bank
ATM	:	Automated Teller Machine
BFI	:	Bank and financial Institutions
B.S.	:	Bikram Sambat
C.A.	:	Current Assets
C.B.S.	:	Central Bureau of Statistics
CD	:	Credit Deposit
CL	:	Current liabilities
CO	:	Company
CR	:	Current Ratio
CAR	:	Capital Adequacy Ratio
EBL	:	Everest Bank limited
EPS	:	Earning per share
FA	:	Fixed Assets
FAT	:	Fixed Assets Turnover
FSRP	:	Financial Structure Reform Program
FY	:	Fiscal Years
GDP	:	Gross Development Product
HBL	:	Himalayan Bank Limited
i.e.	:	That is.
JVBs	:	Joint Venture Banks
KTM	:	Kathmandu
LA	:	Loan & Advance
LC	:	Letter of credit
LLP	:	Loan Loss Provision
LTD	:	Limited
MBA	:	Master of Business Administration
MBS	:	Master of Business studies
Misc.	:	Miscellaneous
NABIL	:	Nepal Arab Bank Limited

NB	:	Nepal Bangladesh
NBBL	:	Nepal Bangladesh Bank Limited
NBL	:	Nepal Bank Limited
NRB	:	Nepal Rastra Bank
NTC	:	Nepal Telecom
NEPSE	:	Nepal Stock Exchange
NGO'S	:	Non-Government Organization
NI	:	Net Income
NIDC	:	Nepal Industrial Development Corporation
NIBL	:	Nepal Investment Bank Limited
No	:	Numbers
NPAT	:	Net Profit after Tax
NPL	:	Non- performing Loan
PNB	:	Punjab National Bank
RBB	:	Rastriya Banijya Bank
ROTA	:	Return on Total Assets
ROE	:	Return on Equity
SBI	:	State Bank of India
SCBNL	:	Standard Chartered Bank Limited
SD	:	Standard Deviation
SDC	:	Shankar Dev. Campus
SEBON	:	Securities Bond of Nepal
TU	:	Tribhuvan University
T.T	:	Telegraph Transfer

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Maximization of profit is the main objective of each and every business organization. It is very necessary to earn maximum profit for the successful running of a business concern. Profit is the engine that drives the business enterprises. The profit is also important to preserve the existence of business as well as strengthen and expand it. Profitability measures the management of overall effectiveness as shown by the returns generating on sales and investment. It can also measure to what extent the firm spent its non-manufacturing expenses to generated net revenue Profit is essential for the survival of bank so it is regarded as the engine that drives the banking business and indicates economic progress. Profitability ratios are calculating to measure the management ability regarding how well they have utilized their funds.

The profitability ratio, as the name suggests, measures the operating profitability in terms of profit margin return on equity and return on total investment, and reflects the overall efficiency and effectiveness of management. Shareholders, bankers, government, tax collectors, employees are concerned with the profitability of the company; the shareholders and interested persons with their rate of return, employees in the future prospect of the company, government in companies' tax payment capacity and bankers in the perspective of the company. A required level of profit is necessary for survival and growth of a firm in a competitive environment.

In a country like Nepal, banking consciousness is lacking as well as majorities of the people are economically immobile. so, the country is facing great problem to get economic prosperity. Sustainable economic growth requires intermediary channels for efficient allocation of fund through intermediary channels such as financial institutions and financial markets funds should be efficiently channeled from depositors and investors to borrowers in need of funding ,for example ,to expand their business or buy a house . By mobilizing the scattered idle resources from the savers,intermediary channels pools up the

funds in a sizeable volume in order to feed the fund requirement of productive sector of the economy.

The role played by financial institutions and financial markets in this process is referred to as the function of financial intermediation. Financial institutions as important financial intermediary channels need to maintain sound business operation. Financial institutions need to better satisfy various financials demands for customers and enhance profitability by continually improving the ways in which they manage risk and their business operations and to remain as the major contributing factors to the growth of the nation's economy. They themselves have to have sustainable existence and growth of themselves for which profitability is necessary.

Profitability is a deviation of the term profit, which explain the ability to make the profit. Profit is primary a measuring rod of a success of business enterprises. Profit is essential for the survival of the business. It is the difference between revenue generated and expenses occurred over the period of time but the term profit has several different interpretations. It is basic test of the performance of any business concern. Without profit a firm could not attract the outside capital. Moreover the owners and creditors would become concerned about the company's future and attempt to recover their funds. Owner creditors and management pay close attention for boosting profit due to the great importance placed on earning the market place. Profitability is a technical term, used to compare performance analysis of different trading systems or different investments within one system. This is computed for each system or investment being compared over the same period long enough to include significant 'ups' and 'downs'. So analysis of the profitability of the business is very important which can be used to measure the overall efficiency of the business [Ronald: 2005:345]

Profitability of the business can be analyzed through the financial analysis which refers to the assessment of the viability and stability of the business. Profitability of a company is usually based on the income statement. A properly conducted profitability analysis provides invaluable evidence concerning the earning potential of a company and the effectiveness of

management. While analyzing profitability different profitability ratios are calculated. A profitability ratio provides a definitive evaluation of the overall effectiveness of management based on the returns generated on sales and investment. The most widely used profitability measurements are profit margin on sales, return on investment ratios, and earnings per share [Rose 1991:35]

Profitability can be measured in terms of a relationship between net profit and assets. This ratio is also known as profit-to-assets ratio. It measures the profitability of investment. The profitability of banks should be evaluated in terms of its investment in assets and in terms of capital contributed by creditors. A bank should be able to produce adequate profit on each rupee of investment. If investment does not generate sufficient profits, it would be very difficult for the banks to cover operating expenses and interest charges.

1.2 Focus of the Study

The concept of financial institutions in Nepal was introduced when the first commercial bank, the Nepal Bank Limited (NBL) was established on 30th Kartik, 1994 B.S as a semi-government organization. Commercial Banks are the heart for development of rural, industrial and agricultural sector of the country. Bank is a business organization where monetary transaction occurs. It creates fund from its clients saving and lends the same to needy person of business companies in terms of loans, advances and investment. So proper financial decision making is more important in banking transaction for its efficiency and profitability.

Profit plays a vital role in every business organization. It is equally important for commercial banks. Banks are the institutions, which provide many facilities for trade, industry, agriculture, tourism, etc. Without profit it cannot operate its functions and cannot provide banking facilities to the public. The main focus of the study is to analyze the profitability position of NABIL and NIBL.

1.3 Statement of Problems:

Commercial banks play vital role in economic growth of a country. As a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. A commercial bank's major activities include mobilization of resources, which involves cost, and profitable deployment of those resources, which generates incomes. The differential interest income over the interest cost, which is popularly called interest margin, can be considered as the 'contribution margin' in the profit of the bank. The other operational expenses form a burden to contribution margin which, the banks are attempting to compensate by other income generated out of non-fund based business activities of the bank.

This study has tried to analyze and examine the profitability analysis of commercial bank taking a case of NABIL and NIBL. Furthermore the study has tried to answer the following research questions.

1. Does commercial bank have appropriate profitability in the study period?
2. What is the trend of profit of NABIL and NIBL?
3. What are the different profitability ratios of sample bank?

1.4 Objectives of the Study

The prime objective of this study is to comparatively examine and analyze the profitability position of Nabil Bank and Nepal Investment Bank. Besides that the specific objective of the study are as follows:

1. To evaluate profitability of the selected commercial bank in the study period.
2. To analyze the trend of profit from different profitability ratios of Nabil Bank and Nepal Investment Bank.
3. To compare the position of profit of NABIL and NIBL in the study period.
4. To provide different information to different users.

1.5 Significance of the Study

This study has been designed to answer the new research questions. Therefore, the study deserves some significance of its own kind in this field. Moreover, it will help to evaluate the performance of the banks in terms of profit

and growth. At present, commercial banks are growing a wide popularity through the efficient management and professional service and playing eminent role in the economy. The main objectives of commercial banks are to earn more profit by proper mobilization of the funds. And hence, analysis is done to know the situation.

1. Importance to policy formulators and also be useful for teachers, students of the subject, particularly those in commerce stream, chartered accountancy and institutional finance.
2. Importance to stakeholders.
3. Importance to the banks to know the trend, future expectations and acquire expected level of results

1.6 Limitations of the Study

The study has been conducted with certain limitations and constraints. The main limitations are as follows.

1. This study has focused only two banks Nabil Bank and Nepal Investment Bank.
2. The study follows with specific tools such as ratio analysis, mean, correlation, etc.
3. The study has covered only 5 years data from FY 2063/064 to 2067/068

The ratios were analyzed based on previous year's financial statement of the selected banks.

1.7 Organization of the Study:

The whole study is divided into five chapters, which includes:

Chapter I – Introduction

Chapter II – Review of Literature

Chapter III – Research Methodology

Chapter IV – Data Presentation & Analysis

Chapter V – Summary, Conclusion & Recommendation

Chapter I – Introduction:

This chapter includes Background of the study, Statement of Problems, Objectives of the Study, Limitations of the study, Organization of the Study.

Chapter II – Review of Literature:

Second chapter deals with the review of available literature. It includes review of books, reports, journals, previous unpublished thesis related websites etc.

Chapter III – Research Methodology:

Third chapter explains the research methodology used in the study, which includes research design, resource of data, population and samples, methods of data analysis.

Chapter IV – Data Presentation & Analysis:

The fourth chapter, which is the important chapter of the study, will be including presentation and analysis of data.

Chapter V – Summary, Conclusion & Recommendation:

The fifth chapter summarizes the main conclusion that flows from the study and offers suggestions for further improvement and conclusion of the study.

A bibliography and appendices will be attached at the end of the study

CHAPTER II

REVIEW OF LITERATURE

2.1 Introduction

In this chapter, attempts have been made to review some of the basic literatures on budgeting theory including review of empirical evidence of previous studies. The researcher has presented the profitability concepts and its applicability in a commercial banking activities. In this connection, the researcher has reviewed various literatures in the form of books written by various authors, published newspapers, journals, browsing materials from the concerned web sites, NRB regulation, commercial act, NABIL and NIBL old annual reports in the related subject matters.

2.1.1 Concept of Profit and Profitability

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

It is lifeblood of each type of business. Every business organization should earn profits to survive and grow over the long period of time. Obviously, organization will have no future if it is unable to make reasonable profit from its operation. As a matter of fact, the overall efficiency of an organization is reflected in its profit. Profits to the management are the test efficiency of an organization is reflected in its profits. Profits to the management are the test of efficiency and a measurement of control to the owners, to the creditors, the margin of safety to the employees, a sources of fringe benefits to the government, a measure of fixed paying capacity and the basis of legislative action, to customers, hint to demand for better quality and price cuts, to a bank less burdensome sources if finance existence and finally to the country, profits

are index of economic progress. Thus, if an organization fails to make profit, capital invested erodes and if this situation prolongs it ultimately cease to exist. Profit has been universally recognized and accepted as measure of business efficiency. Thus, the larger the profits the more efficiency demand to be. This criterion has the greater advantage that it provides common standard of measuring the efficiency of different bank. Regarding this Laxmi Narayan clearly states, "Profit is the simple convenient and the most popular Yardstick of judging the overall efficiency and is easy to calculate. Even through profit maximization unlike private enterprise, it is not objectives of public enterprises, yet profit services as well accepted criterion for the judging the overall efficiency of public enterprises too." [Narayan 1980:260]

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

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

It may be mentioned that the term profitability is distinguished from the word profit. Profit refers to the absolute measure in itself while the latter is a relative one. According to W M Harper, the profitability is a relative measure it indicates the most profitable alternative. The profit, on the other hand is an absolute measure. It indicates the overall amount of profit earned by transaction. As the profitability is the relative measure it is used to judge the degree of operational efficiency of management.

Furthermore, it is essentially employed to measure the relative efficiency of different trading systems, or different investment within one system. In the profitability analysis, the profit making ability of an organization is measured in terms of size of investment in it on its sales volume. Such as analysis of profitability reveals how particularly interesting to the suppliers of funds who can evaluate their investment and take necessary decision thereon.

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

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

2.1.2 Meaning of profit

Profit, form Latin means ‘to make progress’ it is defined in various ways. In economics, profit is the concept of reward of the entrepreneur for risk taking and management. In business operation, it is the gain from manufacturing, merchandising and selling operations after all expenses are met. Since profit is added to net worth, it maybe measured by the increase in net worth over that of the previous accounting period. The amount of concerns profit thus may be determined not only through the profit and loss statement but also by the comparison of the earned surplus or net worth in the balance sheet which, however, is the residue of profits after dividends and any other appropriations and does not reveal details of sources of income and expenses, which are found

in profit and loss account. In speculative transactions profit is the excess of the net selling price over the costs [including all charges] of the security or commodities traded in. [Woelfel; 1999:540]

Profit is a motivating factor behind many managerial activities. Much has been written about the role [as opposed to the method of calculation] of profit. Profit plays three roles in the capitalistic society. Profit is the financial reward of risk taking; profit is the financial reward for having monopoly power; profit is the financial reward for the efficient management. The promise of profit provides a strong incentive to owners and managers to act efficiently. 'Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy through retained earnings. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sectors' [Robinson; 1951:21-22]

Account and economics are two disciplines in which profit is viewed in different concept. Pure economic profit is the increase in wealth that an investor has from making an investment, taking into consideration all costs associated with that investment including the opportunity cost of capital. Accounting profit is the difference between retail sale price and the costs of manufacture.

A key difficulty in measuring either definition of profit is in defining costs. Accounting profit may be positive even in competitive equilibrium when pure economic profits are zero. In economics, a firm is said to be making an economic profit when its revenue exceeds the total [opportunity] cost of its inputs. According to Adam Smith [the father of economics] 'profit is the sum remaining after the payment of a wages [wage] in economics includes payments to officers of corporations, to proprietors, to partners and to farmers, as well as to what we today term [labor, and rent on the unimproved value of land, as the return to capital]'.
'

Profit in the accounting sense is the net figure of difference between all types of measurable revenues and all measurable costs. In accounting, profit is expressed only on explicit and measurable accounting terms and on the book value basis. However, in economics, profit is measured in the realizable term. 'Profit in the accounting sense is the excess of revenue receipts over the costs

incurred in producing this revenue. This concept of profit is also known as residual concept. But, in economics, both implicit and explicit costs are deducted from total sales revenue in determining profits.’[Cauvery; 1997:122-123]

As a matter of fact over the years there has been quite an evolution as to what particular items should be deducted from gross income to arrive at an ‘accounting’ profit. Thus, ‘accounting’ profit is a concept of man-made legislation, of the courts, of the security of exchange commission, of an accounting organizations; a concept, which has always been in evolution. ‘Economic’ profit on the other hand, is a concept of a natural law of economics, and like the law of gravitation has remained and will remain unchanged over the ages. However, the profit under discussion is concerned with accounting profit, which in a simple language, is the positive and fruitful difference between two revenues and total expenses over a period of time. Multiple meaning of the word ‘profits’ have always been troublesome. Accounting has made energetic efforts in recent years to discard the word for that purpose and to refer of the conventional concept as business income a natural term at avoids any overlap with economic theory, the most important points of difference between the economists and accountants are as follows:

1. The inclusiveness of costs i.e. what should be subtracted from revenue to gross profit.
2. Meaning of depreciation.
3. The treatment of capital gains and losses.
4. The price level basis of valuation of assets and liabilities.

Although there may be arguments in favor and against profit generating almost all firms, require earning it, their rate of earning differs from firm to firm and time to time.

2.1.3 Theories of profit

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

- a) Theory of Risk and Uncertainty Bearing: it was F. B. Hawley who first developed the theory of risk bearing and concluded that profit is a reward

of the entrepreneurs for bearing risk. But, the theory was picked up by Professor F. h. Knight who divided risk into insurable risk and uncertainties. Thus according to Knight, profit is a reward to the entrepreneur for his non –transferable function of bearing non-insurable risk and uncertainties.

- b) Dynamic Theory of profit: this theory was propounded by JB Clark. According to this theory, ‘dynamic changes in the economy’ are the basic caused of emergence of profits. There is no profit in the static economy as no changes take place in a dynamic economy there are constant changes in population, capital, methods of production and industrial set up. These changes multiply wants of consumers. Which earn profits to the entrepreneur.
- c) Innovation theory of profit: Joseph Schumpeter singled out ‘innovation’ from the dynamic theory of profits and developed economy and innovation in the changing word gives rise to profits. In this views, the entrepreneur plays an important role of introducing innovation in an economy and profits are the rewards for his role as an innovator. The innovation could be changes or techniques that reduces cost of production or increases demand for the product.

2.1.4 Need of profit

Profit is necessary for the following reasons:

- I. Measurement of performance: profit is only factor to measure the management efficiency, productivity and performance. Profit is the most widely used yardstick to see what really is to be achieved and where the firm is to go in the future.
- II. Premium to cover costs of staying in business: business environment is full of risks and uncertainties, to grasp the globally changing technologies, to stay in the market uncertainties, to replace and acquire assets and enhancing business scope etc., require a profit margin.

- III. Ensuring supply of future capital: profit is necessary to plough back in the investing like innovation, business expansion and self-financing. It also attracts investors for further investment.
- IV. Return to the investors: shareholders provide equity capital to the business because they expect the entity will provide return to their funds at least equal or above market rate of return. To maintain this shareholders expectation, it is most important that a firm should earn sufficient profit so that it can distribute dividends.

2.1.5 Profitability of commercial Banks

‘banks today are under great pressure to perform to meet the objectives of their stockholders, employees , and borrowing customers, while somehow keeping government regulators satisfied that the banks policies, loans, and investment are sound’(Rose;199:155)

The majority of the needs of the stakeholders are related with the profitability of the banks. For example, in case the bank earns profits, the investors get dividends, employees get bonus, government gets benefits in forms of taxes etc. Thus, and the foremost objective of the banks is the profit maximization. As other types of business entity, commercial banks are also inspired by the profit.

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

Aspiration of profit to commercial banks seem reasonable as the bank has to cover all the expenses as interest to the depositors and other administrative costs, they should make payment in the form of dividend to the shareholders who

contributed to build up the bank's capital and keep aside for the provision and reserves. For this the bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligations, it will go ahead for investment.

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

2.2 Review of Previous Studies

Present section deals about concept or findings of earlier scholars on the concerned field of the study. It helps to develop the study as link in a chain of research that is developing and emerging the knowledge about the related field.

The effort has been made in this present section to examine and review some related articles published in different economic journals, bulletins, magazines and newspapers.

2.2.1 Review of journal and article

Shrestha (2011) "liquidity crunch government banks new lenders" an article published in the Kantipur daily has concluded that the liquidity crisis has the private sector banks especially, and borrower are thronging government owned banks as private banks have failed to provide credit. Rastriya Banijaya bank (RBB) and Nepal bank limited (NBL) are getting a rising number of applications for credit in recent days. The concerned banks officials said they were facing pressure for additional credit from an increasing numbers of borrowers who used to deal either other banks. The liquidity situation of the government banks is relatively better compared to private one although

government banks also are facing pressure with no growth in deposits in recent months. Till mid –March, the liquidity deposit ratio of commercial banks declined to 29.3 percent from 34.2 percent in mid –July 2003, showing the declining liquidity situation of the banks. The rise of credit deposit ratio to 90.2 percent decline the first digit month of the current fiscal from 81.2 percent in mid-July 2010 shows the shrinking situation.

Pradhan (2012), an article published in Aviyān dainik, “crisis impact delayed here IMF – International Monetary Fund” has said Nepal’s economy is experiencing a delayed impact of the global economic crisis. The IMF’s Article IV report prepared by the IMF mission after its visit to Nepal in March, says. After years of macroeconomic stability, Nepal’s economy is experiencing a substantial. Albeit somewhat delayed, impact of the global crisis, which is exposing the country’s structural weakness the IMF said external and financial sector risks have risen in Nepal. “External and Financial sector risks have risen as evidenced by the significant deterioration of the current account the reserve decline, wavering confidence and banking sector liquidity stress “states the IMF report. Liquidity risk and exposure to the real estate sector the IMF suggested not to add more financial insinuations in the country “banks licensing policy needs to be tightened and financial sector consolidation facilitated,” the report added. The central bank has stopped entertaining applicators for commercial bank licenses since the past one year. However, it has been facing mounting pressure to open up the process with the government not able to appoint the chief executive of Nepal Bank Limited (NBL) and Rastriya Banijaya Bank (RBB), the IMF has asked authorities to proceed with the restructuring of the two banks. As of now, the central bank appointee is managing the NBL, while the tenure of the RBB chief executive is ending in mid –July. The IMF has also asked the authorities’ to expand regulatory oversight over saving and credit cooperatives. Around 6500 saving and credit cooperatives in the country are said to be mobilizing Rs .78 billion of deposits. A recent government study on 10 big savings and credit co-operatives revealed that they lacked transparency and were controlled by family members.

Joshi (2012), an article published on Nepal Rastra Bank samachar as “problem is Nepalese financial sector” has said Nepalese BFIs has been grown over the years despite numerous challenges. The same time, it also has various opportunities that can be explored. By becoming a member of the WTO, Nepal has opened its market for foreign banks to set up their branch from the beginning to set up their branch from the beginning 2010 which will help to enter foreign investment and technology in the banking sector.

The banking sector of Nepal is facing liquidity problem, slow moving economic factors. The effect of global financial crisis of 2007-2008 has strike the Nepali banking sector as well the opportunities can be created for the banking sector by strengthening the regulatory system and improving the implementation of new standard of capital ,liquidity and risk management.

Currently the major challenge for the banking sector is to improve the worsening liquidity problem which directly affects the operation of banks the one of the contributing factor of liquidity problems higher loan investment made by banks as compared to the deposits, the liquidity crisis leads to decline in private sector credit, whereas growth in the private sector credit is essential to create economic activities. Recently, there is high competition among the banks to increase deposits out of the same money which is in the system. In this process the banks are creating unfriendly competition and further and further aggravating the problem. Thus, it is required to convey apposite message to; the depositors to win back their trust in the banking sector for all BFIs further, the existing level of Nonperforming asset (NPA) is not a good sign for smooth growth of the Nepalese banking sector . Therefore, it is required to reduce NPAS with proper implementation prudent strategy one of the measure causes of current distress of BFI in Nepal is due to the higher injection of real estate loan. It is essential to reduce the real estate exposure and increase the productive sector credit to create more economic activities.

An article published in new business Age, September 2009 entitled “All Banks in profit”, focused that in general all banks for the fiscal year 2003 -2004 AD are bullish in their performance. During the year all the banks were in profit

but in the previous year two commercial , NBL and RBB were in a loss of 202 million and 3246 million respectively, NBL ,RBB , Siddhartha Banks , Laxmi Banks Kumari Banks and Machapuchhare Bank have increased their operating profit in substantial amount. Also the old banks either huge losses in the previous year's NBLand RBB have succeeded to improve their performance.

2.2.2 Review of Old Thesis

Dhungana (2003) "A study of Joint venture Banks Profitability", this study was conducted with main objectives of assessing the profitability of Joint Venture Bank in Nepal (during the period of five years from 1997/88 to 2001/02). Other objectives of the study were:

- I. To identify whether the profitability of Joint Venture Banks are optimal or not.
- II. To identify the pattern of profitability of Joint venture Banks especially of Nepal Investment Bank Limited.
- III. To suggest on the basis of findings and analysis.

The major findings, he had presented were as follows:

- I. Interest income of NIBL was highest.
- II. SCB's commission and discount earnings and foreign exchange income were higher than both of NIBL and Nabil were,
- III. Nabil's other operating income was appeared higher than other banks.
- IV. NIBL had paid highest tax per share than other banks and SCB paid the same least.
- V. In average, Nabil, NIBL and SCB had highest personnel expenses, interest expenses on deposit and other operating expenses respectively.

Sushank Kharel (2008) has conducted a research on " Profit Planning of Commercial Banks in Nepal : A comparative study of Everest Bank limited, Nabil Bank limited, and Bank of Kathmandu Limited" his objectives and major findings are as follows:

Objectives:

- I. To find out the relationship between total investment, loan and advances, deposit, net profit and outside assets.
- II. To identify the investment priority sectors of Commercial Banks.
- III. To assess the impact of investment on profitability.
- IV. To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks.

Some of major Findings:

- I. The liquidity position of EBL is comparatively better than that of Nabil and BOK. In spite of the current ratio is average among the other two banks EBL has maintained the cash and bank balance to meet the customers demand.
- II. EBL has invested highest sectors like government securities than BOK and lesser portion than that of Nabil.
- III. From the analysis of assets management ratio it can be found that EBL is in better position as compared to that of Nabil and BOK.
- IV. EBL has invested the highest portion of total working fund on government securities as compared to Nabil and BOK.
- V. Due to more efficient loan policy, Nabil suffers less from loan loss provision.
- VI. BOK has higher investment on shares and debentures to total working fund ratio.
- VII. The interest earned to total outside assets and return on total working fund ration of EBL is lowest of all.
- VIII. The return on loan and advances ratio and return on assets of EBL is lowest of all. The ratio suggests that the earning capacity of the banks' loan and advances is satisfactory.
- IX. The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. So it is profitable position as it is getting higher return that is interest cost.

Maharjan, Reena, (2008) has conducted a research on " Credit management of Commercial Banks in Nepal: A comparative study of Himalayan

Bank Limited, and Nepal Arab Bank Limited" her objectives and major findings are as follows:

The specific objectives of the study are as follows:

- I. To analyze the volume of contribution made by sample banks in credit & advances.
- II. To analyze the deposit collection and utilization trend of sample banks.
- III. To study the relationship of deposit, loan & advances and net profit of sample banks. To provide suitable suggestions based on the findings of the study.

Findings

- I. NABIL has more current ratio than that of HBL.
- II. HBL has more cash & bank balance to total deposit ratio as well as cash & bank balance to current deposit ratio and cash & bank balance to saving deposit ratio than of NABIL.
- III. From the analysis of overall liquidity ratios of NABIL and HBL, we can say that HBL has high degree of liquid assets, i.e. high liquidity position than NABIL.
- IV. NABIL is able to mobilize its resources in lending as loan & advances than HBL.
- V. HBL is able to invest its resources more in other companies' shares, debentures, bonds as well as government Treasury bill than NABIL.
- VI. From the analysis of overall efficiency ratio of NABIL and HBL, we can say that NABIL has sound lending policy so that it is able to mobilize its resources more than HBL.
- VII. From the analysis of overall leverage ratio of NABIL and HBL, we can say that HBL is more levered firm than NABIL during the seven years of study period. It means HBL is using outsider's fund more than owner's fund during the formation of capital structure.
- VIII. NABIL is able to earn more interest from total credit granting than that of HBL.
- IX. NABIL has high return on loan & advances ratio as well as return on total assets ratio than that of HBL.

- X. From the analysis of overall profitability ratio of NABIL and HBL, she can say that NABIL can earn more profit from its lending and investment activities than HBL during the seven years period.

Dahal, Kashab (2006) is conducted a research entitled" Planning process and its impact on profitability " A case study of Gorkha Patra Corporation" his objectives and some of major findings are listed below.

Objectives:

- I. To examine the present practice and effectiveness of profit planning in Gorkhapatra corporation.
- II. To evaluate the variance between target and actual performance of this Corporation
- III. To analyze the preparation of various functional budget of Gorkhapatra Corporation.
- IV. To point out the suggestion and recommendation for improving the profit plan.

Major Findings:

- I. GC does not prepare the long term strategic profit plan but it prepares tactical short term profit plan.
- II. GC has not adequately considered controllable and non-controllable variables affecting the corporation. They have no in depth analysis of the corporation's strength and weakness.
- III. The objectives of the corporation are not clear, with regard to profit making and market penetration.
- IV. The plans are prepared from top level only. There is no letter communication between the top level and lower level management regarding the corporation's goals and objectives.
- V. GC has not a system of periodical performance reports. Corporation is not seriously conscious to its poor performance.
- VI. Actual production is made in accordance with the actual sales. Therefore, production activities are not done according to the budgeted production but this is done according to the recent data of actual sales.

Pangeni, Remesh (2013) conducted research on a comparative study on profitability analysis of Rastriya Banijya Bank and Nepal Bank Ltd. His objectives and findings are as follows:

Objectives

- I. To compare and evaluate the profitability and operating financial efficiency of Rastriya Banijya Bank and Nepal Bank Ltd.
- II. To analyze the cost and profit trends of the banks
- III. To analyze the income and expenditure.
- IV. To provide suggestions and recommendations for the improvement of the overall profitability of the banks and provide information to the stakeholders.

Findings:

- I. Net profit margin, return on total assets, net operating margin of RBB is comparatively better than NBL. It also justifies that in an average the profit position of RBB is better than NBL.
- II. The return on equity and return on capital employed is better than NBL. It depicts the NBL is not able to generate profit from operation.
- III. The interest payout ratio of NBL is slightly better than RBB but in an average both banks are able to pay its interest cost.
- IV. The balance sheet of both banks shows the proportion of loan and advance on deposited is very low.
- V. Net operating margin ratio of RBB is better than NBL.
- VI. Interest income to total income of both banks have found well it shows the more contribution of interest in total profit of banks.
- VII. Fee and commission income of both banks are not satisfactory.
- VIII. It shows that RBB pays higher amount of total interest to their depositors than NBL
- IX. The portion of staff expenses of both banks are very high.
- X. Office operating expenses to total expenses ratio of RBB is higher than NBL.
- XI. In the statistical tool, trend analysis of net profit of both bank are found decreasing trend .The past and forecasted profit of RBB is higher than

NBL so the profitability position of RBB seems better than NBL but decreasing trend of RBB is higher than NBL.

Lama (2012), conducted the study on “profitability of NABIL Bank Ltd. Comparison to other JV banks.”

The main objectives of the study are:

- I. To examine the profitability situation of the JV bank industry as a whole and sample banks.
- II. To analyze the profitability trend of NABIL bank and the JV bank industry over the last fiscal years.
- III. To ascertain the comparative position of profitability of NABIL Bank with respect to other JV Banks.

The study concludes that

NABIL had the second highest net profit and EPS followed by HBL, EBL, and NSBI. The profitability ratios of SCBNL were the best among all. NABIL had utilized its assets more efficiently in generating income.

NABIL was found the efficient in mobilizing its total deposit and the quality of extended credit was the moderate for NABIL.

Based on overall performance assets mobilization, profitability ratios quality of the lending and market prices. NABIL occupied the second position and the SCBNL occupied the lending and the highest positive among the other JV Banks.

NABIL bank is performing well above of the industry standard but also has highest performance among all players in the JV Banking industry in Nepal. In conclusion NABIL banks past and present earning generating potential is assessed as high in every parameters of profitability in comparison to the industry as well as other JV banks in the country.

Pandey (2010), has conducted a study on “An analysis of key financial ratio of commercial banks in Nepal: A special Reference with HBL and EBL.

The main objectives of the study are:

- To examine the overall financial ratio of the selected commercial bank.

- To examine the financial performance.
- To recommend the appropriate suggestion to concerned authorities

Major findings are as follows:

Current ratio of both of the banks showed consistent trend. Both the banks could not maintain the conventional standard 2:1

EBL has higher average ratio which implies that EBL is more capable to meet short term obligation in comparison to HBL.

Normally, the ratio remained consistent in HBL but the ratio of EBL is fluctuated more which is reflected by higher standard deviation.

Both of the selected banks were successful to mobilize their fund as loan and advance with respect to total assets. However , EBL has higher mean ratio than HBL over the study period which implies that EBL can be taken as better investor than EBL as concerned to consistency both the sample banks able to maintain consistency.

The trend analysis of EBL was better than that of HBL in all the cases. The growth rate of total deposit total loan and advance, total investment and total net profit of EBL is higher than that of HBL.

2.2.3 Research gap:

Today’s world is marketed by rapid changes and new developments, as such researchers conducted a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be taken and new researcher and conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism.

Most of the past research studies about profitability basically related to the commercial banks or service oriented activities. The researcher could find some study so far that has been related to profitability of commercial bank in Rastra Banijya Bank, Himalayan Bank, Standard Chartered Bank, Nepal Bangladesh Bank. All the dissertations have pointed out that there is no proper result and recommend for the effective implementation of in the concerned institution. Through many affiliated researchers have been done in this area but these have been very few exclusive researchers on this subject. This study may be a new study in this field as no study has been made profitability analysis of

commercial bank. In the past financial institutions were dependent only the interest margin in present economic dynamism only the interest margin is not sufficient to improve profitability so this researcher has tried to analyze the extraordinary items of income generation in financial institution. To bring the new developments and to bridge the gap between the past research and the present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and given my best to fulfill this work. In my research effort had been made to understand the Profitability analysis in commercial bank and I hope this research will be fruitful for future researchers as reference.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is the way to solve problems systematically. Research methodology refers to the various sequential steps to be adopted by a researcher. It describes the methods and process applied in the entire aspect of the study. It is a way to systematically solve the research problem. It may study the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them. This chapter deals with the research design, nature of data, data gathering procedure, population and samples and data processing procedures.

3.2 Research Design

Research design refers to the conceptual structure within which the research is conducted. A well-set research design is necessary in order to make any types of research, which fulfills the objectives of the study. This research design is basically the profitability analysis of NABIL and NIBL. Analytical and descriptive approaches were used to evaluate the profitability position of these banks. The points were discussed basically on the basis of secondary data and financial statement of past five years taken from the banks.

3.3 Population and Sample

The population for this study comprises all the license commercial banks of the country. A list of licensed commercial bank was obtained from NRB .There are altogether 32 commercial banks in Nepal. Out of them, 18 banks have crossed five year annual general meeting. Out of these 18 banks, 2 banks were selected as sample for the study by using judgmental sampling method.

Nabil Bank Limited (NABIL)

Nepal Arab Bank Limited Nabil Bank, the 1st foreign joint venture Bank set up in the nation with an objective to introduce modern banking services, commenced its operations on 12th of July 1984 or 2041 Ashad 29 B.S. with Rs.

28 million capital. Dubai Bank Limited, Dubai was the foreign joint venture partner who extended Nabil a technical service agreement in the initial period. The Bank, through its quality customer service and innovative products, has today attained a distinguished recognition in the banking industry of Nepal. Similarly, first Joint Venture Bank in Nepal with 32 Year old journey of History.

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

Highly qualified and experienced team of NABIL bank manages day-to-day operations and risk management. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele-banking system. Nepal Arab Bank Limited is providing full-fledged commercial banking services to its clients.

NABIL Bank Limited was the first joint venture bank established in 1984 with 50% invest by Dubai Bank Limited of UAE and of remaining 50% by Nepalese financial institutions comprise 30% and 20% by general public. The shares owned by DBL were transferred to Emirates Bank International Ltd (EBIL), Dubai. Later EBIL sold its entire holding to National Bank Ltd, Bangladesh (NBLB). Hence 50% of equity shares of Nabil Bank Ltd are held by NBLB and out of remaining, financial institutions have taken 20% and 30% were issued to general public of Nepal. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services through its 28 points of representation across the nation and over 170 reputed correspondent banks across the globe.

Nepal Investment Bank Ltd.

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one of the largest banking groups in the world. With the decision of Credit Agricole Indosuez to divert, a group of Nepalese companies comprising of bankers, professionals, industrialists and businessmen, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. Upon approval of bank's Annual General Meeting (AGM). The shareholding pattern of NIBL is a group of Nepalese companies holding 50% of the capital. Rashtriya Banijya Bank holding 15% of the Capital. Rashtriya Beema Sansthan holding 15% percentage. The remaining 20% being held by the General Public. "The NIBL's vision is to be the most preferred provider of Financial Services in Nepal". The bank has 2000 Million of authorized capital and the proposed amendment of authorized capital of bank is NRs 4000 million for the purpose of bonus share and issue of right share. Issued capital of the bank is NRs 1203.9154 Million and fully paid up. (Source Annual report of NIBL 2064/65) NIBL has a history of providing high quality services to valued customers and sound return to stakeholders over two decades. It is the mission to continue this legacy and sustain growth path. The Bank has been awarded the prestigious award "Bank of the Year 2008" by the London-based Financial Times Group's The Banker - making it the first Nepali Bank to win the award three times. (Sources Kantipur daily 12th Mangsir 2065) NIBL had also won the "Bank of the Year 2003" award, "Bank of the year 2005", Bank of the year 2008 and Bank of the year 2010.

The Bank was selected for this honor amongst the Nepali banks by meeting the stringent benchmark criteria set by the Banker. The award is based on the growth and performance in terms of capital, assets, and return on equity and management quality. Winning this award for the third time has not only recognized the overall banking value it has created for the market but has testified endeavors to live up to the expectations of ever growing loyal customer base. Likewise the bank has awarded by "Best Presented Accounts Award -2006"

by the institute of Chartered Accountants of Nepal (ICAN). NIBL has 41 branches and 67 ATM counters. The bank is higher ATM counter in Nepal. (Source: www.nibl.com.np)

3.4 Sources of data

The researcher can use two methods of data collection i.e. primary and secondary data .Primary data are the data collected directly from the site .It can be called as first hand data. These data are very reliable if researcher can reach the correct destination with required tools .Secondary data are second hand data called from different other sources such as magazines newspapers journals, second persons ,etc. Here only the secondary data is used for the study .The study is based on secondary data all the data are collected from the respective commercial banks annual reports especially from profit and loss accounts, balance sheet and other publications made by the banks , which are the secondary data.Further, secondary sources of data are presented as under:

- I. Annual report of NABIL and NIBL
- II. Financial, statistics of Nepal Rastra Bank
- III. Unpublished official records.
- IV. Other published journals of NABIL and NIBL.
- V. Various published and unpublished Nepalese thesis
- VI. Text books of different websites.
- VII. Laws, guide lines and directives regarding the subject matters etc.

3.5 Method of Data Analysis

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. For data analysis, different items from the balance sheet and other statements are tabulated. Their ratios, percentages, mean, standard deviations and coefficient of variations are then calculated and presented in the tables. In order to ascertain financial position of a firm, various tools could be used. It is true that suitable of appropriate tools, according to the nature of statement and data make the analysis more effective and significant. Collected data were managed, analyzed and presented in proper table and formats. These data were interpreted and explained whatever they are necessary. The following tools are used in this study:

3.5.1 Financial tools

Ratio Analysis

Ratio analysis is the most important financial tools analyzed the liquidity position of banks. The ratios used in this study are as follows:

Profitability Ratio

The profitability ratio is related to profit. It shows the overall efficiency of the business concern. The earning capacity of a business is measured by Profitability ratio .Profitability of a business concern may be measured in two ways.

1. Profitability in relation to revenue.
2. Profitability in relation to investment

1 Profitability in relation to revenue

A firm should be able to earn the profit sufficiently from each unit sold .If revenue does not generate sufficient profit ,it would be very difficult for the firm to cover operating expenses and interest charges and as a result will fail to earn any profit for owners . Therefore the following ratio can be measured considering the revenue as basis.

- a. Net profit ratio
- b. Operating ratio

a. Net profit ratio or net profit margin

From this ratio, the relation between revenue and net profit becomes clear. The amount after subtracting the whole operating expenses, income tax, interest etc. From the gross profit is known as net profit. Ascertain this ratio, the net profit is divided by revenue. The formula for ascertainment of this ratio is as follows.

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Revenue}}$$

(The figure of net profit may be taken either before tax or after tax)

Interpretation –a higher ratio is an indication of the higher overall efficiency of the business and better utilization of total resources. Poor financial planning and low efficiency is the indication of lower ratio.

b. Operating ratio

This ratio shows the relation between operating expenses and revenue. The information about the cost structure can be obtained from this ratio. This ratio is computed by dividing operating expenses by revenue .Operating expenses include cost of goods sold, administrative expenses and selling and distributing expenses .The ratio is calculated

$$\text{Operating ratio} = \frac{\text{Operating Expenses}}{\text{Revenue}}$$

Interpretation-the lower operating ratio includes the higher operating profit .Hence, lower percentage is preferable for the company .The higher ratio shows the increase in operating expenses and decreases in business capacity.

2. Profitability in relation to investment

The profitability of firm can also be measured with investment respectively .The term investment refers to total assets, capital employed of shareholder fund. It is also known as the return on investment on the basis of investment ,the different types of ratios are ascertained .They are as follows:

- a) Return on assets
- b) Return on shareholder equity

a. Return on assets

The ratio establish the relationship between net profit and total assets .This ratio is also called profit to assets ratio .It is shown in percentages .To ascertain it, different formulae can be used which are as follows.

$$\text{Return on assets} = \frac{\text{net profit after tax}}{\text{Total Assets}}$$

Or= $\frac{\text{net profit tax-preference dividend}}{\text{total assets}}$

Or= $\frac{\text{net profit after tax} + \text{interest}}{\text{total assets}}$

Or= $\frac{\text{net profit after tax} - \text{preference dividend}}{\text{total tangible assets}}$

Total assets = current assets + fixed assets + intangible assets

Interpretation-this ratio measures the profitability of all financial resources invested in the firm's assets. Hence, the higher ratio implies that the available sources and tools are employed efficiently.

b. Return on shareholder equity

This ratio shows the relation between the net profit after tax and shareholders' fund. Shareholders' fund includes equity share capital, preference share capital, reserve and surplus, reserve fund, general reserve, capital reserve and share premium. The fictitious assets should be deducted from total shareholders' equity for finding out the ratio.

The formula for finding out this ratio is as under

$$\text{Return on shareholder equity} = \frac{\text{Net Profit after tax}}{\text{Share holder equity}}$$

Interpretation-this ratio indicates how well the firm has used the resources contributed by the owners, it is good for the firm to be the return of investment high. Higher the ratio the more efficient the management and utilization of shareholders' fund.

3 Other ratio

The other ratios related to profitability are as follows

- a. Earnings per share
- b. Dividend per share
- c. Dividend payout ratio
- d. Dividend yield ratio
- e. Earning yield ratio
- f. Price-earnings ratio

a. Earnings per share

The profitability of common shareholders' investment can be measured in many other ways. The income of per common share can be known from the earning per share is calculated by dividing the net profit after tax as less preference dividend by the total number of common share. The formula for calculating this ratio is-

$$\text{Earning per share} = \frac{\text{net profit after tax} - \text{preference dividend}}{\text{No of common Share}}$$

Interpretation-the more per share return the more excellent it is and the less per share return, the worse it is.

b. Dividend per share

The whole amount of earning may or may not be distributed to shareholders by a company. How much per share the dividend is distributed to common shareholders can be known from this ratio. The dividend distributed among the common shareholders on a per share basis can be determined by this ratio.

Formula for calculating this ratio is as under :

$$\text{Dividend per share} = \frac{\text{Earning paid to equity Sharholder}}{\text{No of Equity Share}}$$

Interpretation-the dividend per share considered excellent when it is higher

c. Dividend payout ratio

The purpose of calculating this ratio is to know the portion of dividend distributed out of total earning. This ratio shows the relation between the returns belonging to equity shareholders and the dividend paid to them. it can be calculated as under

$$\text{Dividend Payout ratio} = \frac{\text{Divident per share}}{\text{Earning Per share}}$$

d. Dividend yield ratio

It defines the relationship between dividend per share and market value per share .It is very useful for the investor.

$$\text{Dividend yield ratio} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

e. Earning yield ratio

It shows the relationship between the market value per share and earnings per share. It is closely related to earning per share. Earnings per share expressed in term of market value per share is known as earning yield ratio

$$\text{Earning yield ratio} = \frac{\text{Earning per share}}{\text{Market value per share}}$$

f. Price- Earnings ratio

This ratio is closely related to the earning yield .the reciprocal of the earning yield is called the price earnings ratio. This ratio is drawn out by dividing the market value per share by earning per share.it is also very useful for prospective investor.

$$\text{Price-earnings ratio} = \frac{\text{Market value per share}}{\text{earning per share}}$$

3.5.2 Statistical Tools

For supporting the study, statistical tool such as mean, standard deviation, coefficient of variation, correlation, trend analysis etc. have been used under it.

I. Arithmetic Mean (\bar{X}):

Averages are statistical constants, which enable us to comprehend in a single effort of the whole (Gupta, 2000: 357). It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\bar{X} = \frac{x_1 + x_2 + x_3 + \dots + x_N}{N}$$

$$\bar{X} = \frac{\sum x}{N}$$

Where

- \bar{X} = Arithmetic mean
- N = Number of observations
- $\sum x$ = Sum of observations

Trend Analysis

The arrangement of statistical data chronologically is known as time series and the statistical analysis of this chronological variation is termed as trend analysis. It helps to know the past behavior of data in certain span of days. This least square method is the most popular and widely used mathematical method of measuring trend. This is frequently used for future prediction. There are various types of curves that may be used to describe the given data but in this text, an attempt has been made to discuss only the fitting of linear trend by the least square method.

Let the equation of trend analysis be $Y=a+bx$

Where Y=the given value of the variable in time series. It is a dependent variable

a= intercept of trend line or, Y-intercept.

b= slope of trend line

x=time variable

3.6 Limitation of the Methodology

To carry out the research work, various financial and statistical tools are used. Similarly, descriptive as well as analytical analysis of credit management has been carried out however these tools and techniques have some limitations.

For research purpose, the five data are used in analyzing the financial and statistical tools, which may mislead the research work, as it is not sufficient to make projections for future regarding the performance of the bank. As far as the financial tools concerned, only ratio and trend analysis have been carried out to know the performance of the bank however there are various financial tools to

measure the financial performance of the bank. With regard to statistical tools, the researcher carried out different statistical tools to make the result more concise but it may not be the valid measurement. Similarly, the instrument used for primary data analysis is not a valid measurement. Although, there were certain limitations during the research work, it is not so crucial that it can weaken the basic findings of the study.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation and analysis of data in readable manner. The collection of data and its analysis tools are used as specified in chapter three. In this study, financial as well as statistical tools are used to achieve the pre-determined objectives.

4.1 Financial Tools

Financial ratios are calculated to ascertain the liquidity position of the firm. It is the relationship between financial variables contained in the financial statement (i.e., balance sheet, profit and loss account and income statements). It helps the related parties to spot out the financial strength and weakness of the firm. There are several financial tools, which can be applied in order to analyze the liquidity position of commercial banks. The financial tool used in this study is as follows:

Profitability Ratio Following are the major financial tools used for the calculation of various statuses of the Nepalese Commercial banks.

4.2 Profitability Ratio

The profitability ratio, as the name suggests, measures the operating profitability in terms of profit margin return on equity and return on total investment, and reflects the overall efficiency and effectiveness of management. Shareholders, bankers, government, tax collectors, employees are concerned with the profitability of the company; the shareholders and interested with their rate of return, employees in the future prospect of the company, government in companies, tax payment capacity and bankers in the perspective of the company. A required level of profit is necessary for survival and growth of a firm in a competitive environment.

Profitability can be measured in terms of a relationship between net profit and assets. This ratio is also known as profit-to-assets ratio. It measures the profitability of

investment. The profitability of banks should be evaluated in terms of its investment in assets and in term of capital contributed by creditors. A bank should be able to produce adequate profit on each rupee of investment. If investment does not generate sufficient profits, it would be very difficult for the banks to cover operating expenses and interest charges.

Various ratios can be developed based upon the profit under different circumstances. These different ratios are called profitability ratios, which are required to support the purpose of study. The profitability ratios calculated in this study are:

4.2.1 Net profit ratio:

The ratio measures the position of profitability of the company to total income. This shows the sound and weakness of the company to utilize its resources. Higher ratio shows the higher efficiency of management and lower ratio shows the lower efficiency of the management. The formula of net Profit to Total income ratio is- The ratio measures the position of profitability of the company to total income. This shows the sound and weakness of the company to utilize its resources.

The formula of net Profit to Gross income ratio is

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

Interpretation –a higher ratio is a sign of efficient management, which reflects lower cost of goods sold and maximizing profit, on the other a low ratio may reflect higher cost of goods sold due to the firm's inability to purchase at favorable terms

Table 4.1

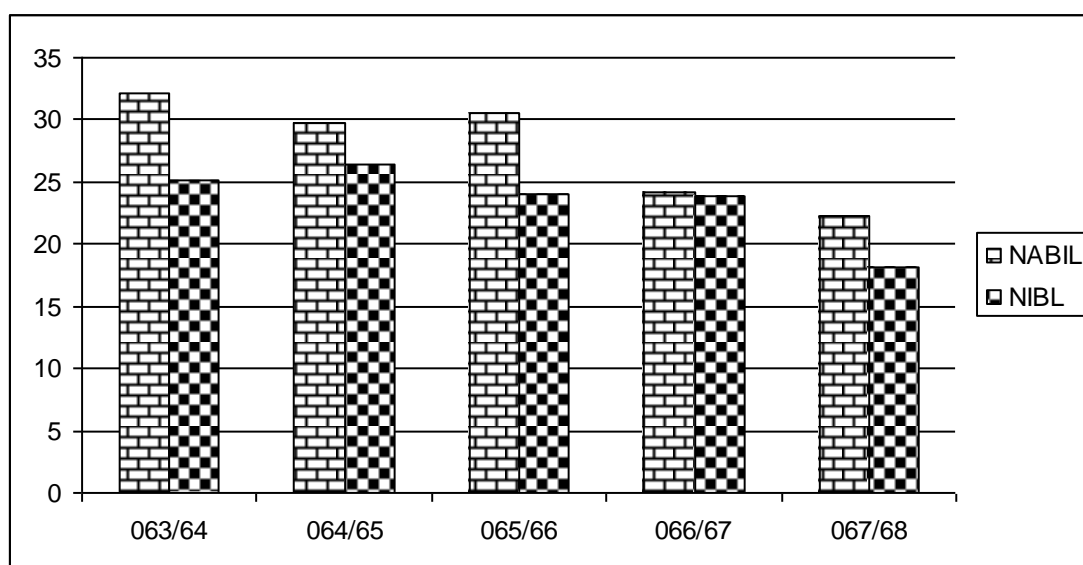
Net profit Ratio

Fiscal Years	Name of the bank	
	NABIL(%)	NIBL (%)
063/64	32.16	25.07
064/65	29.68	26.4
065/66	30.56	24.0
066/67	24.11	23.9
067/68	22.29	18.2
Average	27.76	23.51

Sources: Appendix IV and IX

Fig 4.1

Net profit Ratio



Source: Table 4.1

Above table and figure shows the Net profit ratio, i.e. Net profit ratio of NABIL and NIBL from the fiscal year 2063/064 to 2067/068 of five years study period. Ratios of NABIL are in decreasing trend except FY 2065/066 and where ratios of NIBL are in fluctuating trend. During the study period, NABIL kept a higher mean ratio than NIBL. Five years study periods, in FY 2063/64 NABIL earn maximum profit. I. e. net

profit ratio is 32.16%. Likewise, in FY 2067/68 NABIL kept minimum level of net profit ratio i.e 22.29%. In the study period, net profit ratio of NIBL is fluctuating trend i.e. 25.07%, 26.45%, 24%, 23.9%, 18.2% 23.51% and, 18.2% from the FY 2063/064 to 2067/068.

4.2.2 Operating Ratio:

This ratio shows the relation between operating expenses and revenue. The information about the cost structure can be obtained from this ratio. This ratio is computed by dividing operating expenses by revenue. Operating expenses include cost of goods sold, administrative expenses and selling and distributing expenses. The ratio is calculated

$$\text{Operating Profit ratio} = \frac{\text{operating expenses}}{\text{Total Income}}$$

Interpretation-the lower operating ratio includes the higher operating profit. Hence, lower percentage is preferable for the company

Table 4.2

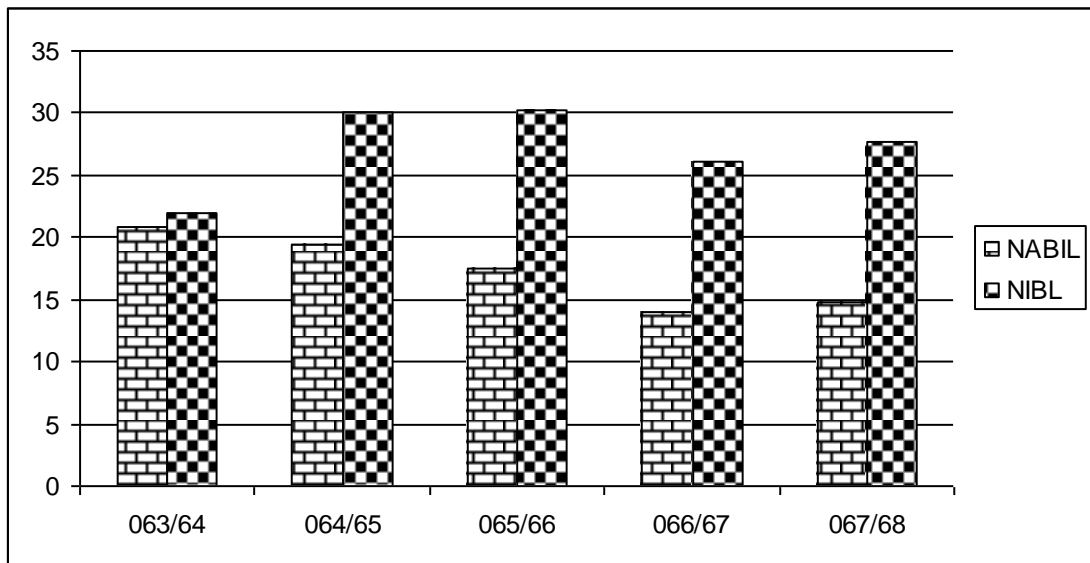
Operating profit ratio

Fiscal Years	Name of the bank	
	NABIL (%)	NIBL (%)
063/64	20.88	21.97
064/65	19.35	29.99
065/66	17.54	30.22
066/67	13.99	26.09
067/68	14.83	27.62
Average	17.31	27.17

Sources: Appendix IV and IX

Above tables shows the operating ratios of NABIL as 20.88%, 19.35%, 17.54%, 13.99% and 14.83% in the respective years of study period. Similarly the ratios of NIBL came to be 21.97%, 29.99%, 30.22%, 26.09% and 27.62% in respective years of study period. It shows NABIL have decreasing trend in this ratio and NIBL have increasing trend. The mean ratio of NIBL is higher than NABIL.

Fig No: 4.2
Operating profit ratio



Source: Table 4.2

Figure 4.2 shows Operating profit Ratio of NIBL and NIBL can also be presented by bar diagram as follows the five fiscal years, are shown x-axis represent fiscal years and y –axis represents percentage of Operating profit Ratio of the two banks. The figure shows that the ratio of NABIL is comparative higher than NABIL which indicates that the portion of Operating profit Ratio of NIBL is high. The higher ratio shows the increase in operating expenses and decreases in business capacity

4.2.3 Return on Total Assets Ratio (ROA)

This ratio is calculated, dividing net profit by total assets. This ratio represents the relationship between net profit and assets. Net profit indicates the profit after deduction on interest and tax. Total asset means the assets that appear in assets side of balance sheet. The increasing ratio shows favorable situation for the banks. The higher ratio also shows that the bank could well manage their overall operations. But the lower ratio shows vice-versa.

$$\text{Return on Assets} = \frac{\text{Net profit after tax}}{\text{Total assets}}$$

Interpretation-this ratio measures the profitability of all financial resources in invested in the farm's assets .Hence, the higher ratio implies that the available sources and tools are employed efficiently

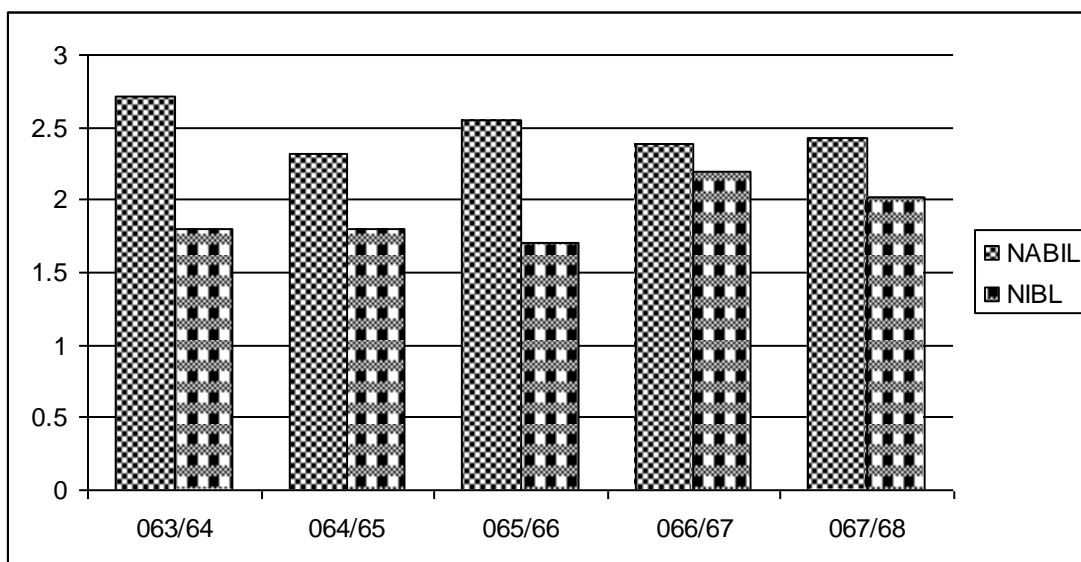
Table 4.3
Return on Total Assets Ratio (ROA)

Fiscal Years	Name of the bank	
	NABIL	NIBL
063/64	2.72%	1.8%
064/65	2.32%	1.8 %
065/66	2.55%	1.7%
066/67	2.38%	2.2%
067/68	2.43%	2.02%
Average	2.48%	1.9%

Sources: Appendix IV and IX

Fig 4.3

Return on Total Assets Ratio (ROA)



Source: Table 4.3

Above table and figure shows the return on assets ratio, i.e. return on assets ratio of NABIL and NIBL from the fiscal year 2063/064 to 2067/068 of five years study period. The ratios are 2.72%, 2.32%, 2.55%, 2.38% and 2.43%, of NABIL and 1.8%,

1.8%, 1.7%, 2.2% and 2.02% in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067, and 2067/068, respectively. Likewise, average ratio of five years study period is 2.48, of NABIL and 1.9 of NIBL.

The average ratio of NABIL was higher than that of NIBL, which implies that NABIL had more efficient operation of optimal utilization of the resources in comparison with same period of NABIL. The net profit and total assets ratio of NABIL is in fluctuating trend till to the fiscal year 2063/064 to2064/065 and then it started to increase up-to the last fiscal year of the study period. But the net profit to total assets ratio of NIBL is in increasing trend except in the fiscal year 2065/066.

4.2.4 Return on shareholders' equity

This ratio is calculated by dividing net profit by common shareholders' equity. This ratio measures the return on shareholders' investment in the bank. The higher ratio of return on equity is better for shareholders. It builds trustworthiness to the customers as well as reputation of the bank.

$$\text{Return on common shareholders' equity} = \frac{\text{Net profit}}{\text{shareholder Equity}}$$

4.4 Return on Shareholder's Equity

Table: 4.4

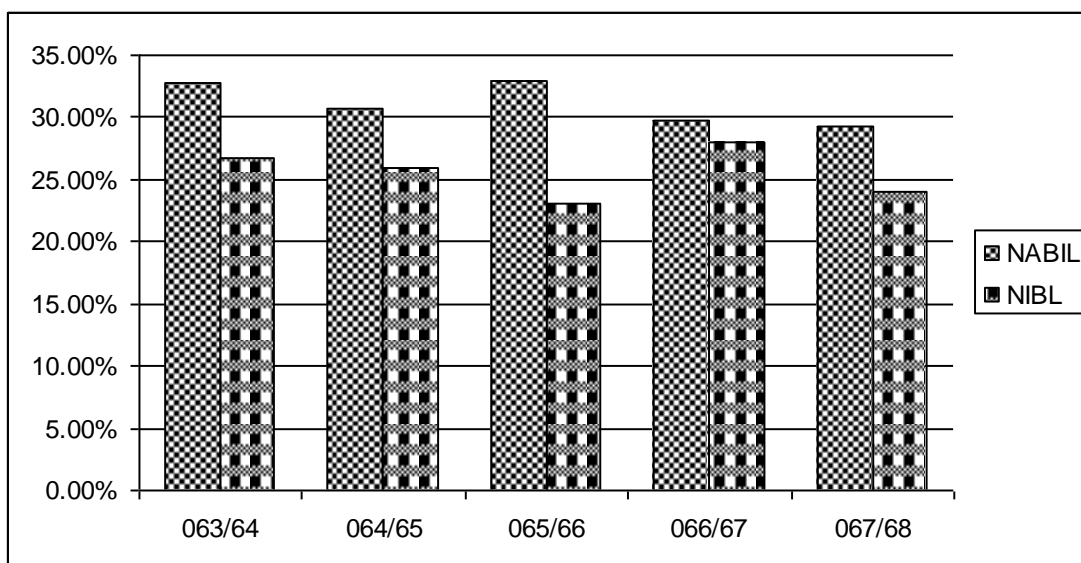
Return on Shareholder's Equity

Fiscal Years	Name of the bank	
	NABIL (%)	NIBL (%)
063/64	32.76%	26.68%
064/65	30.63%	25.93%
065/66	32.94%	23.05%
066/67	29.74%	28%
067/67	29.29%	24.10%
Average	31.07%	25.55%

Sources: Appendix IV and IX

Fig 4.4

Return on Shareholder's Equity



Source: Table 4.4

Above table and figure shows the return on equity ratio, i.e. return on equity ratio of NABIL and NIBL from the fiscal year 2063/064 to 2067/068 of five years study period. The ratios are 32.76%, 30.63%, 32.94%, 29.74%, and 29.29% of NABIL and, 26.68%, 25.93%, 23.05%, 28% and 24.10 %,of NIBL in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067, and 2067/068, respectively. Likewise, average ratio of five years study period is 31.07% of NABIL and 25.55% of NIBL

The net profit and total equity ratio of NABIL and NIBL is in fluctuating trend in the whole study period. There is highest mean ratio of net profit to total equity ratio with NABIL than NIBL.

Though the ratios are not consistent, this ratio indicates the farms has used the resources contributed by the owners, it is good for the firm to be the return of investment high .Higher the ratio, the more efficient the management.

4.3 Other Ratio

4.3.1 Earnings per Share (EPS)

The profitability of common shareholders' investment can be measured in many other ways .the income of per common share can be known from the earning per share is calculated by dividing the net profit after tax as less preference dividend by the total number of common share .

$$\text{Earning per share} = \frac{\text{Net profit}}{\text{Total no of common share}}$$

Table 4.5

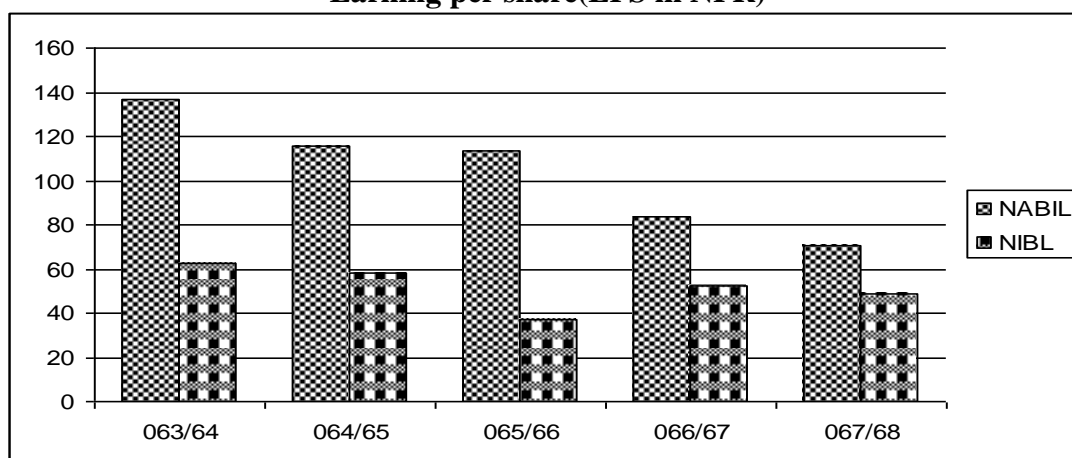
Earning per Share (EPS in Rs)

Fiscal Years	Name of the bank	
	NABIL	NIBL
063/64	137.08	62.57
064/65	115.86	57.87
065/66	113.44	37.42
066/67	83.81	52.55
067/68	70.67	48.84
Average	104.17	51.85

Sources: Appendix IV and IX

Fig 4.5

Earning per share(EPS in NPR)



Source: Table 4.5

Above table shows the earning per share of NABIL and NIBL, i.e. earnings per share of NABIL and NIBL from the fiscal year 2063/064 to 2067/068 of five years study period. Earnings per share is rupees 137, 115, 113, 83, and 70, of NABIL and rupees 62, 57, 37, 52, and 48, of NIBL in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067, and 2067/068, respectively. Likewise, average ratio of five years study period is 104.172 and 51.85 of NABIL and NIBL respectively.

Figure 4.5 shows Earnings per share of NABIL and NIBL the five fiscal years, are shown x-axis represent fiscal years and y-axis represents of Earnings per share of the two banks. The figure shows that the EPS of NABIL is comparative higher than NIBL in the study period, trend of NABIL is decreasing and NIBL is fluctuating trend.

4.3.2 Dividend per Share

The whole amount of earning may or may not be distributed to shareholders by a company. How much per share the dividend is distributed to common shareholders can be known from this ratio. The dividend distributed among the common shareholders on a per share basis can be determined by this ratio.

Formula for calculating this ratio is as under

$$\text{Dividend per share:- } \frac{\text{cash paid to shareholder}}{\text{No of Equity}}$$

(Interpretation-the dividend per share considered excellent when it is higher 4.6 dividend per share

Table 4.6

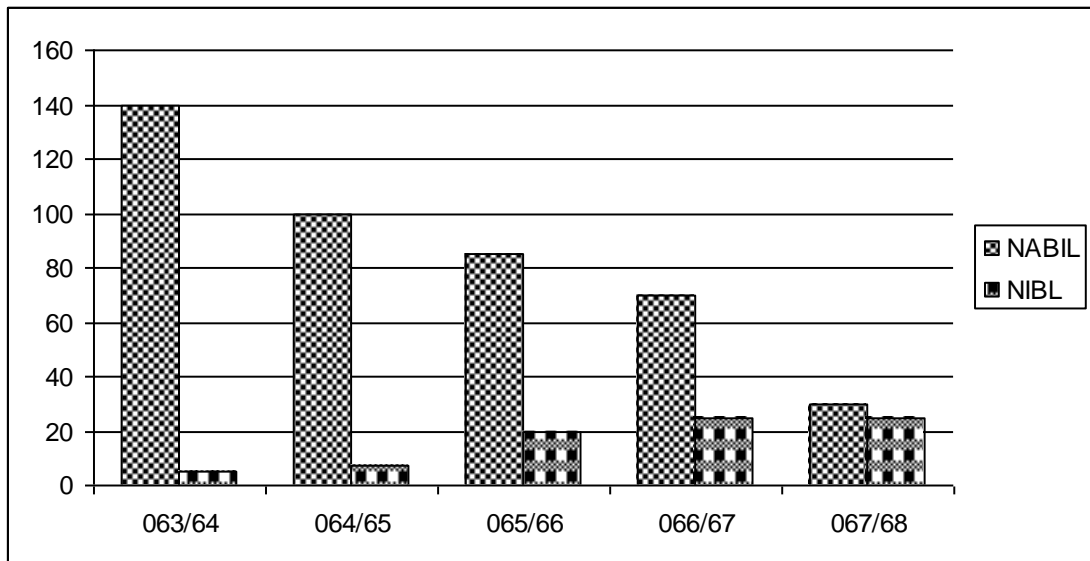
Dividend (including bonus) on share Capita

Fiscal Years	Name of the bank	
	NABIL (Rs)	NIBL (Rs)
063/64	140.00	5
064/65	100.00	7.5
065/66	85.00	20
066/67	70.00	25
067/68	30.00	25
Average	85	16.5

Sources: Appendix IV and IX

Fig 4.6

Dividend (including bonus) on share Capita



Source: Table 4.6

The table 4.6 and fig 4.6 shows the dividend per share of NABIL and NIBL. The dividend per share of NABIL ranged between in FY 2063/64 Rs.140 to in the FY2067/68 Rs. 30. Whereas the dividend per share of NIBL ranged between Rs.5 in FY 063/064 to 25 in the FY 067/068. It shows that both bank have fluctuating trend but in an average NABIL has higher ratio than NIBL (i. e. 85% >16.50).

Figure 4.6 shows Dividend (including bonus) on share Capita of NABIL and NIBL the five fiscal years, are shown x-axis represent fiscal years and y –axis represents of percentage of dividend per share of the two banks. The figure shows that the DPS of NABIL is comparative higher than NIBL.in the study period, trend of NABIL is decreasing and NIBL is fluctuating trend.

4.3.3 Dividend Payout Ratio

The purpose of calculating this ratio is to know the portion of dividend distributed out of total earning .This ratio shows the relation between the returns belonging to equity shareholders and the dividend paid to them. It can be calculated as under:

$$\text{Dividend Payout Ratio} = \frac{DPS}{EPS}$$

Table 4.7

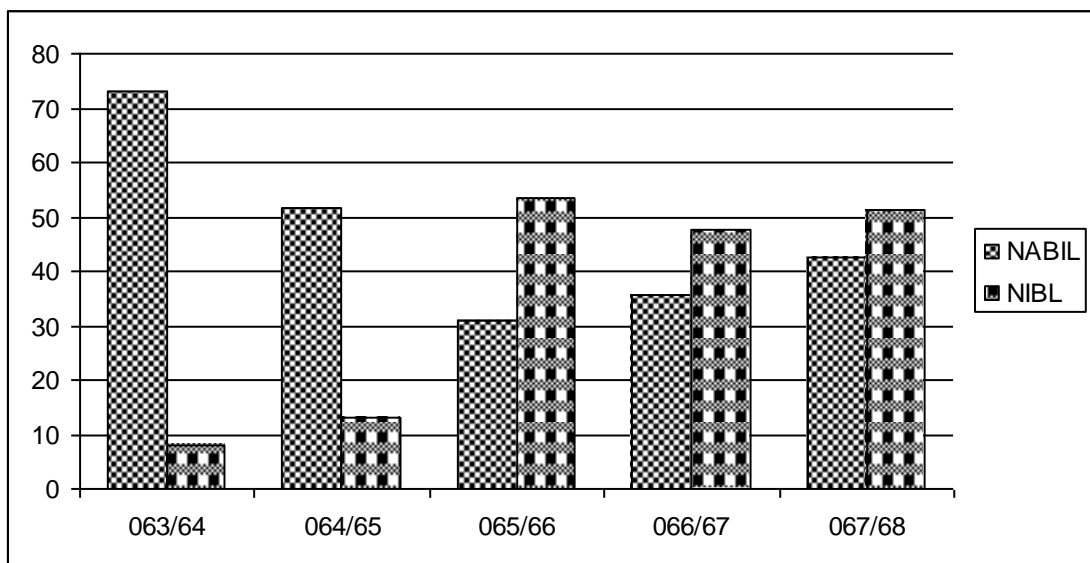
Dividend payout ratio

Fiscal Years	Name of the bank	
	NABIL (%)	NIBL (%)
2063/64	72.95	7.9
064/65	51.79	12.96
065/66	30.85	53.44
066/67	35.79	47.57
067/68	42.45	51.19
Average	46.76	34.61

Sources: Appendix IV and IX

Fig 4.7

Dividend payout ratio



Source: Table 4.7

The table and figure exhibits the Dividend Payout Ratio of both NABIL and NIBL. Whereas the ratio of NABIL ranged between 72.95% in fiscal year 2063/64 to 42.45% in the FY 2067/68. whereas, the ratio of NIBL ranged 7.9% in fiscal year 2063/64 to 51.19% in the FY 2067/68. it shows that both bank have fluctuating trend

but in an average NABIL 34.61% and NIBL have 34.61%.the trend of NABIL and NIBL both are decreasing.

4.3.4 Dividend yield Ratio

It defines the relationship between dividend per share and market value per share .I is very useful for the investors.

$$\text{Dividend yield Ratio} = \frac{DPS}{MVS}$$

Table 4.8

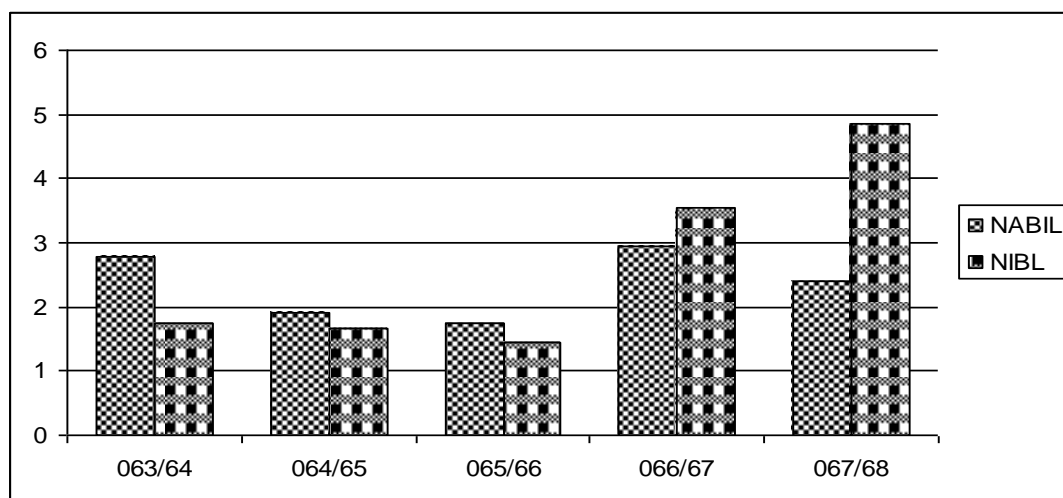
Dividend yield Ratio

Fiscal Years	Name of the bank	
	NABIL (%)	NIBL (%)
2063/64	2.77	1.74
064/65	1.90	1.67
065/66	1.74	1.44
066/67	2.94	3.55
067/68	2.40	4.85
Average	1.76	2.65

Sources: Appendix IV and IX.

Fig 4.8

Dividend yield Ratio



Source: Table 4.8

The table 4.8 and fig 4.8 shows the dividend yield ratio of NABIL and NIBL. The portion of DPS and MPS of NABIL ranged between in FY 2063/64 2.77% to in the FY 2067/68 and 2.40%. Whereas the dividend per share of NIBL ranged between 1.74% in FY 063/064 to 4.85% in the FY 067/068. It shows that both bank have fluctuating trend but in an average NIBL has higher ratio than NABIL (i.e. 2.65% > 1.76%). The average ratio of NIBL was higher than that of NABIL. The Dividend yield Ratio of NABIL is in fluctuating trend till to the fiscal year 2063/064 to 2065/066 and then it started to increase up-to the last fiscal year of the study period. But the Dividend yield ratio of NIBL is in increasing trend except in the fiscal year 2064/065 and 2065/66.

4.3.5 Earning yield Ratio

It shows the relationship between the market value per share and earnings per share. It is closely related to earning per share. Earnings per share expressed in term of market value per share is known as earning yield ratio

Table 4.9

Earning Yield Ratio

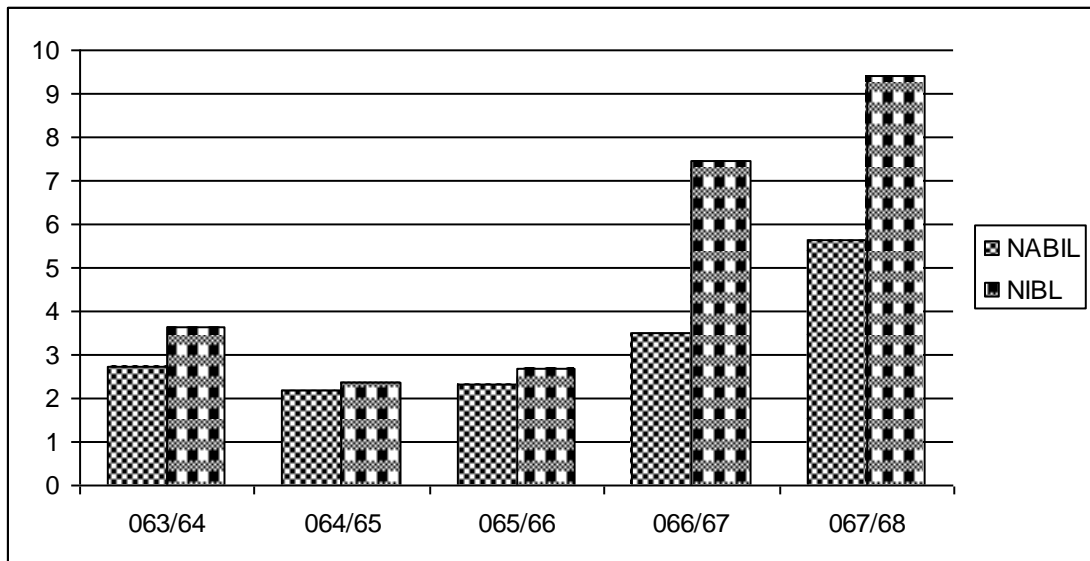
Fiscal Years	Name of the bank	
	NABIL (%)	NIBL (%)
2063/64	2.71	3.62
064/65	2.20	2.36
065/66	2.32	2.70
066/67	3.52	7.45
067/68	5.64	9.41
Average	3.27	5.10

Sources: Appendix IV and IX

Above table shows the Earning yield Ratio, i.e. Earning yield ratio of NABIL and NIBL from the fiscal year 2063/064 to 2067/068 of five years study period. The ratios are 2.71%, 2.20 %, 2.32%, 3.50 % and 5.64% NABIL and, 3.62%, 2.36%, 2.70%, 7.45% and 9.41%, in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067, and 2067/068, respectively. Likewise, average ratio of five years study period is 3.27% of NABIL and 5.10% of NIBL

Fig 4.9

Earning Yield Ratio



Source: Table 4.9

In the figure 4.9 represent Earning yield ratio of NABIL and NIBL for the five fiscal years are shown x-axis represent fiscal years and y –axis represents percentage of Earning yield ratio of the two banks. The figure shows that the ratio of NABIL which indicates that the portion of Earning yield of NIBL is high.in the study period earning yield ratio of both banks are increasing trend and mean value of NIBL is greater than NABIL.

4.3.6 Price Earnings Ratio

This ratio is closely related to the earning yield .the reciprocal of the earning yield is called the price earnings ratio. This ratio is drawn out by dividing the market value per share by earning per share. It is also very useful for prospective investor.

$$\text{Price Earnings Ratio} = \frac{MPS}{EPS}$$

Table 4.10

Price Earnings Ratio

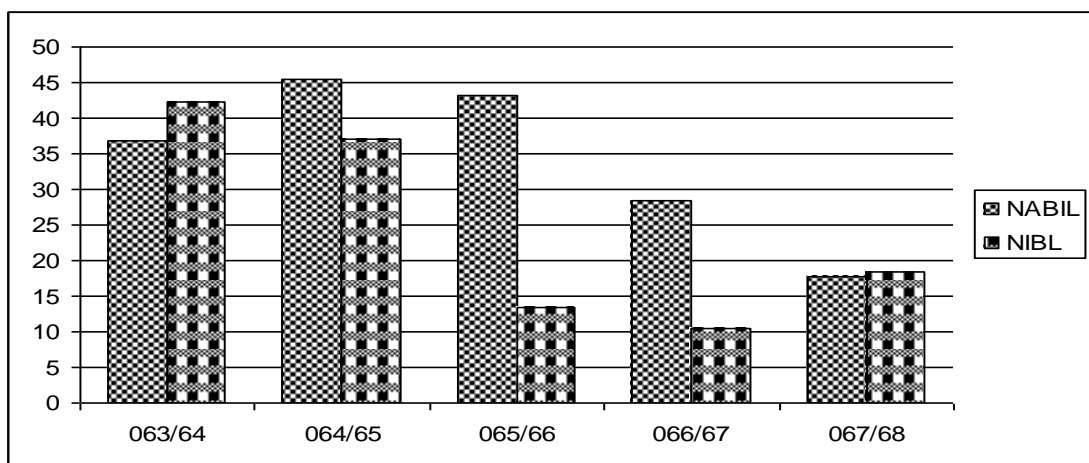
Fiscal Years	Name of the bank	
	NABIL (%)	NIBL (%)
2063/64	36.84	42.34
064/65	45.53	37.09
065/66	43.19	13.42
066/67	28.45	10.54
067/68	17.72	18.52
Average	34.35	24.38

Sources: Appendix IV and IX

In the table 4.10 and figure4.10 represent price earnings ratio of NABIL and NIBL i.e. Price earnings ratio of NABIL and NIBL from the fiscal year 2063/064 to 2067/068 of five years study period. The ratios are 36.84%, 45.53 %, 43.19% ,28.45% and 17.72% of NABIL and, 42.34%, 37.09%, 13.42% and 10.54%, and 18.52% in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067, and 2067/068, respectively. Likewise, average ratio of five years study period is 34.35% of NABIL and 24.38% of NIBL.

Fig 4.10

Price Earnings Ratio



Source: Table 4.10

Figure 4.10 shows Price earnings ratio of NABIL and NIBL can also be presented by bar diagram as above. The five fiscal years, are shown in x-axis and y-axis represents percentage of price earnings ratio of the two banks. The figure shows that the ratio of NABIL is comparative higher than NIBL which indicates that the portion of price earnings ratio of NABIL is high.

4.4 Statistical Analysis

Statistical tools help to find out the trend of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate decision. In this study, the least square linear trend was used to achieve the objectives of the study.

This topic analyzes the trend of net profit of NABIL and NIBL from the Fiscal Year 2063/064 to 2067/068 and makes the forecast for the next five fiscal years till 2068/2073.

4.4.1 Trend analysis of net profit and projection.

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

Here the trend analysis of between profit of NABIL and NIBL was made for the next five fiscal years. The forecast was based on the following assumption.

1. The main assumption is that other things remain constant and the forecast will be only when the limitation of least square method are carried out.
2. The bank will run in present position.
3. The economy will remain in the present trend.
4. Nepal Rastra bank will not change its guidelines to the commercial banks.

The following table shows the trend values of net profit of NABIL and NIBL for ten fiscal years from 2063/2064 to 2073/2074.

Tables 4.11

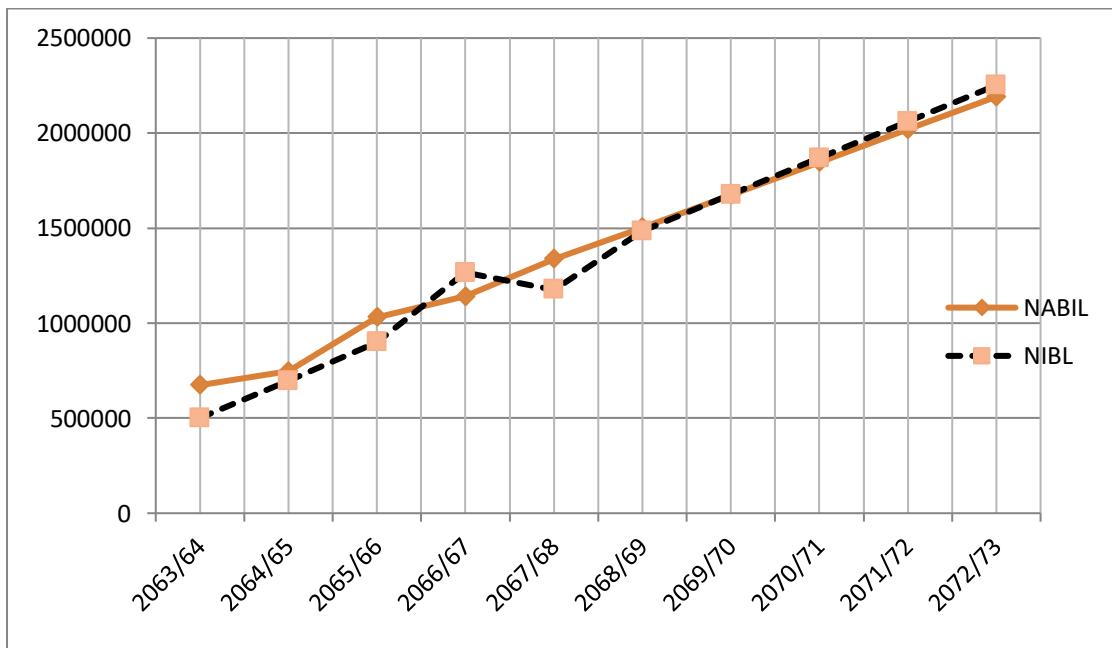
Trend values of Net Profit on NABIL and NIBL

Fiscal Years	Name of the bank	
	NABIL (Rs'000)	NIBL (Rs'000)
2063/64	673960	501399
2064/65	746468	696800
2065/66	1031053	900619
2066/67	1141051	1266000
2067/68	1337745	1176641
2068/69	1502701.3	1484197
2069/70	1674916.6	1676165.4
2070/71	1847131.9	1868133.8
2071/72	2019347.2	2060102.2
2072/73	2191562	2252070.6

Source; appendix; V and X

Fig 4.11

Trend values of Net Profit on NABIL and NIBL



Source: Table 4.11

The table and figure 4.11 shows the trend of net profit of both banks .The actual profit from the FY 2063/064to 2067/068 and the forecast profit from FY2068/069 to 2072/073. The Net profit have the increasing trend for the forecasted period, if other things remaining the same ,the total net profit of NABIL and NIBL will be Rs.2191562 thousand and Rs.2252070.6 thousand respectively for the FY2072/073

4.5 Major Finding of the Study

1. Net profit ratio of NABIL is higher than the NIBL during the five years of study period. Ratios of NABIL are in decreasing trend and where ratios of NIBL are in increasing trend except 2068/069 fiscal year. During the study period, NABIL kept a higher mean ratio of revenue and profit ratio than NIBL.
2. Operating profit Ratio is comparative higher than NIBL which indicates that the portion of Operating profit Ratio of NABIL is high. The higher ratio shows the increase in operating expenses and decreases in business capacity
3. The net profit and total assets ratio of NABIL is in fluctuating trend till the fiscal year 2063/064 to2064/065 and then it started to decrease up-to the last fiscal year of the study period. But the net profit to total assets ratio of NIBL is in increasing trend except in the fiscal year 2064/065. There is highest mean ratio of net profit to total assets ratio with NABIL than NIBL.
4. The net profit and total equity ratio of NABIL is in 1st two years decreasing trend till two the fiscal year 2063/064 to2064/065 and then it started to constant the fiscal year 2065/066 and then decreasing trend in last two fiscal year of the study period and the net profit to total equity ratio of NIBL is in also same trend. There is highest mean ratio of net profit to total equity ratio with NABIL than NIBL.
5. The dividend per share of NABIL ranged between in FY 2063/64 Rs 140 to in the FY2067/68 .Rs 30 whereas the dividend per share of NIBL ranged between Rs 5in FY 063/064 to Rs 25 in the FY 067/068. It shows that both banks have fluctuating trend but in an average NABIL has higher ratio than NIBL
6. EPS of NABIL is comparative higher than NIBL
7. Dividend Payout Ratio of NABIL ranged between 72%in fiscal year 2063/64 to 42%in the FY 2067/68 .Whereas, the ratio of NIBL ranged 7% in fiscal year

2063/64 to 51% in the FY 2067/68. It shows that NABIL have fluctuating trend and NIBL have increasing trend.

8. Dividend Yield ratio of NABIL and NIBL for the five fiscal years are the two banks is comparatively higher than NIBL which indicates that the portion of dividend Yield ratio of NABIL is high.
9. Earning yield Ratio of NABIL and NIBL both banks are decreasing trend. An average ratio of NIBL is better than NABIL (i.e. $5.12 > 3.277$).
10. Price earnings ratio of NABIL is comparatively higher than NIBL which indicates that the portion of price earnings ratio of NABIL is high.
11. Future trend value (net profit) of NABIL and NIBL are in increasing trend.

CHAPTER - V

SUMMARY CONCLUSION AND RECOMMENDATION

In this chapter, summary, conclusion and recommendation are included. We have done profitability analysis of Nepal Arab Bank Limited (NABIL) and Nepal investment Bank Limited (NIBL) by using financial as well as statistical tools. After completing the basic analysis required for the study, little recommendations have been made which would be beneficial for the management of the both banks and concerned persons.

5.1 Summary

The economic development of every country is always measured in its economic indicators. Therefore, every country has given emphasis on the development of its economy. Nowadays the financial institutions are viewed as catalyst in the process of the economic growth. The mobilization of domestic resources is one of the key factors in the economic development of a country, commercial banks are one of the vital aspects of this sector, which deals with the process of changing the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial resources. Financial institutions like banks are necessary to collect scattered savings and put them into productive channels. In the absence of such institutions it is possible that the saving will not be safely and profitably utilized within the country.

Banks today are under great pressure to meet the objectives of their stockholders, employees, depositors and borrowing customers while somehow keeping government regulators satisfied that the banks policies loans and investments are sound, the majority of the needs of the stakeholders are related with the profitability of the banks, thus, the foremost objective of the banks is the profit maximization, as other types of business entity commercial banks are also inspired by the profit in this age of great competition, only the profitable banks can sustain for a long time, financial policies of any concern are directly or indirectly influenced by its profitability. Thus, it is a base for a banks survival, growth and expansion. So this

research studies about the profitability analysis of commercial banks in Nepal with reference to selective banks namely NABIL and NIBL.

Profitability analysis is one of the key tools for financial decision and assist in making plan before using sophisticated forecasting and budgeting procedure. The value of this approach is the quantitative relation which can be used to diagnose strength and weakness in a bank performance such analysis is considerable things for the banks common stock holders, investors' bondholders and others. The objective of the study is to find out and analyze the profitability position in Nepalese commercial banks. To fulfill the main objectives following specific objective are formulated.

1. To evaluate profitability of the selected commercial bank in the study period.
2. To analyze the trend of profit from different profitability ratios of Nabil Bank and Nepal Investment Bank.
3. To compare the position of profit of NABIL and NIBL in the study period.
4. To provide different information to different users.

First Chapter includes Background of the study, Statement of Problems, Objectives of the Study, Limitations of the study, Organization of the Study.

Second chapter deals with the review of available literature. It includes review of books, reports, journals, previous unpublished thesis related websites etc.

Third chapter explains the research methodology used in the study, which includes research design, resource of data, population and samples, methods of data analysis.

An attempt has been made to fulfill the objectives of the research work in chapter four, in this chapter all the secondary data are compiled and tabulated as per the necessity and figures, diagrams are also used to present it clear.

The fifth chapter summarizes the main conclusion that flows from the study and offers suggestions for further improvement and conclusion of the study.

This study suffers from different limitations it considers two banks for the sampled of total commercial banks in Nepal. Time and resources are the constraints of the study. Therefore the study may not be generalized in all cases and accuracy depends upon the data collected and provided by the organization and respondents.

5.2 Conclusion

To avoid the chances of duplication in the study and confirm whether the study is in accordance with the principles and doctrines, supportive text and the precious dissertations have been reviewed. For analyzing the financial data of the sampled banks the financial tools, ratio analysis and the statically tool average and trend analysis have been used from the analysis and interpretation of the data the investor arrives at following conclusion.

NABIL has more net profit ratio than NIBL but NABIL has decreasing trend of net profit ratio and NIBL has increasing trend. Operating profit Ratio of NIBL is comparatively higher than NABIL. The net profit and total assets ratio of NABIL is in fluctuating trend and NIBL is in decreasing trend but, there is highest mean ratio of net profit to total assets ratio with NABIL than NIBL. But, the ratios of NABIL have more variation and less consistency than NIBL.

The net profit and total equity ratio of NABIL is in 1st two years decreasing trend till two the fiscal year 2063/064 to 2064/065 and then it started to constant the fiscal year 2065/067 and then decreasing trend in last two fiscal year of the study period and the net profit to total equity ratio of NIBL is in also same trend. There is highest mean ratio of net profit to total equity ratio with NABIL than NIBL.

Earnings per share and dividend per share of NABIL is higher than NIBL. Price earnings ratio of the NABIL is comparative higher than NIBL which indicates that the portion of price earnings ratio of NABIL is high. Dividend Payout Ratio and Dividend Yield ratio of NABIL is comparative higher than NIBL. Earning yield Ratio of NABIL and NIBL both banks are decreasing trend. An average ratio of NIBL is better than NABIL. Price earnings ratio of NABIL is comparatively higher than NIBL

In the statistical tool trend analysis of Net Profit of both banks are found increasing trend. The past and forecast profit of NABIL is higher than NIBL. So the profitability position of NABIL seems better than NIBL but decreasing trend of NABIL is higher than NIBL.

So main findings of this study is that even Nepal Arab Bank Limited (NABIL) has, high profit ratio than that of Nepal Investment Bank. Therefore, the management

of NIBL must revise the lending policy and invest in profitable as well as productive sectors rather than only to increase lending

5.3 Recommendation

Suggestion is the output of the whole study. It helps to take corrective action on their activities in future. Different analyses are done to arrive at this steps. Based on above analysis and findings of the study following suggestions and recommendations may be referred to overcome weakness, inefficiency to profitability management and for corrective action for the concern authorities and other researchers.

1. Both banks have very high potential of earning high profit than they are making in the recent years so both the banks should utilize its resources So main findings of this study is that even Nepal Arab Bank Limited (NABIL) has, high profit ratio than that of Nepal Investment Bank. Therefore, the management of NIBL must revise the lending policy and invest in profitable as well as productive sectors rather than only to increase lending resources more efficiently for generating more profit margin. If resources held idle bank faces high cost and causes the low profit margin.
2. NABIL should adopt the sound credit collection policy. It helps to decrease loan loss provision and non-performing loan of the bank.
3. NABIL must concentrate on decreasing ratio of return on total assets as well as NIBL must concentrate on decreasing ratio of return on equity and invest in productive as well as profitable areas only, which give high return with low risk.
4. Looking a current trend of business, both banks, i.e. NABIL as well as NIBL must be very careful on formulating marketing strategies to serve its customers. The marketing strategies should be innovative that would attract and retain the customers. Both the banks are recommended to develop an innovative approach of bank marketing for its well-being and sustainability in the market

5. Banks should strictly band the policy of nepotism and favoritism. On the basis of capability and efficiency, recruitment, placement and promotion should be executed.
6. For the better mobilization of deposit and credit, both the banks must take the help of media. It means special publicity campaign should be launched to provide exposure of its service, which will help to boost up the banking habits and confidence among the people upon the bank.
7. NABIL should move towards the modern banking facilities to promote service in each branch and provide new product to the customer to attract relative growth trend of deposit.
8. Both banks have very large network in the country as the bank has to fulfill some social obligations to the rural areas and promoting the development of poor and disadvantage group. By using the large network, both banks should focus their business on commission based sector.
9. So both the banks need to re-look in managing their network throughout the country.
10. As the banks are fully or partially owned by the government there seem some political influence in both the banks. The banks should be free from political influence as it affects the overall activities of the bank. So government must be aware of this fact and policy must be developed to improve the current situation of NABIL and NIBL.
11. Both banks still lack scientific MIS. The platform needs to be installed as soon as possible only after computerization of the activities the public will feel improvements in the banking operation. But the computerized system is limited to certain branches of the banks. They have more than a million customer in rural and urban areas. So banks must be aware and accountable to these people for the implementation of integrated banking package. So, these activities reduced operational assets.
12. Both the banks should introduce major programs as per the customers demand these days such as consumer banking, home loans, Study loan, vehicle loans, credit card facilities, online banking , internet banking ,SMS banking , mobile banking , branchless banking , ATM card etc. These facilities are provided by the foreign and joint venture banks, which made NABIL and NIBL to lag behind.

So main findings of this study is that even Nepal Arab Bank Limited (NABIL) has, high profit ratio than that of Nepal Investment Bank. Therefore, the management of NIBL must revise the lending policy and invest in profitable as well as productive sectors rather than only to increase lending ratio.

BIBLIOGRAPHY

A) Books

- Argent, J. (1968). *“Corporate planning – A Practical Guide,”* London Jorge Allen an Unwill.
- Bhandari, Dr. (2003). *“Banking & Insurance: Principle &Practice,”* Kathmandu Utsav Books &Stationery.
- Cauvery R. (1997), *“Management Economics,”* Singapore: Irwing Publication.
- Dahal S. & Dahal, B. (1996) *“A Hand Book to Banking,”* Kathmandu Asmita Books.
- Dangol RM. (2000) *“Accounting for Financial Analysis and Planning,”* Kathmandu: Taleju Prakashan.
- Howard B. B., & Upton, M. (1661) *“Introduction to Business Finance,”* New Delhi: Vishwa Prakashan.
- Munakarmi, SP (2003) *“Management Accounting,”* Kathmandu: Buddha Academic Enterprise.
- Narayan, L (1980), *“Principal and Practice of Public Enterprises Management,”* New Delhi: S. Chand & Company.
- Ronald, R. J. (1951), *“The Management of Bank Funds,”* New York: MC Graw Hill.
- Rose, P. (1991), *“Commercial Bank Management,”* Singapore: Irwin Publication.
- Shrestha, M.S. (2007), *“Fundamental of Banking,”* Kathmandu: Buddha Academic Enterprise.
- Wagle, K.N. & Dahal R.K. (2004), *“Management Accounting,”* Kathmandu: Khanal Books and Stationery.

Woelfel J. (1999), *“Encyclopedia of Banking and Finance,”* Singapore: Irwin Publication.

Wolff H. K. & Pant, P. R. (2005), *“Social Science Research and Thesis Writing,”* Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

GokhrapatraDaily (2012). *“Number of Bank a Financial institutions,”* June 12, 2012

Joshi, R. (2012), *“Problem in Nepalese Financial Sector,”* NRB Samachar, Annual Publication, 2012

Kantipur Daily (2007). *“Results of FSR are Encouraging: NRB Governor,”* July 06, 2007.

NABIL Bank Limited (2012), *“Annual Report”*.

New Business Age (2009), *“All Banks in Profit.”* September, 2009.

NIBL Bank Limited (2012), *“Annual Report”*.

Pradhan, P. (2012), *“Crisis Impact Delayed here: IMF –International Monetary Fund.”* Aviyan Dainik, July 09, 2011.

Shrestha, P. (2011), *“Liquidity Crunch Govt. Banks new lenders.”* Kantipur Daily, July 06 2011.

B) Review of Unpublished Thesis

Dahal, Keshab (2006), *“Planning process and its impact on profitability “A case study of Gorkha Patra Corporation”* Unpublished Master’s Degree Thesis, Shankar Dev Campus, Tribhuvan University

Kharel, Sushank (2008), *“Profit Planning of Commercial Banks in Nepal”*: A Comparative study of Everest Bank limited, NABIL Bank limited and Bank of Kathmandu limited. An Unpublished Master’s degree Thesis, Shankar Dev Campus, Tribhuvan University.

- Maharjhan, Reena (2009), “*Credit Management of commercial bank in Nepal.*” A Comparative study of HBL and NABIL. An Unpublished Master’s degree Thesis, Shankar Dev Campus, Tribhuvan University.
- Pangeni, Remesh (2013), “*a comparative study on profitability analysis of Rastriya Banijya Bank and Nepal Bank Limited.*” An Unpublished Master’s Degree Thesis, Shanker Dev Campus, Tribhuvan University.
- Lama, G (2012), “*profitability of Nabil Bank Limited with comparison to other JV Banks.*” An Unpublished Master’s degree Thesis, Shankar Dev Campus, Tribhuvan University.
- Pandey, N (2010), “*An Analysis of key Financial Ratio of Commercial Banks in Nepal: A special Reference with Himalayan Bank Limited and Everest Bank Limited.*” An Unpunished Master’s Degree thesis submitted to Center Department of Management T.U.

C) Websites

www.nabilbank.com

www.nibl.com.np

www.nrb.gov.np

www.google .com.

Appendix I

NABIL Bank Limited

BALANCE SHEET

For the period from 1st shrawan, 2063/064 to 1st shrawan, 2067/068 Rs. In '000'

Capital and liabilities	2063/064	2064/065	2065/066	2066/067	2067/068
Share capital	491,654	689,216	965,747	2,028,774	2,029,769
Reserve and Fund	1,565,395	1,747,983	2,164,494	1,807,933	2,536,748
Debenture and bond	300,000	300,000	300,000	300,000	240,000
Borrowings	882,573	1,360,000	1,681,305	74,900	1,650,599,
Deposits	23,342	31,915	37,348	46,410	49,696
Bills payable	83,515	238,422	463,139	425,444	415,768
Provisions & dividend payable	509,418	437,373	361,325	434,737	608,931
Income tax liabilities	-	38,777	80,232	24,904	44,104
Other liabilities\	378,553	465,941	502,900	644,291	859,406
Total liabilities	27,253,393	37,132,759	43,867,398	52,151,684	58,141,437
Assets					
Cash Balance	270,407	511,427	674,395	635,987	744,592
Balance with NRB	1,113,415	1,829,471	2,648,596	549,455	1,473,98
Balance with Banks	16,003	330,244	49,521	214,657	217,971
Money at call and short Innotice	563,533	1,952,361	552,888	3,118,144	2,452,512
Investment	8,945,311	9,939,771	10,826,379	13,703,024	13,081,206
Loan advance and bills purchase	15,545	21,365	27,589	32,268	38,034
Fixed assets	286,895	598,039	660,989	779,540	935,089
Non-banking assets					
Other assets	512,050	606,394	864,696	882,005	1,201,984
Total assets	27,253,393	37,132,759	43,867,398	52,151,684	58,141,437

Appendix II

NABIL Bank Limited

PROFIT AND LOSS ACCOUNT

For the period from 1stshrawan, 2063/064 to 1stshrawan, 2067/068 Rs. In ‘000’

SN	Particulars	2063/064	2064/065	2065/066	2066/067	2067/068
1	Interest income	1,587,759	1,978,697	2,798,486	4,049,712	5,254,030
2	Interest Expenses	555,710	758,436	1,153,280	1,960,108	2,955,431
	Net interest income	1,032,049	1,220,261	1,645,206	2,089,604	2,298,600
3	Commission and discount	238,183	253,679	323,857	399,506	471,425
4	Exchange income	209,926	196,487	251,920	276,964	276,103
	Total operating income	1,480,158	1,670,427	2,220,983	2,766,075	3,046,128
5	Staff Expenses	240,161	262,908	339,898	366,940	454,042
6	Other operating Expenses	188,183	220,751	265,158	334,186	401,425
7	Exchange loss					
8	Operating profit before provision for possible loss	1,051,813	1,186,769	1,615,927	2,064,949	2,190,661
	Operating profit	1,037,607	1,122,714	1,570,205	1,709,119	2,081,190
9	Non-operating profit/loss	5,281	24,084	2,190	6,455	6,981
10	Loan loss provision written back	10,926	11,101	10,618	39,757	7,101
	profit from ordinary Activities	1,053,814	1,157,898	1,583,013	1,755,331	2,095,273
11	Extra ordinary incomeExpenses	40,737	39,991	43,522	34,322	3,148
	Net profit including all Activities	1,094,551	1,197,889	1,626,534	1,789,653	2,098,421
12	Staff Bonus	99,505	108,899	147,867	162,518	190,943

	Provision					
13	Tax provisions - This Year	321,086	342,522	447,615	486,083	569,733
14	Prior Period Tax	560	53 6	919	832	212
15	Deferred Tax -		1,843	(24,006)	12,428	1,012
	Net Profit /Loss	673,960	746,468	1,031,053	1,141,051	1,337,745

Appendix III

NABIL Bank Limited

Summary of financial Transaction of NABIL'000'

Particular	Ref	2063/064	2064/065	2065/066	2066/067	2067/068
Operating profit	A	2051364	2499041	3449912	4798101	5768316
Operating Expenses	B	428344	483659	605056	671126	855467
Net Profit	C	673960	746468	1031053	1141051	1337745
Total Assets	D	27,253,393	37,132,759	43,867,398	52,151,684	58,141,437
Share capital'	E	491,654	689,216	965,747	2,028,774	2,029,769
Reserve and Fund	F	1,565,395	1,747,983	2,164,494	1,807,933	2,536,748
Shareholder's Fund	G	2057049	2437199	3130241	3836707	4566517
Total no of common share	H	4,917	6,892	9,657	14,491	1829
EPS	I	137.08	115.86	113.44	83.81	70.67
DPS	J	140	100	85	70	30
MVS	K	5050	5275	4899	2384	1252

Appendix IV

Calculation of Ratio Analysis of NABIL Bank

Particulars	Ref	2063/64	2064/65	2065/66	2066/67	2067/68
Net Profit Ratio (%)	C/A	32.16	29.68	30.56	24.11	22.29
Operating profit Ratio (%)	B/A	20.88	19.35	17.54	13.99	14.83
Return on Total Assets (%)	C/D	2.72	2.32	2.55	2.38	2.43
Return on Shareholder's Equity (%)	C/G	32.76	30.63	32.94	29.74	29.29
Earning per share(RS)	C/H	137.08	115.86	113.44	83.81	70.67
Dividend Per Share	AR	140	100	85	70	30
Dividend Payout ratio (%)	J/I	72.95	51.79	30.85	35.79	42.45
Dividend Yield ratio (%)	J/K	2.77	1.90	1.74	2.94	2.40
Earning Yield ratio (%)	I/K	2.71	2.20	2.32	3.52	5.64
Price Earnings ratio	K/I	36.84	45.53	43.19	28.45	17.72

Appendix V

Trend Analysis of Net Profit of NABIL ‘000’

Fiscal Year	Time period(x)	Net Profit(Y)	X^2	XY
2063/064	1	673960	1	673960
2064/065	2	746468	4	1492936
2065/066	3	1031053	9	3093159
2066/067	4	1141051	16	4564204
2067/068	5	1337745	25	6688725
total	$\sum x=15$	$\sum Y=4930277$	$\sum x^2=55$	$\sum XY=16512984$

For this method we have an equation

$$Y=a+bx \dots\dots\dots i$$

Where Y=net profit

X=time period

n =5(no of years)

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

$$\sum Y=na+b\sum x \dots\dots\dots ii$$

$$\sum XY=a\sum x+b\sum x^2 \dots\dots\dots iii$$

Substituting the value in equation ii and iii

We have,

$$4930277=5a+15b \dots\dots\dots iv$$

$$16512984=15a+55b \dots\dots\dots v$$

Multiplying equation by 3 and solve them

$$14790831=15a+45b$$

$$16512984=15a+55b$$

$$\begin{array}{r} - \quad - \quad - \\ \hline -1722153 = -10b \end{array}$$

$$b = 172215.3$$

Now, substituting the value of b in equation iv

$$4930277=5a+15b$$

$$4930277=5a+15*172215.3$$

$$a=469409.5$$

now substituting value of constant a and b in equation i we get

$$Y=469409.5+172215.3x$$

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

Forecasted for next 5 years profit			
Fiscal Years	Time Period(x)	Y=a+bx	Forecasted Net profit
2068/069	6	$Y=469409.5+172215.3*6$	1502701.3
2069/070	7	$Y=469409.5+172215.3*7$	1674916.6
2070/071	8	$Y=469409.5+172215.3*8$	1847131.9
2071/072	9	$Y=469409.5+172215.3*9$	2019347.2
2072/073	10	$Y=469409.5+172215.3*10$	2191562

Appendix for NIBL Bank

Appendix VI

NIBL Bank Limited

BALANCE SHEET

For the period from 1st shrawan, 2063/064 to 1st shrawan, 2067/068 Rs. In '000'

Capital and liabilities	2063/064	2064/065	2065/066	2066/067	2067/068
1. Share Capital	801353	1203915	2407069	2,409,097,	3,011,372,
2. Reserve & Fund	1076771	1482871	1500771	2,176,295	2,148,387
3. Debentures and Bonds	800000	1050,000	1050,000	1,050,000	1,050,000
4. Borrowings	-	-	388000	37,3148	280,764,
5. Deposits Liabilities	24488856	34451726	46698100	50,094,725	50,138,122,
6. Bills Payable		78838643	82338018	38,143,836	8,250,415
7. Proposed Dividend	482673	934682	485453	602,274	602,274,
8. Income Tax Liabilities		24082	38296	37,195,	-
9. Other Liabilities	423866	488404288	709975092	860,366,551	1,117,656,722
Total Liabilities	28073519	38873306	53010803	57,305,413	58,356,827
Assets					
1. Cash Balance	81383	1464482	1833462	1,525,441	1,718,665
2. Balance with NRB	81383	1820006	4411133	3,237,217	4,009,459
3. Balance with Banks/ Financial Institution	81384	47045281	1673408	2,053,231	2,412,245
4. Money at Call and Short Notice	-	-	-	-	150,000,
5. Investments	6868650	6874023	7399812	8,635,530	7,423,106,
6. Loan, Advances & Bills Purchased	17769100	26996652	36241206	40,318,308	41,095,514
7. Fixed Assets	759458	970091	1060752	1,136,247	1,108,448,
8. Non-Banking Assets	-	750000	375000	-	-
9. Other Assets	-	276846874	390653496	399,438,143	439,387,654
Total Assets	28073519	38873306	53010803	57,305,413	58,356,827

Appendix VII**NIBL Bank Limited****PROFIT AND LOSS ACCOUNT**

For the period from 1st shrawan, 2063/064 to 1st shrawan, 2067/068 Rs. In '000'

Particulars	2063/064	2064/65	2065/66	2066/67	2067/68
1. Interest Income	1564987	2194276	3268000	4,653,521	5,803,440
2. Interest Expenses	(685530)	(992158)	(1687000)	(2,553,847)	(3,620,400)
3 Net Interest Income	899457	1202117	1580968	2,099,680,	2,183103
4 Commission and Discount	163899	215292	2627920	242,886,	269,429,
5. Other Operating Income	114096	66377	876000	168,400	152,990
6. Exchange Profit	135355	165839	185327	224,100	22 228,0
Total Operating Income	1314233	1649625	2116661	2,735000	2,833,6000
7. Staff Expenses	(145371)	(1871500)	(225721)	(279,851)	(326,543,)
8. Other Operating Expenses	(243431)	(313200)	(413900)	(433,596)	(456,100)
9. Exchange Loss	-	-	-	-	-
Operating Profit Before Provision for Possible Loss Possible Losses	925431	1149321	1477056	2,021,500	2,051,000
10. Provision for Possible Losses	(129719)	(135989)	(166201)	(93,100)	(267,331)
Operating Profit	795712	101333	1310900	1,928,425,	1,783,662
11. Non-operating Income/ Loss	1426	7048	2953	8,396,	10,6060
12. Loss Provision Written Back	129719	101600	114653	50,000,	106,634,
13. Profit/ Loss from extra-ordinary	926857	1121956	1428500	-	(52,900)

activities					
14. Provision for Staff Bonus)	(72338)	(101996)	(129860)	(180,821,081)	(167,900)
15. Income Tax Provision					
- Current Year	(221977)	(321300)	(389580)	(532,898)	(500,359,
- Up to Previous Year -	-	-	7500	-	-
- Deferred Tax Income / (Expense) Net		(1941)	(15879)	(9,400)	(1,028)
Net Profit/ Loss	501399	696800	900619	1,266000	1,176,641,

Appendix VIII

NIBL Bank Limited

Summary of financial Transaction of NIBL '000'

Particular	Ref	2063/064	2064/065	2065/066	2066/067	2067/068
Operating profit	A	1314233	1649625	2116661	2735000	2833600
Operating Expenses	B	288802	494700	635000	713447	782643
Net Profit	C	501399	696800	900619	1266000	1176641
Total Assets	D	28073519	38873306	53010803	57,305,413,	58,356,827,
Share capital'	E	801353	1203915	2407069	2,409,097	3,011,372
Reserve and Fund	F	1076771	1482870	1500770	2,176,295	2,148,387
Shareholder's Fund	G	1878124	2686785	3907839	26267292	5159760
Total no of common share	H	8014	12004	24067	24091	24270
EPS	I	62.57	57.87	37.42	52.55	48.84
DPS	J	5	7.5	20	25	25
MVS	K	1729	2450	1388	705	515

Appendix IX

Calculation of Ratio Analysis of NIBL Bank

Particulars	Ref	2063/64	2064/65	2065/66	2066/67	2067/68
Net Profit Ratio (%)	C/A	25.07	26.4	24	23	18.2
Operating profit Ratio (%)	B/A	21.97	29.99	30.22	26.09	27.62
Return on Total Assets (%)	C/D	1.8	1.8	1.7	2.2	2.02
Return on Shareholder's Equity (%)	C/G	26.68	25.93	23.05	28	21.10
Earning per share(RS)	C/H	62.57	57.87	37.42	52.55	48.84
Dividend Per Share	AR	5	7.5	20	25	25
Dividend Payout ratio (%)	J/I	7.9	12.96	53.44	47.57	51.19
Dividend Yield ratio (%)	J/K	1.74	1.67	1.44	3.55	4.85
Earning Yield ratio (%)	I/K	3.62	2.36	2.70	7.45	9.41
Price Earnings ratio	K/I	42.34	37.09	13.42	10.54	18.52

Appendix X

Trend Analysis of Net Profit of NIBL '000'

Fiscal Year	Time period(x)	Net profit(Y)	X ²	xy
2063/64	1	501399	1	501399
2064/65	2	696800	4	1393600
2065/66	3	900619	9	2701857
2066/67	4	1266000	16	5064000
2067/68	5	1176641	25	5883205
Total	$\sum x=15$	$\sum Y=4541459$	$\sum x^2=55$	$\sum xy=15544061$

For this method we have an equation

$$Y = a + bx \dots \dots \dots i$$

Where Y = net profit

X = time period

n = 5 (no of years)

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

$$\sum Y = na + b \sum x \dots \dots \dots ii$$

$$\sum XY = a \sum x + b \sum x^2 \dots \dots \dots iii$$

Substituting the value in equation ii and iii

We have,

$$4545459 = 5a + 15b \dots \dots \dots iv$$

$$15544061 = 15a + 55b \dots \dots \dots v$$

Multiplying equation iv by 3 and solve them

$$13624377 = 15a + 45b$$

$$15544061 = 15a + 55b$$

- - -

$$-1919684 = -10b$$

$$b = 191968.4$$

Now, substituting the value of b in equation iv

$$4541459=5a+15*191968.4$$

$$a=332386.6$$

Now substituting value of constant a and b in equation i we get

$$Y=332386.6+191968.4x$$

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

Fiscal Years	Time Period(x)	$Y=332386.6+191968.4x$	Forecasted net profit
2068/69	6	$Y=332386.6+191968.4 \times 6$	1484197
2069/70	7	$Y=332386.6+191968.4 * 7$	1676165.4
2070/71	8	$Y=332386.6+191968.4 * 8$	1868133.8
2071/72	9	$Y=332386.6+191968.4 * 9$	2060102.2
2072/73	10	$Y=332386.6+191968.4 * 10$	2252070.6