

**SWOT ANALYSIS OF NEPAL CREDIT & COMMERCE BANK  
LIMITED**

**A THESIS**

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# CHAPTER-ONE

## INTRODUCTION

### 1.1 Background of the Study

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

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

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

and extends credit to people. Thus, the activities of commercial banking sector have contributed to eliminate poverty, reduce unemployment and economic growth.

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

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

- ) Acceptance of deposits.
- ) Granting of Advances.
- ) Remittance collection and distribution.
- ) Cash management.
- ) Insurance of letters of credit and Guarantee.
- ) Merchant banking business.
- ) Credit cards.
- ) Technology based services-Internet Banking services.
- ) Loan distribution.
- ) Safe keeping services /Lockers.
- ) Handling government Business.
- ) Automated Teller Machines (ATMs)

The first public bank “The bank of Venice “was established in Italy in 1357A.D. Different countries in the world followed the steps of this bank to incorporate banking institution in their countries. The evaluation of “The bank of England” in the kingdom of 1694 A.D. brought remarkable changes in the process of establishing banking institution in the world. The establishment of this bank was a big milestone in the history of banking development. It

is believed that the idea of commercial banks rapidly spread all over the world only after the inception of this bank.

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

The SWOT analysis is related to loan management policy of a firm that provides the framework to determine whether or not to extend credit and how much credit to extend. The loan management policy decision of a bank has two broad dimensions; credit standards and credit analysis. A firm has to establish and use standards in making credit decision, develop appropriate sources of credit information and methods of credit analysis.

Till the date there are 25 commercial banks in Nepal. Agriculture Development Bank (ADB) has also been listed in ‘A’ class financial institutions two years ago. Therefore, there are 25 ‘A’ class financial institutions (commercial banks). Till the period of this study, a new commercial bank has also been found to be licensed to practice commercial banking

operations in Nepal. The name and the year of establishment of the commercial banks operating in Nepal have been listed below:

<b><u>Name of the bank</u></b>	<b><u>Year of establishment (A.D.)</u></b>
1. Nepal Bank Limited	1937
2. Rastriya Banijya Bank	1965
3. NABIL Bank Limited	1984
4. Nepal Indosuez Bank Limited	1985
5. Nepal Grindlays Bank Limited	1986
6. Himalayan Bank Limited	1993
7. Nepal SBI Bank Limited	1993
8. Nepal Bangladesh Bank Limited	1994
9. Everest Bank Limited	1994
10. Bank of Kathmandu Limited	1995
11. Nepal Bank of Ceylon Limited	1996
12. Nepal Industrial and Commercial Bank Limited	1998
13. Lumbini Bank Limited	1998
14. Machhapuchchhree Bank Limited	1999
15. Kumari Bank Limited	2001
16. Laxmi Bank Limited	2002
17. Siddhartha Bank Limited	2003
18. Agriculture Development Bank Limited (ADB)	1965
19. Global Bank Limited	2007
20. Citizen Bank Limited	2007
21. Prime Bank Limited	2007
22. Bank of Asia Limited	2007
23. Sunrise Bank Limited	2007
24. NMB Bank Ltd.	2008
25. Development Credit Bank Ltd	2008

In Nepalese banking system, Nepal Bank Limited (NBL) was established in 1937 A.D. as the first commercial bank of Nepal. At that time, limited industrial undertaking and trading activities were created in the economy and NBL was set up for their financial needs. With the growth of diverse economic activities were created in the economy and NBL was set up for their financial needs with the growth of diverse economic activities in the country. Other commercial banks were felt necessary at a later stage. As a result, the central bank of Nepal, Nepal Rastra Bank was established in 1965 A.D. with the mission of developing banking system in the country to promote industry, trade and agriculture in addition to its main function of circulating Nepalese currency all over the country with the advent of economic liberalization in late 1980 A.D. Different financial institutions were established to carry out the banking activities considering the role of commercial banks in the financial system for the promotion of industry, trade and business sectors, Government permitted to run the joint venture commercial banks in the country in late 1980 A.D. Presently 1 central Bank, 25 commercial Banks, 33 Developments, 72 Finance Companies, 37 Cooperative societies (Licensed by NRB for limited banking transaction) and 47 Non Government Organizations (Licensed by NRB for micro-credit transaction) are operating presently in Nepal (NRB, 2008:15).

Nepal Credit & Commerce Bank Ltd. (NCCBL) formerly registered as Nepal Bank of Ceylon Ltd., commenced its operation on 14th October, 1996 as a joint venture with Bank of Ceylon, Sri Lanka. It was the first private sector bank with the largest authorized capital of Rs. 1,000 million, issued capital Rs. 1,000 million, paid up capital of Rs. 700 million, and public offering Rs. 210 million. The Head Office of the bank is located at Siddharthanagar, Rupandehi, the birthplace of LORD BUDDHA, while its Corporate Office is placed Bagbazar, Kathmandu. At present NCC Bank provides banking facilities and services to rural and urban areas of the kingdom through its 14 branches and 3 extension branches. The bank has developed corresponding agency relationship with more than 150 international banks having a worldwide network. The Bank is using Pumori Plus, the most commonly used software by Nepalese banks. The bank offers Any Branch Banking Service (ABBS) on four branches operating in Kathmandu Valley. Telex, Society for Worldwide Interbranch Financial Tele-communication (SWIFT) is other modes of communication for efficient and

effective transmission of information. Here is also the Automated Teller Machine (ATM) and Western Union Money Transfer facility for all its valuable customers.

Despite being commercial in nature, the main objective of NCCBL is to provide services to the general public. The previous study of the pattern of services provided by NCCBL shows that the bank has given more emphasis to its service objective rather than its profit objectives, which would be dealt later during our study in detail. This bank has taken the responsibility of extending banking facility and services even in those areas, where there is no separate banking branch of Nepal Rastra Bank (NRB), and other commercial banks in such places it acts as an agent of NRB. The main objective of the bank is to provide modern banking facilities and to extend loan facility to the commercial and industrial sectors as well.

## **1.2 Focus of the Study**

Banks have today gained paramount trust of the public. Banking industry offers a wide range of services addressing the needs of public in different walks of life. At present, a large number of banks are operating in Nepal. Naturally, they are rendering a wide range of services. They are trying to keep up pace with the changes taking place in the world. But quantity does not count for quality. The financial institutions of all classes 'A' to 'D' are increasing every year. In a small economy like Nepal, it is a question of great concern as to how so many banks are surviving and reaping profit. The concern is not only about these days but also the sustainability of the operating banks in future days also. Therefore, the report will try to concentrate on SWOT analysis of Nepal Credit & Commerce Bank Ltd (NCCBL) private sector banks of Nepal. It will focus on the SWOT analysis of one bank regarding profitability, liquidity, leverage positions, cost minimization, etc.

This study "SWOT Analysis of Nepal Credit & Commerce Bank Ltd (NCCBL)" concentrates on the financial performance of NCCBL operating in Nepal and implications of new directives of Nepal Rastra Bank towards the performance. The performance of the Nepal Credit & Commerce Bank Ltd (NCCBL) is evaluated along with the brief analysis of the state of the economy which provides the opportunities as well as threats to the commercial banks. This study is basically focused on the national economy as a whole. The financial performance of the bank can be evaluated on the basis of meeting of their objectives and

fulfilling of the function analyzing financial performance in a process of evaluating relationship between components parts of financial statements to obtain a better understanding of a banks position and performances.

The present research paper directly focuses on the financial performance of the economy in Nepal. The study on the financial strength and weakness of Nepal Credit & Commerce Bank Ltd. (NCCBL) as a Commercial Bank would be a dealt throughout the research process. For the purpose, the study evaluates the position of the banks with respect to liquidity, leverage, capital adequacy, turnover and profitability and tests the relationship between various variables. The study assumes the hypothesis that the performance of sampled banks does not differ significantly. Analyze the SWOT i.e. Company's strengths & weaknesses and opportunities & threats

This study is basically focused on strength, weakness, opportunity and threat on the selected period to know its impact on the national economy as a whole. The financial performance of the bank can be evaluated on the basis of meeting of their objectives and fulfilling of the function Analyzing financial performance in a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a banks position and performances.

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

Strength, weakness opportunity and threat (SWOT) of bank is the essence of commercial banking; consequently the formulation and implementation of second lending policies are among the most important responsibilities of directors and management. Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit based on SWOT analysis. SWOT analysis effects on the company's profitability and liquidity so it is one of the crucial decisions for the commercial banks.

The need of financial resources in a developing country like Nepal is essential for the economic development of country. All the sectors from industrial and commercial to agriculture and infrastructure are in need of finding. Although the growth of industrial loans has not been encouraging in the recent years, there is sizable growth in the commercial and

other short-term credits. Commercial banks are focusing loans on consumer loans like housing, vehicle, education loan etc. It is encouraging to explore new sector for loan management based on SWOT analysis but it should also be considered that industrial loan should be gives prime importance as the economy largely depends on this sector.

Lending policies are reported to be not systematic and no clear cut vision of policy is available on lending aspect. In Nepal it has been found that on approval and lending decisions are made flexible to favour to personnel networks also. A new customer finds that loan providing process being very complicated and sometimes the documents submitted for loan sanctioning being fraudulent and for formality purpose only. In this perspective the study deals with the strength, weakness and opportunity and threat analysis (SWOT) of Nepal Credit & Commerce Bank Ltd. (NCCBL)

Mainly the study emphasis lay upon the financial strength and weakness of Nepal Credit & Commerce Bank Ltd. (NCCBL). The struggle and survival, pros and cons, ups and downs and ability of the bank to adopt in the changing economic conditions effectively would be dealt and analyzed. Besides commercial banks, development banks and joint venture banks are also being registered by Nepalese and Foreign promoters. Other institutions offering similar nature of services like finance companies, co-operative societies and savings banks are growing in large number. The struggle and survival, pros and Cons, ups and downs and ability of the bank to adopt in the changing economic condition effectively would be deals and analyzed.

The bank being private bank having unequal amount of the initial capital and different earning capacity, the study would be focused on finding the differences in their financial ability performance and its contribution. Today, it is in a position to judge that some private banks are lagging behind in terms of profitability when compared to other joint venture banks. The limiting factor can be nothing but, the very purpose of their creation.

With the prevailing economic condition of the country, the investment in manufacturing, productive, agriculture and industrial sectors has not grown satisfactorily. Hence, NCCBL is also not succeeding perfectly to shift the deposit in profitable sectors. The problem of the

study will be focused on finding out the following reasons for the differences in their respective financial strengths, weaknesses, opportunities, and threats. In this perspective the study deals with the following issues:

- J How far has NCCBL been able to shift the monetary resources from savers to users?
- J What is the position of the concerned bank in terms of liquidity, leverage, capital adequacy, and profitability?
- J How sound is the operational result in relation to profitability?

Hence, the NCCBL is also not succeeding perfectly to shift the deposit in profitable sectors. The problem of the study will be focused on finding out the reasons of the different financial performance.

#### **1.4 Objectives of the Study**

The general objective of this study is to examine the financial strength and weakness, opportunity and threat of Nepal Credit & Commerce Bank Ltd. (NCCBL). Therefore, to attain the mentioned objective, following specific objectives have been set:

- a) To evaluate the financial position (liquidity, leverage, capital adequacy, turnover and profitability position) of NCCBL.
- b) To evaluate effectiveness of monitoring and collecting policies of the sample bank.
- c) To examine the trend of deposit, lending and the deposit mobilization with reference to investment, loan and advance.
- d) To show a suggestive package based on the findings of the study for the improvement of the financial performances of NCCBL.

#### **1.5 Significance of the Study**

There are few researches done in SWOT analysis of commercial banks. SWOT analysis is one of most important aspect of a bank. The study on analysis of SWOT of the chosen selected bank would be beneficial to the shareholders, banking professional, investors, teachers and students of banking management.

This study basically helps to ascertain the financial strength and weakness of the private bank as NCCBL. Regarding the economic structure of the country, the banks do not have sufficient investment opportunities. Because of rapidly increasing financial institutions, other joint venture banks. They are creating threats to the banks due to increasing competition. Most of the investors are investing their money and assets without any proper knowledge and information. So till now, investment seems just like “shooting in the dark”.So this study can become important to the management of the banks, financial institutions and other different groups. Likewise, it is also helpful for policy makers, academicians, professionals, bankers, shareholders, students etc.

This study focuses in the qualitative measurement of the selected banks. Similarly, the finding of the study will equally important to other who is interest in knowing about this particular bank. Last but not least, it will provide relevant and pertinent literature for future research on the area of SWOT analysis of banks.

### **1.6 Limitations of the Study**

Since, the study is focusing to fulfill the partial fulfillment for the requirement course of M.B.S. of T.U. It has some limitation. We have limited resources and it may be difficult to explore researcher to find out new aspect. Reliability of statistical tools used and lack of research experience are the major limitation and some other limitations can be enlisted as follows:

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

e) The research is concerned with Nepal Credit and Commerce Bank Ltd. only.

## **1.7 Organization of the Study**

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

### **Chapter One: Introduction**

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

### **Chapter Two: Review of Literature**

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

### **Chapter Three: Research Methodology**

Chapter-three includes research methodology. It includes the research design, population and sample, data collection procedures, tools for analysis, method of analysis and presentation with financial and statistical tools used in the study.

### **Chapter Four: Presentation and Analysis of Data**

Chapter-four includes data presentation and analysis part. It is the main body of our research. It includes data presentation, interpretation and analysis. Data so collected would be carefully examined and conclusion would be drawn so that it could be presented. It would be done to find out the indications of the bank's financial strength and weakness.

### **Chapter Five: Summary, Conclusion and Recommendation**

Chapter-five includes the summary, conclusion and recommendations of the present study. On the basis of the data analyzed the research would reach in final phase to conclude the financial strength, weakness, opportunity and threat position of the concerned bank. The suggestions and recommendations would be made on the basis of the findings of the research of the concerned institutions to incorporate and amend improvement activities. Finally bibliography and appendices are included at the end of the study.

## **CHAPTER-TWO**

### **REVIEW OF LITERATURE**

Review of literature mainly covers two parts. The first section of this chapter includes theoretical framework whereas second part is confined to review of the previous studies carried out by the various researchers. In this chapter, the overall concept and view of “financial performance” will be streamlined through the review of relevant literature related to this study. This chapter includes the conceptual framework, review of empirical studies, review of Nepalese study and research gap.

#### **2.1 Conceptual Review**

Bank is considered as the backbone in the development of the national economy. It is a financial institution, which act as a transaction of money by accepting various types of deposit, disbursing loans and rendering other financial services. So, among the various function to provide loan to the investors is the major function. Through the loan, there will be increase in the environment of the investment and the bank has the major role in creating such an environment.

Bank plays a vital role in the economic development of a country. In fact, in the modern industrialized and service oriented era, the availability of banks with competitive services is the measure of economic development of a country. While many people believe that banks play only a narrow role in the economy taking deposit and making loans the modern banking has had to adopt new roles in order to responsive to public needs. The principal role that a bank today play are:

#### **The Intermediation role:**

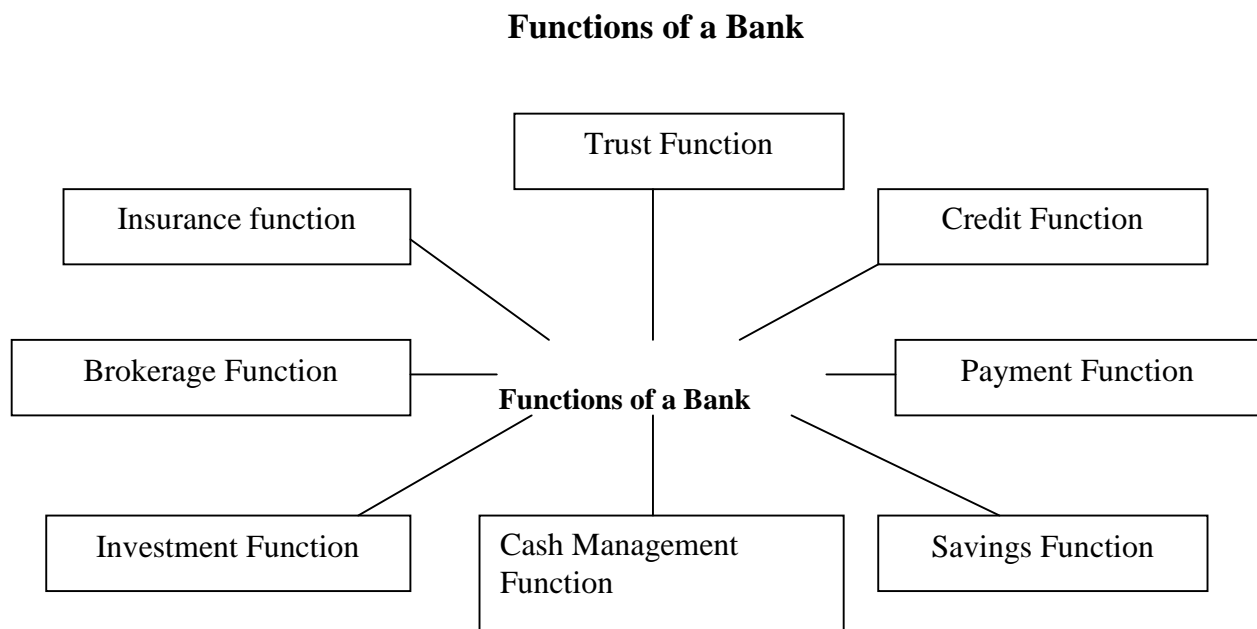
Transferring the saving received primarily from the households into credit (loans) for business firms and other in order to make investments in the new buildings, equipment and other capital goods.

### **The payment role:**

Carrying out payment for goods and services on behalf of their customer (such as by issuing and clearing cheque and dispersing currency and coins.)

### **The Policy Role**

Serving as a conduct for government policy in attempting to regulate the growth of the economy and pursue social goal. Some of the vital functions performed by a full banking service institution today are summarized in the figure below.



### **The Guarantor role:**

Starting behind the customers to pay off the customers debt when those customers are unable to pay (such as by issuing letters of credit). Some of guarantees are big bond, performance bond etc.

### **The Agency role**

Acting on behalf of the customers to manage and protect their property or issue and redeem their securities.

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the terms of the balance sheet and the profit and loss account. Management of the firm can undertake it or by parties outside the firm. Here the focus is SWOT analysis of NCCBL. Basically the researcher studies the following points of the bank.

### **Strengths, Weaknesses, Opportunities and Threats (SWOT).**

**SWOT** analysis is a tool for auditing an organization and its environment. It is the first stage of planning and helps marketers to focus on key issues. *SWOT* stands for **strengths, weaknesses, opportunities, and threats**. Strengths and weaknesses are **internal** factors. Opportunities and threats are **external** factors.

**In SWOT, strengths and weaknesses are internal factors. For example: strength could be:**

- ) Your specialist marketing expertise.
- ) A new, innovative product or service.
- ) Location of your business.
- ) Quality processes and procedures.
- ) Any other aspect of your business that adds value to your product or service.

**A weakness could be:**

- ) Lack of marketing expertise.
- ) Undifferentiated products or services (i.e. in relation to your competitors).
- ) Location of your business.
- ) Poor quality goods or services.
- ) Pamaged reputation.

**In SWOT, opportunities and threats are external factors. For example: An opportunity could be:**

- J A developing market such as the Internet.
- J Mergers, joint ventures or strategic alliances.
- J Moving into new market segments that offer improved profits.
- J A new international market.
- J A market vacated by an ineffective competitor.

**A threat could be:**

- J A new competitor in your home market.
- J Price wars with competitors.
- J A competitor has a new, innovative product or service.
- J Competitors have superior access to channels of distribution.
- J Taxation is introduced on your product or service.

A word of caution, SWOT analysis can be very subjective. Two people rarely come-up with the same final version of SWOT. It simply looks at the negative factors first in order to turn them into positive factors. So use of SWOT should be as guide and not a prescription.

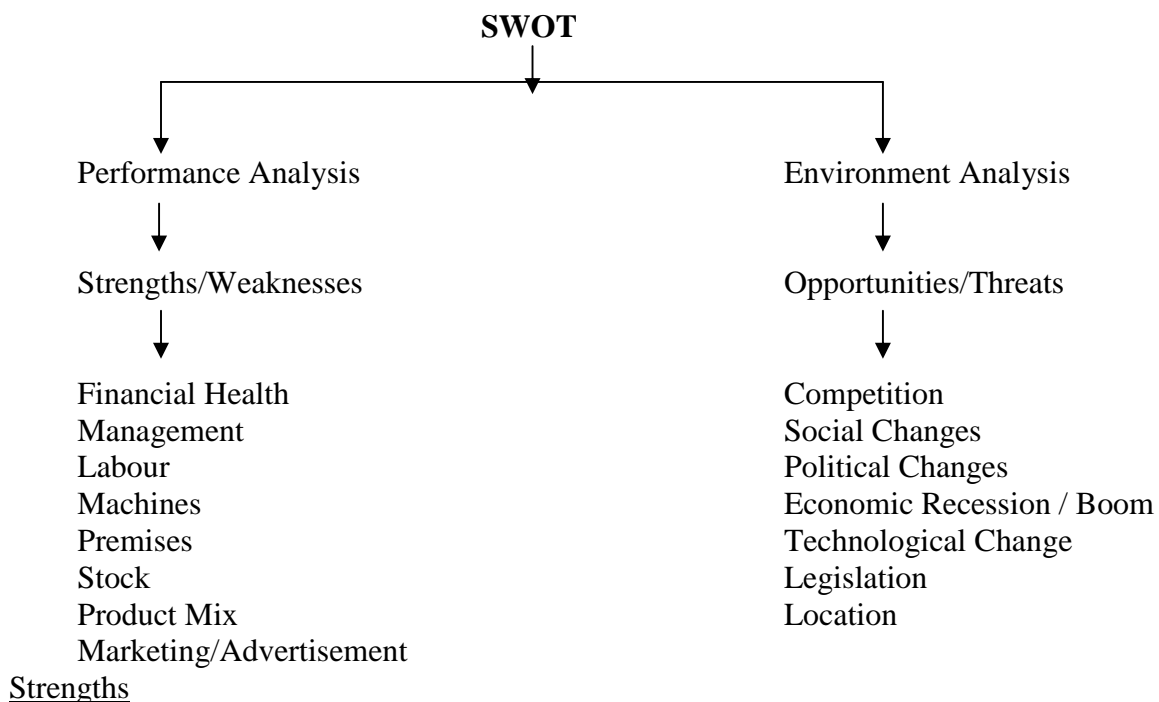
**Simple rules for successful SWOT analysis**

- J Be realistic about the strengths and weaknesses of your organization when conducting **SWOT** analysis.
- J SWOT analysis should distinguish between where your organization is today, and where it could be in the future.
- J SWOT should always be specific. Avoid grey areas.
- J Always apply SWOT in relation to your competition i.e. better than or worse than your competition.
- J Keep your SWOT short and simple. Avoid complexity and over analysis

) SWOT is subjective.

Once key issues have been identified with your SWOT analysis, they feed into marketing objectives. **SWOT** can be used in conjunction with other tools for audit and analysis, such as PEST analysis and Porter's Five-Forces analysis. So SWOT is a very popular tool with marketing students because it is quick and easy to learn.

Here, the focus is on the Financial SWOT which analyses basically on the financial aspects.



- Prime Location
- Proper Accommodation and Lay Out
- Adequate room for the expansion and growth
- Service oriented and competent Human resources
- Attractive interest rate in the deposit
- Diversified lending so far
- Diversified risk regarding lending
- Small and medium scale lending
- Prompt decision from corporate office

66 hrs banking a week

### Weakness

Lack of online connection with Outstation branch

Sluggish foreign Trade transactions

Weak in the remittance business due Commission Structure and alliance with the Indian

Bank having wide network in India

High interest rate in lending

Commissions high comparatively with Banks next door.

Lack of updated modern banking facilities.

Insufficient Junior Staff.

Non- Alliance with any corporate business house

Lease line connection to the system server

Lack of rebate system which motivates to settle the dues in time

### Opportunities

Revival of Trade Finance

Increase in the lending with medium scale

### Threats

- High rates of Interest and commissions
- Aggressive marketing of branches of other banks
- Problems arising with the repayment problems due to current situation of the country and global situation

## **2.2 Review of Rules, Regulation and Directives of NRB of Regarding Credit**

Management of Commercial Banks Various rules, regulations, Acts and directives are reviewed while preparing the commercial to manage the credit in the proper way. Obviously, these directives and actions towards the commercial banks by NRB are playing the great role for the comparative analysis of credit management of the commercial bank.

### **2.2.1 NRB Rules Regarding Fund Mobilization of Commercial Banks**

To Mobilize bank's deposit in different of the different parts of the nation to prevent them from the financial problems, central bank (NRB) may establish a legal framework by formulating various rules and regulations (prudential norms). These directives must have direct or indirect impact while making decisions to discuss those rules and regulations which are formulated by NRB in term of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CRR, loan loss provision , capital adequacy ratio, interest spread, productive sector investment etc. a commercial bank is directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and the counters, how much flexible and helpful the NRB rules are important. But we discuss only those, which are related to investment function of commercial banks. The main provisions established by NRB in the form of prudential norms in above relevant area are briefly discussed here:

### **2.2.2 Directives Relating to Loan classification and Loan Loss Provisioning**

Effective from FY 058/059(2001/2002), Bank should classify outstanding loan and advances on the basis of anain of principal amount. Loans and advances should be classified into the following four categories:

Pass: Loans and Advances whose principal amount are not past due and the jpast due fot a period up to 3(three) months shall be included in this category. These are classified and defined as performing Loans.

Substandard: All loan and advances that are past due fot a period of 3 months to 6months shall be included in this category.

Doubtful: All loan and advances that are past due fot a period of 6 months to 1 year, Should be included in this category.

Loss : All loans and advances which are past due for a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

Loans and advances falling in the category of sub-standard, doubtful and loss are defined as non- performing loan.

Here, if it is appropriate in the views of the bank management, there is not restriction in classifying the loan and advances from new risk category to high risk category. For instance loan falling under sub-standard category may be classified into doubtful or loss and loans falling under Doubtful may be classified into loss category. And the term Loans and advances also include bills purchased and discounted.

**Loans loss Provisioning:**

The Loans provisioning, on the basis of the outstanding loans and advance and bills purchased as above should be provided as follows:-

Classification of Loan	Loss Provision
Pass	1%
Sub- Standard	25%
Doubtful	50%
Loss	100%

Loan loss provision set aside for performing loans is defined as General Loan loss provision and loan loss provision set aside for non-performing loan is defined as Specific Loan Loss provision.

Before this arrangement was in force i.e. up to 2057.3.31, the classification and provisioning of loans and advances as per circular dated 2047.12.8 (July 15, 2001) was as follows:

Classification of Loans	Time	Provision Required
Good	Not overdue	1%
Acceptance	Overdue up to 1 month	1%
Evidence of sub-standard	Overdue 1-6 months	5%
Sub standard	Overdue 6 months- 1 year	25%
Doubtful	Overdue 1 to 5 years	50%
Bad	Overdue more than 5 Years	100%

### 2.2.3 Directive Relating to Capital Adequacy Norms for Commercial Banks

Circular dated 2057.12.2 /March 15, 2001, revised by circular dated 2058.5.29/ Sept.14, 2001)

Maintenance of the minimum capital fund: The total capital fund is the sum of core capital and supplementary capital.

On the basis of the risk- weighted assets, the banks should maintain the prescribed proportion of minimum capital funds as per the following time table:

Time Table	Core capital	Capital Fund
For FY 2058/59	4.5%	9%
For FY 2059/60	5%	10.0%
For FY 2060/61	6%	12%

### 2.2.4 Directives Relating to Interest Rates

According to previous directives, the differences between the interest provided and interest charged (spread rate) should not more than 5% These differences are calculated on this of the weighted interest too the directives of circular issued on 16th July 2002 (32 Ashadh 2059),

the requirement to maintain average interest spread at 5% has been with draw from the time being.

### **2.2.5 Directives to cash Reserve Ratio Requirements (CRR)**

To ensure adequate Liquidity in the commercial banks, to meet the depositors' demand for the cash at any time to inject the confidence in depositors regarding the safety of their deposited funds, commercial banks are required to have maximum CRR. In this regard Nepal Rastra Bank has directed commercial banks to deposits in their own bank's vault. Cash reserve ratio has been reduced by one percentage point effective beginning of new FY 2059/060.

### **2.2.6 Directives to Raise Minimum Capital Fund**

Nepal Rastra Bank has directed all the commercial banks under operation and established to operate in national level and having low capital base have been directed to raise their capital fund at a minimum level of Rs. Five hundred million by the end of the fiscal year 2000/001. The amount under the headings of the paid-up capital, general reserve, share premium, nonredeemable preference share and retained earning included in the core capital fund to the extent of the minimum capital funds of five of Rs. Five hundred million fill the end of fiscal year 2000/001, they would not allowed to declare and distribute dividend and bonus shares. It has further directed all the commercial banks to increase their paid up capital (not the total fund) to Rs. 1000 million by 2009 by increasing paid up capital at minimum of 10% percent annually.

### **2.2.7 Directives Regarding Investments in Shares and Securities by Commercial Banks (directives no. 8 of circular no. 70/05/8, Effective 2058/5/7)**

Banks should prepare written policy relating to investment in the shares and securities of other organized institutions. Such polices should be implemented only under the approval of the Board of Directors. There should be no restrictions as to investment by the banks in the securities of organized Nepal government and securities issued by Nepal Rastra Bank. Banks may investment in shares and securities of any one organized institutions not exceeding 10% of the paid up capital of such organized instruction.

## **2.3 Review of Related Studies**

### **2.3.1 Review of Journals**

This study has been designed to answer the different research questions. Therefore, the study deserves some significance. This study has multidimensional importance in the particular areas of the concerned bank. It will be helpful to the management to go deep into the matter as why the performance of this bank is better or worse than their competitors. Financial with banking would also find this study as a useful reference the result of the study is thought to be importance for the following groups: Management of the bank, Potential investors, Government, Policy formulators, General public, Academicians, Management, Stock brokers, Other commercial banks, Other concerned parties. At present, commercial banks in Nepal are holding high deposits. They hold not only higher deposits but also a higher lending portfolio. In spite of this, they have not been ranked, profit-wise in the topmost positions in the international banking world.

Several studies were conducted on scope and performance of Banking and Financial institutions. Those studies have shown that a huge amount of deposit is concentrated in urban areas especially in Kathmandu Valley and other cities. The banking and financial institutions, therefore have established at the potential sector (Kathmandu Valley and major cities). Customers of urban areas have received modern and sophisticated banking services. Rural people are yet to benefit from the banking and financial services to the fullest. However, the government is trying to expand the banking institutions to rural areas. The commercial bank and agriculture bank both are playing vital role in the economic and financial market development and vice-versa. They are both trying to expand their services to the rural areas and have several banking units set up in those areas to contribute to the development of those areas for the sector they serve (Rastriya Banijya Bank Upahaar, 2054:124).

There are many threats and opportunities in the banking sector. A proper analysis of these factors is a must for any bank to be on the cutting edge. One of the most trusted tools is the SWOT analysis.

SWOT is an acronym for:

- S= Strength: Higher deposits assuming huge inward remittance. Qualified and skilled staff.
- W= Weakness: Less earnings through forex transactions.
- O= Opportunities: Can make use of the excess deposit concentrating more on lending to various viable projects or to businessmen and entrepreneurs.
- T= Threats: Unfavorable economic condition, favorable business is unpredictable.

The objective of banks is to disburse more loans and advances. As the banks have acquired more deposits, they can lend the funds to businessmen/ entrepreneurs and earn interest based income. On the other hand, the banks should try to boost export business in order to gain more foreign currency, which ultimately increases its interest and commission-based earnings and FCY revaluation gains (Himalayan Bank, 2004:8).

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

According to the SWOT Analysis report of the NCCBL, Thankot Branch: “To identify the actual strength (to fight), weakness (to improve), opportunity (to grab) and threats (to warn) of the branch, we have done SWOT analysis, which preciously gives an idea where the branch standing at and what are the measurements to be taken for further improvements or better performance.”

**Strength:**

- Good/strong base of saving depositors
- Qualified/dedicated staff members
- Team spirit
- Efficient & accurate customer service

- Heavy deposit collecting branch
- Profit making branch
- Maintaining ideal CD ratio (84.71% as of Poush End 2059)
- Maintaining acceptable COD (3.74% as of Poush End 2059)
- Very good return on lending (14.23%) as of Poush End 2059)
- Nepal Oil Corporation (NOC) daily collection in as average of Rs. 90 Lakhs

**Weakness:**

- Lack of adequate equipments for smooth operation
- Lack of proper job description
- Weak recovery system
- Higher interest rates even in consumer nature of lending
- Congested place for security documents & volume of cash
- Improper seating arrangement
- NCCPS with minimum balance of Rs. 25,000/-
- No place for Big/Corporate deposits

**Opportunities:**

- Opportunities for Hire Purchase lending
- Priority sector/deprived sector lending
- Deposits from schools
- Deposits from co-operatives
- Small deposits in remote villages but different accessibility
- Lending to retailers to nearby are
- Opportunities for mushroom farming/ poultry farming/ feed industries/ stone crushers

**Threats:**

- Some Chronic NPAs
- Lack of proper security arrangements
- Articles and rumors jeopardizing the image of the bank
- EBL with competitive interest rates in consumer nature and lending

Thankot branch encompasses almost all of the above-mentioned indicators to be acclaimed as good & successful branch. However, SWOT analysis of the branch shows weaknesses & threats equally (Raj, 2059:15).

### **2.3.2 Review of Articles**

Manohar Krishna Shrestha on “Commercial bank comparative performance evaluation” has concluded that Joint Venture Banks (JVBs) are new, operationally more efficient, having superior performance while comparing with local banks. Better performance of JVBs is due to their sophisticated technology modern banking methods and skills. Their better performance is also due to burden, the banks facing governments’ branching policy in rural sector, but having number of deficiencies. So local banks have to face growing constraints of social, economical and political system on one hand spectrum and that of issues and challenges of JVBs commanding significant banking business on other spectrum (Shrestha, 2047:16).

The profit earned by the firm is the main financial indicator of business enterprise. Profit is the result of successful management, cost control, credit risk management, efficiency of operation etc. Profit is essential for an enterprise to survive, growth and to maintain capital adequacy through retained earnings. Profit is essential to raise the market price of shares and to attract additional capital investment. In this regard American Institute of Banking says “under the free enterprise systems of the U.S.A, the interest of the nation as well as those of individual stock holders are supposed to be best served by vigorously seeking profit. But the profit cannot be sole objective of an enterprise and enterprise should not be evaluated just on the ground of the profit it makes. Neither bank nor the communities are best served if the banker unreasonably sacrifices the safety of funds or the liquidity of the bank in an effort to increase income (American Institute of Banking, 1972:45).

Commercial banks in Nepal are the business institution, they should be careful in generating adequate profit for their operation. Liquidity is the other financial indicator of the business enterprise. It is extremely essential for a firm to be able to meet its obligations as they become due. Profitability determines the ratio of liquidity required to meet those obligations. To improve the productivity and quality of banking sector the authorities have created a new

environment-giving rise of joint venture banks with the massive program of stabilization and structural reform. To go with the our analysis later in the NBL have to do a lot for this it needs to identify the strength and weakness of the bank it terms of the accomplishment of the financial results.

After reviewing the books, certain useful journals on domestic market, banking financial statement analysis and monetary credit situation of Nepal are studied. There has been substantial growth in the number of joint venture banks in Nepal since 1990. The basic reason behind this is the governments' deliberate policies of allowing foreign joint venture banks to operate in Nepal. Government's liberalization policy also encourage the traditionally run domestic commercial banks to enhance their efficiency and competitiveness through modernization, mechanization via computerization and prompt computer services by setting them to the exposure of the joint venture banks (Shrestha, 1998:31).

Pradhan (1996), has presented a short glimpse on investment in different sectors, its problem and prospects through his article, "Deposit Mobilization, its problem and prospects." On his he has expressed that, "Deposit it the life blood of any financial institutions, and be it commercial bank, finance company, co-operative or non- government organization." He also added, in consideration of 12 commercial banks and nearly three dozens of finance companies, the latest figure does produce a strong felling that a serious review must be made of problems and prospects of deposit sector. Expected few joint banks, other organizations rely heavily on the businessman deposit receiving and credit disbursement.

In the light of this, Pradhan has pointed out following problems of deposit mobilization in Nepalese perspective:

1. Due to the lesser office hours of banking system people prefers for holding the cash in the personal possession.
2. Unavailability of the institutional services in the rural areas.
3. No more mobilization and improvement of the employment of deposits in the loan sectors.

4. Due to the lack of education most of Nepalese people do not go for saving in institutional manner. However, they are very much used of saving, be it in the form of cash, ornaments or kind. Their reluctance system are governed by their lower level of understanding about financial organizations, process requirements, office hours withdrawal system, availability of depositing facilities and so on.

Pradhan mentioned that deposit mobilization carried out effectively is in the interest of depositors, society, financial sectors and the nation. Lower level of deposit rising allows squeezed level of loan delivery leaving more room to informal sector. That is why higher priority to deposit mobilization has all the relevance.

Morrios, (1990) in his discussion paper, "Latin America's Banking system in the 1980's" has concluded that most of the banks concentrated on compliance with central banks rules on reserve requirements, credit allocation and interest rates. While analyzing loan portfolio quality, operating efficiency and soundness of bank investment management has largely been over looked. The huge losses now find in the bank's portfolio in many developing countries and testimony to the poor quality of this oversight investment function.

Shrestha, (1999) in her article, she has presented the objective to make an analysis of contribution of commercial banks lending to the gross domestic product (GDP) of Nepal. She has set hypothesis that positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various, industrial, viz. Agriculture, industries, commercial, service and general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analyses have shown that all variables expected sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e., there has been positive on GDP by the lending of commercial banks in various sector of economy, expected service sector investment.

Bajracharya, (1990), "Monetary policy and deposit mobilization in Nepal" Has conducted that mobilization of domestic saving is one of the prime objective of the monetary policy in

Nepal commercial banks and the more active financial intermediary for generating resource in the form of deposit of private and providing credit to the invest in different sectors of the economy.

Similarly, Shrestha (1991), in his article, "A study on deposit and credit of commercial banks in Nepal" Concluded the credit deposit ratio be 51.30 percent, other things remaining the same, in 2004 AD, which was the lowest under the period of review. So he had strong recommended that the commercial banks should try to give more credit earning new filed as far as possible. Otherwise, they might not be able to absorb even its total expenses (Shrestha, 1991).

Jha, (1995) in his article "Nepali Banking Sector, Challenges and Opportunities" In any economy, the important of financial sector in general and the banking sector in particular cannot be undermined. The banking sector definitely plays an able role in the overall development of an economy. The economic reforms initiated by the government more than a decade ago have changed the landscape of several sector of the Nepali economy. The Nepal Banking is no sector is any exception. This sector is going through major changes as a consequence of economic reforms. Over the years, the banking sector in Nepal has evolved as a distinct, sizeable and profitable sector. Relatively speaking, it is the most transparent sector, thanks to stringent regulatory norms of Nepal Rastra Bank. Today, anyone can go through the annual report of a bank and get an overall feel of its operations. We are not in a position to make a similarly statement for any other industry in Nepal. However, there are number of challenges facing this sector. Few of these are highlighted below.

Nepali Banking sector has always been stuck with the plain vanilla product like credit and deposits in on-balance sheet and LC's and guarantees in off-balance sheet items. Yes, over the last years, retail segment has been identified as a separate and distinct segment and some clearly identifiable retail products have been offered to this segment. Consumer loans (home, car and personal ) along with credit cards are few example of some specific consumer products being offered however, the banking sector has not been able to diversify itself in terms of bringing innovative and more sophisticated in the areas of global market, foreign exchange and international trade. Unavailability of structure debt and Forex market in the

country along with lack of adequate knowledge and infrastructure in these areas are the major obstacles for its growth. Few examples are outlined below”

1. Banks are investing in plain low interest yielding foreign currency deposit products and not going into high-interest yielding structure deposit products. As a result of this, they are losing out on the opportunity for maximizing returns.
2. In the absence of structured foreign exchange market, banks have not been able to offer too many Forex risk-hedging products to the ultimate customers. Lack of intent on the part of banks and regulator is considered as the major hindrance for this.
3. In trade finance, banks have not been able to provide structured trade solutions, which are considered highly essential in international trade.

There is not much research paper or article published about investment policy in Nepal. In the context of Nepal, there has been needed the research of investment in commercial banks and financial institutions in the routine work.

Pradhan, (1992) on his study entitled “Stock market behaviour in a small capital market: A case of Nepal in 1996, the study mainly dealt with financial function. Sources and types of financing, financing decisions debt effect of change in taxes on capital structure, financial distress, dealing with banks and dividend policy.

The major finding of study connected with financing management is given as:

1. Banks and retained earning are the two most widely used financing sources.
2. The enterprises have a definite performance for bank loans at a lower level of debt.
3. Generally, there is no definite time to borrow the issues stocks, which is majorities of respondents are unable to predict when interest rate will low or go up are unable to predict when the stock will go down or up.
4. Most enterprises do not borrow from one bank only and they do switch between banks whenever offer best interest rates.
5. Most enterprises find that are flexible in interest rates and convenience.

To sum up it can be said that out of numbers studies on the capital market in Nepal, this study is established itself as a milestone and an outstanding one.

Shrestha, (1993), in her study entitled, “Lending operation of commercial banks of Nepal and its impact on GDP” has made remarkable efforts to examine the investment planning of commercial banks in Nepal. On the basis of the study she concludes that bank portfolio (loans & investment) of commercial banks has been influenced by the variable securities rate. Investment planning of commercial banks in Nepal is directly traced to fiscal policy to government and heavy regulatory of the central bank (Nepal Rastrra Bank). So the investments are not made in professional manner. Investment planning and operation of commercial banks in Nepal has not been found satisfactory in terms of profitability, liquidity, safety, productivity and social responsibility. To overcome this problem, she suggested, “commercial banks should take their investment with proper business attitude and should perform lending and investment operation efficiently with proper analysis of the projects.”

Shrestha (1998), Deputy Chief Officer of Nepal Rastra Bank, banking operation department has given a short glimpse on the “Portfolio management in commercial banks; theory and practice.”

Mr. Shrestha has highlighted following issues in the article. The portfolio management becomes very important for individuals as well as institution investors. Investors would like to select a best mix of investment assets subject to the following aspects:

1. Higher return, which is comparable with alternative opportunities available according to the risk class of investors.
2. High liquidity with adequate safety and profitability of investment.
3. Maximum tax concession.
4. Flexible investment.
5. Certain capital gains.
6. Economic, efficient and effective investment mix.

According to above aspects, some following strategies are adopted:

1. Do not hold single security i.e. try to have portfolio of different securities.
2. Do not put all the eggs in one basket i.e.; to have a diversified investment.
3. Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower return but with added objective of wealth maximization.

However, Shrestha has also presented following approach to be for designing a good portfolio and its management:

1. To find out invest able assets (generally securities) having scope for better returns depending upon individual characteristics like age, health, need. Disposition, liquidity, tax liability, etc.
2. To find out the risk of the securities depending upon attitude of investor toward risk.
3. To develop alternative investment strategies for selecting a better portfolio that will ensure a trade-off between risk and return, so as to attach the primary objective of wealth maximization at lower risk.
4. To identify securities for investment to reduce volatility of return and risk.

Shrestha has presented two types of investment analysis techniques i.e. fundamental analysis and technical analysis to consider any securities such as equity, debenture or bonds and other money and capital market instruments. He has suggested that the banks having international network can also offer access to global financial markets. He has pointed out the requirements of skilled manpower, research and analysis team and proper management information system (MIS) in any commercial banks to get success in portfolio management and customer's confidence. At last, Mr. Shrestha has put the following remarks:-

1. The survival of every bank depends upon its own financial health and various activities.
2. In order to develop and expand the portfolio management activities successfully the investment management methodology of a portfolio manager should reflect high standard and gives their client the benefits of global strength, local insights and prudent philosophy.

3. With the disciplined and systematic approval to the selection of appropriate countries, financial assets and the management of various risks, the portfolio manager could enhance the opportunity for each investor (client) to earn superior return overtime.
4. The Nepalese banks having greater network and access to national and international capital market have to go portfolio management activities for the increment of their fee based income as well as to enrich the client based and to contribute in national economy.

### **2.3.3 Review of Thesis**

There are lot of researches have been performed on investment policy of commercial banks. The finding of some of the studies is presented below:

Lila Prasad Ojha (2002) conducted a study on “*Lending Practice: A Study on NABIL Bank Limited, SCB Nepal Limited, and Himalayan Bank Limited.*” With the objective of:

- ) To determine the liquidity position, the impact of deposit in liquidity and its effect on lending practices.
- ) To measure the bank’s lending strength.
- ) To analyze the profit behavior of lending and measuring the ratio and volume of loans & advances made in agriculture, priority and productive sector.
- ) To measure the lending performance in quality, efficiency and its contribution in total income.

The study was conducted on the basis secondary data. The research finding of the study is:

The measurement of liquidity has revealed that the mean current ratio of all the three banks is not widely varied. All of them are capable in discharging their current liability by current assets. The measurement of lending strength in relative term has revealed that the total liability to total assets of SCNBL has the highest ratio. The high ratio is the result of high volume of shareholders equity in the liability mix. Himalayan Bank Limited has high volume of saving and fixed deposit as compared to current deposit resulting into low ratio of non-interest bearing deposits to total deposits ratio compared to the combined mean. SCBNL’s

tendency to invest in government securities has resulted with the lowest ratio of loan & advances to total assets whereas. NABIL Bank Limited. Has the highest due to steady and high volume of loan & advances throughout the years. The ratio of investment on loan & advances has measured the total portion of investment in total of investment and loan Advances. The mean ratio among the bank does not have deviated significantly. The loan & advances and investment to deposits ratio has shown that NABIL Bank Limited has deployed the highest proportion of its total deposits in earning activities. This is indicative of that in fund mobilizing activities NABIL Bank Limited is significantly better.

The absolute measures of lending strength have revealed that the mean volume of net assets and deposits is higher in SCBNL with moderate variation. The volume of net assets of Himalayan Bank Limited is the least to the low share of capital, reserves & surplus in its capital mix. But the volume contributed by Himalayan Bank Limited. In case of loan & advances is highly appreciable compared to its net assets. The volume of loan & advances contribution by NABIL Bank Limited is the greatest in five years of study period. The mean investment of NABIL Bank Limited is the highest but the investment on government securities of SCBNL is the highest. The portfolio analysis has revealed that the flow of loan & advances in agriculture sector is the lowest priority sector among these commercial banks. The contribution of the entire bank in industrial sector is appreciable. The contribution made by Himalayan Bank Limited. In industrial sector is the greatest that of SCBNL is the least. The lending in commercial purpose is the highest in case of NABIL Bank Limited and least in case of SCBNL has highest contribution in service sector lending. It has contributed 34. 86 % of its total credit in general use and social purpose. The measurement of efficiency in lending has revealed that the loan loss provision to loan & advances analysis shows NABIL Bank Limited has the highest mean ratio. According to Nepal Rastra Bank directives, the loan loss provision indicates the provision made against the performing loan (pass loan and sub-standard loan) only. It indicates that the volume of sub-standard loan in the loan mix on NABIL Bank Limited. Is higher and the volume of non-performing loan in the mix of NABIL Bank Limited is likely to increase in coming future. The mean ratio of interest income to total income has concluded that the contribution of interest income in total income is higher in case of Himalayan Bank Limited. And lower in case of SCBNL. The interest

expenses to total deposits ratio indicate that the cost of fund in Himalayan Bank Limited. Is the highest and that of SCBNL is the least. The total income to total assets ratio measures the earning power of each rupee employed by the bank. NABIL's ratio in this case is the best. The ratio of total income to total reflects the capacity of a rupee of expenses. The productivity of expenses in SCBNL is the best. The performance of SCBNL is significantly better than two banks in case of profitability. EPS is the highest in the case of SCBNL.

Samiksha Thapa (2002) conducted a study on “*Investment Policy of Nepal Bangladesh Bank Limited and other Joint Venture Banks (NABIL and Grindlays Bank Limited.)*” with the objective of:

- ) To examine the liquidity, assets management efficiency, profitability and risk position of NB Bank in comparisons NABIL and NGBL.
- ) To analyze the relationship between loan & advances and total investment with other financial variables of NB Bank Limited and compare them with NGBL.
- ) To examine the fund mobilization of investment policy of NB Bank through off-balance sheet activities in comparison to the other two banks.
- ) To study the various risks in investments of NB Bank in comparison with NABIL and NGBL.
- ) To analyze the deposit utilization trend and its projection for next five years of NB Bank and compare them with NABIL and NGBL.

The study was conducted through secondary data. The research findings of the study are as follows:

The liquidity position of NB Bank is comparatively better than that of NABIL and NGBL. NB Bank is not better position regarding its on balance sheet as well as off balance sheet activities in compare to NABIL and NGBL. NB Bank dose not seem to follow any definite policy regarding the management of its assets. Profitability position of NB Bank is comparatively worse than that of NABIL and NGBL. NB Bank has maintained high growth rates comparison to other banks through it is not successful to make enough investment. The

position of NB Bank in regard to utilization of the fund to earn profit is not better to compare to NABIL and NGBL.

Shrijana Shrestha (2004) conducted a study on “*Nepal Rastara Bank Guidelines on Investment Policy of Commercial Banks in Nepal (A Case Study of Nepal Investment Bank limited.)*” With objective of

- ) To highlight the NRB directives regarding investment policy (Loan, advances and investment)
- ) To analyze the liquidity of NIBL.
- ) To find out relationship between total deposit total and loan and advances, total deposit and total investment.
- ) To make the trend value analysis of deposit utilization and its projection for next five years.
- ) To find out whether NRB guidelines are actually being implemented.

The study was conducted on the basis on secondary data.

The main finding of the study is:

Bank in good position to meet the daily cash requirement as bank maintain the average cash and bank balance in respect to total deposit. The performance of NIBL regarding deposit collection, granting loan and advances and investment is quite satisfactory but does not seem to follow a definite policy. NIBL has not efficiently utilized its equity capital hence return on equity is not satisfactory because of lack of sound investment policy for mobilization of its equity capital. Interest earned to total operating income of NIBL is high. However, bank failed to maintain net profit on the study. From the analysis of coefficient of correlation, there is positive and significant relation between total deposit and loan and advances and current assets and current liabilities and loan loss provision and loan advances but there is negative and no significant relationship between outside assets and net profit. Trend analysis and projection for next year of total deposits, loan and advances, investment and net profits are in increasing trend.

Deepak Pandit (2004) has conducted on “*Investment Policy Analysis of Joint Venture Bank with Special Reference to Nepal SBI Bank, Bank of Katmandu and Everest Bank Limited*” with the objective of :

- ) To evaluate whether the liquidity management assets, efficiency, profitability position, risk position and investment practices of Nepal SBI Ban, BOK and EBL.
- ) To find out the relationship between deposit and total investment, deposit and loan and advances and net profit and outside assets.

The study was conducted on the basis of secondary data. The research finding of the study is:

Liquidity position of SBI Bank is slightly good position in compare to other banks i.e. BOK and EBL. The liquidity of Banks is not so satisfactory so banks should improve their liquidity position to meet the current obligation. At the study of assets management ratio shows that SBI Bank is not better position regarding its on balance activities. The profitability position of SBI is not satisfactory that the other banks. Risk ratio of BOK is the highest at all and the capital risk ratio of EBL is highest of all. It indicates that BOK and EBL must be careful about risk. Growth ratio of SBI and BOK have not successful to increase their sources of fund, EBL has success to maintain its higher rate of total deposit. Trend analysis of total deposits, loan and advances, total investment and net profit and projection of next 5 years of SBI, BOK and EBL reveals that, SBI has increasing trend values in total deposit, total investment and loan and advances of BOK and EBL has increasing trend value of all types of trend analysis.

Total investment and net profit are decreasing, whereas in case of EBL, all the trend values are in increasing trend.

Joti Joshi (2005) conducted a study on “*Investment Policy of Commercial Bank in Nepal: A Comparative Study of Everest Bank Limited with NABIL Bank Limited and Bank of Katmandu*” with the objective of:

- ) To discuss fund mobilization and investment policy of EBL, NABIL and BOK Limited.

- ) To evaluate the liquidity, efficiency and profitability and risk position.
- ) To evaluate the growth ratios of loan & advances, total investment with other financial variables.
- ) To analyze the trend of deposit utilization towards total investment and loan & advances.
- ) To conduct hypothetical test to find whether there is significant difference between the various important ratios of EBL & NABIL & BOK.

The study was conducted on the basis of secondary data.

The research finding of the EBL is comparatively better than NABIL and BOK, EBL has the highest cash and bank balance to total deposit, cash and bank balance to current assets ratio. NABIL has the lowest liquidity position than that of other two banks. EBL has good deposit collection and has made enough investment on government securities but it has maintained moderate investment policy on loan & advances. From the analysis of assets management ratio or activity ratio, it can be concluded that EBL is comparatively average or in between successful in compared to NABIL and BOK. The total investment of EBL is in between in compared to other two banks. In the study, loan & advances to total deposit is higher in BOK but total investment to total deposit is higher in NABIL. Investment on shares and debentures to total working fund ratio is higher in BOK. But the coefficient of variation is higher in EBL. In analysis of profitability, total interest earned to total outside assets of EBL is lower at all. But overall analysis of profitability ratio, EBL is average profitable in comparison to other compared i.e. NABIL and BOK, from the viewpoint of risk, EBL has higher capital risk ratio but average of credit risk ratio in compared to NABIL and BOK.

Panchskar Shrestha (2006) conducted a study on “*SWOT Analysis of Nepal Bank Limited*” with the objective of:

- a) To Review strength & weakness of Nepal Bank Limited in it’s major areas of operation.
- b) To explore areas of opportunities and threats to Nepal Bank Limited prevailing in the changing context.

- ) To show a suggestive package based on the findings of the study for the improvement of the financial performance of Nepal Bank Limited.

On the basis of the various studies and analysis major findings of this study are presented below:

- i) Liquidity Position of sample bank seems quite near or an average. It is obvious that in the present situation of the country, investment potentiality is not favourable so the liquidity in the commercial banks is sufficient.
- ii) The sample commercial bank has high volume of non - performing assets with respect to the total assets i.e. 0.30.
- iii) There was a situation of continuously negative profit in Nepal Bank Limited till the FY 2059/60. Therefore, all the indicating factors to represent the profitability are in negative in Nepal Bank Limited. NBL was generating interest income from its credit on average of 7.0%. If we take the volume of net profit in NBL, It was 1323 million in the FY 2061/62.
- iv) Because of the negative profit up to 2059/60, NBL has negative earning per share. But from the FY 2060/61, it can earn profit and its earning per share is positive. But average EPS of NBL was Rs 307 in the study period.
- v) Credit and Investment to total deposit ratios of Nepal Bank Limited was 78% on an average for the study period. Similarly correlation between deposit and loan and advance was negative correlation in Nepal Bank Limited for the study period. This indicates that trend of deposit utilization in RBB was poor.
- vi) Nepal Bank Limited was not being able to maintain the preferred provision apart from for pass loan. Similarly NBL was high provision for non - performing loan. As far as directive credit is concern NBL could not provide any kind of figure for directive credits.

Bipul Devekota (2007) conducted a study on “*Comparative SWOT Analysis of Nepalese Commercial Joint Venture Banks (Standard Chartered Bank Nepal Ltd., Nepal Arab Bank Ltd. AND Himalayan Bank Ltd.)*” “with the objective of:

- ) To study and analyze the growth, objectives, functions, and role of the commercial Joint Venture Banks
- ) To evaluate the comparative financial strengths & weakness of three competitive JVBs.
- ) To provide package of suggestions and possible guidelines to improve the banking operation in order to maximize the values of their shareholders based on the findings of the study.

On the basis of the various studies and analysis conducted above, the following are findings of the study:

- a) Banks are primarily profit making organizations that provide a range of financial services to their customers. On the basis of the profitability, the selected JVBs are among the top five commercial Banks operating in the country, Standard Chartered Bank Nepal Ltd., being the top one. The profitability position of SCBNL & NABIL is better than that of HBL in terms of Return on total assets and total deposits.
- b) Interest incomes form the major portion of the total income in all these selected JVBs during this study period. Likewise, interest expenses cover the major portion of total expenses in these banks.
- c) During the study period, HBL is found to be the highest Deposit holding bank. In other words, Total deposits of HBL exceeded the other two banks under study, SCBNL & NABIL, in all of the years taken for this analysis. *In the trend analysis section*, it is noticeable that the Total Deposits for NABIL is in the decreasing trend. The Total deposits trend of NABIL explains that its deposit is declining by NRs. 389.22 million each year. The Total deposits trend of HBL shows that the trend line almost fits with the actual Total deposits which have been increasing by NRs. 1795.42 million each year.
- d) HBL has been seen to adopt the aggressive lending policy during the period of this analysis. It has been mobilizing a large portion of its Total deposits on Loans & Advances. The Loans & Advances of HBL has always been greater as compared to SCBNL & NABIL during this whole period under analysis.
- e) In case of all three JVBs, debt financing has always almost exceeded 90 % of the Total Assets over the review period, which indicates the excessively geared capital structure of

these banks, which signifies the excessive use of debt to finance Total Assets. The high 'Total Outsiders' Fund to Total Assets' ratio implies bank's success in exploiting debts to the more profitable assets. Since all the JVBs had been extensively using debt financing to the total assets, it can be concluded that these banks are highly levered.

- f) The analysis reveals that all the JVBs have limited their Net Fixed Assets to Net worth Ratio at adequate level. Banks being the non-manufacturing enterprises have the minimal investment of owners' equity in the fixed assets in order to maximize the return on shareholders' fund.
- g) The investments of all these JVBs are found to be more or less volatile. In some years, they are in the increasing trend whereas in other years, they are in the decreasing trend. This might be due to the instability in the political & economic situation of the country, which created an environment of chaos in the overall economy including the banking industry.
- h) Other financial indicators like Earning per share (EPS), Dividend per share (DPS) and Book Value per share of SCBNL is found in the better position as compared to that of NABIL & HBL. The DPS of SCBNL & NABIL is in the increasing trend as compared to that of HBL, which is rather volatile.
- i) The comparative strength of SCBNL is better as compared to NABIL & HBL as per data and as per the analysis done in the various sections. One the primary objective of the commercial bank is to maximize the profit. The SCBNL has dominated in this regard during almost the whole period of study except for one or two cases where NABIL took off. However, the profit before tax of all three banks is in the increasing trend.
- j) The loan loss provision of SCBNL has always been least (during the whole period under analysis) among these three selected Joint Venture Banks signifying that it has less amount of bad loans, which is obviously good for any bank. This also proves the greater strength of SCBNL in mobilizing its deposits in the more beneficial manner.
- k) Since all the three Banks selected for study are among the top banks operating in Nepal, their relative financial strength is better in the economy as compared to the other banks. But while comparing these selected banks alone, SCBNL, NABIL & HBL can be ranked chronologically as banks with higher strengths and lower weaknesses. Opportunities & Threats are present in the external environment. It is very probable that the bank with

higher strength can grasp excellent opportunities and avoid redundant treats present in the economy.

## **2.4 Research Gap**

This research paper is mainly focused on the bank's strength, weakness, opportunity and threat. The researcher has found various studies conducted in the field of financial performance of joint venture banks. But there is very few studies regarding SWOT analysis were found. However, different pilot studies have been reviewed so that the chances of duplication will be avoided from the present study and some newness can be created for serving the objective set.

Similarly, Bipul Devkota and Panchskar Shrestha have confined his study to the examination and evaluation of financial operation, financial position and performance of Standard Chartered Bank Nepal Ltd., Nepal Arab Bank Ltd., Himalayan Bank Ltd. and Nepal Bank Limited. They have assessed their strengths, weaknesses and opportunities and attempted to find out reasons of changes on profitability and liquidity trends of the both.

In conclusion, the researcher is trying to clear that whether it is focused to the deposit mobilization, generating more profitability, giving more loan and advances to customers or not. So, it is trying to evaluate the effectiveness of monitoring and collective policies of the bank especially of Nepal Credit & Commerce Bank Ltd. (NCCBL). So, this study will be fruitful to those interested person parties scholars, professor, students, businessman and government for academically as well as policy perspective.

## **CHAPTER- THREE**

### **RESEARCH METHODOLOGY**

This chapter is designed to throw light on the methodology used to undertake this study which aims at analyzing the overall financial performance of Nepal Credit & Commerce Bank Ltd. (NCCBL) using SWOT analysis and drawing some patient conclusion from this. Research methodology understands for the research technique used thought the research process. The basic objective of the study is to determine the financially strengths & weaknesses and opportunities & threats of the bank under study, evaluating its respective performance and to offer suggestion packages for better financially strengths & weaknesses. “Research methodology is the process to solve the research problems systematically” (Kothari, 1994:39). Research methodology refers to the various sequential steps to be adopted by researcher in studying a problem with certain objective/objectives in view. Therefore this chapter deals with the following aspects of methodology.

#### **3.1 Research Design**

Research design serves as a framework for the study, guiding the research instruments to be utilized, and the sampling plan to be followed. In other word research design describes the general plan for collecting, analyzing and evaluating data. Research design understands for definite sets of procedures, processes, and a technique that guides the research process and propounds the ways for research’s viability. Since, the study is mainly focused on finding out the appropriate path for improving the performances of the bank under study named Nepal Credit & Commerce Bank Limited (NCCBL) and its respective role in the economy. The study is so designed as to give a clear picture of the bank’s financial statement. Both the descriptive as well as analytical methods have been applied wherever necessary. Suggestions from the guide teacher as well as other faculty members have been incorporated in the research to make it more attractive and impressive.

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

A small portion chosen from the population for studying its properties is called a sample and the number of units in the sample is known as the sample size. The population for this study

comprises 25 commercial banks currently operating in the country. All the commercial banks perform under the rules, regulations and directives of Nepal Rastra Bank. The sample consists of judgmentally selected only one bank- Nepal Credit & Commerce Bank Ltd. (Earlier established as Nepal Bank of Ceylon Ltd.). Financial statements of this bank for latest five years (2003/04 to 2007/08) have been taken as sample for this purpose.

### **3.3 Nature and Sources of Data**

The study is mainly based on secondary sources of information, which provides insights into financial performance of the bank under the study (NCCBL). The supplementary data and information have been collected from unpublished official annual reports of the respective bank, information from Nepal Rastra Bank and other reports, magazines and dissertations and bulletions of the concerned organization. The research is based on secondary source of data. For research purpose, published financial statements (i.e. Annual report) of concerned banks were collected. Similarly, financial statement of selected commercial banks and various markets related information were collected and tabulated in spreadsheet. Such secondary information was gathered from the share department of the concerned banks and Security Board of Nepal. In addition, an answer on certain queries made to staffs of concerned organization personal enquires and discussions were also being conducted for clarification and verification of collected data and for recommendation.

### **3.4 Data Collection Procedure**

The problem of the study lies on the issues related to the strengths and weaknesses of the bank. As a consequence of liberal policy adopted by the government, financial institutions have been emerging in the country. The sample bank has been facing threats from such institutions. Therefore, the study is also intended to find the weaknesses and strengths so that appropriate suggestion can be provided to enhance the performance of the bank in coming days.

For this purpose, various data are required with the view of obtaining the data, researcher made several visits of the sample bank. In first visit, the researcher consulted the concerned authority of the bank and explained about the above stated problems and objectives of the

study. Researcher also explained why she is interested in this bank and what she wishes to analyze. After keeping the view of researcher the authorities got convinced and appraised the efforts. They assured that they would help as far as possible. Regarding the information needed they said that they would make them available up to the extent that doesn't affect the privacy and secrecy of the bank. Researcher got pleased with the response shown by them and started the work.

In another visit, researcher approached to the share department and asked profit and loss account and balance sheet of the bank of last five years. After explaining the need of such information, the related staff provided the necessary statements. Likewise, the researcher visits the accounting expert in the bank for the clarification of the components items of the statements so as to avoid the ambiguity and confusion. In this way the researcher got the available data for his study.

### **3.5 Data Processing**

Data obtained from the various sources cannot be directly used in their original form. Further, they need to be verified and simplified for the purpose of analysis. Data, information, figures and facts so obtained need to be checked, rechecked, edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful tables, which have been shown in annexes. Homogeneous data have been sorted in one table and similarly various tables have been prepared in understandable manner, odd data excluded from the table. Using financial and statistical tools, data have been analyzed and interpreted.

### **3.6 Analytical Tools**

To meet the objectives of the study, the sources of secondary data of commercial bank are analyzed by using financial tools such as ratio analysis. Simple descriptive analysis tools such as frequency, mean, standard deviation are used. Financial statement can provide various useful informations for the parties directly or indirectly involved in the business. Selection of suitable tools and proper analysis makes data effective. The researcher has used two sorts of tools. They are as follows:

### **3.6.1 Financial Tools**

Financial tools are those, which are used for the analysis and interpretation of financial data. These tools can be used to get the precise knowledge of a business, which in turn, are fruitful in exploring the strengths and weaknesses of the financial policies and strategies. In order to meet the purpose of the study, following tools have been used.

#### **3.6.1.1 Ratio Analysis**

The ratio analysis is considered as a powerful tool for making financial analysis. A ratio may be defined as the indicated quotient of two mathematical expressions and a relationship between two or more variables with each other. Ratio analysis is a process of determining and interpreting financial performance or position of the firm by comparing various numerical figures presented in the financial statements. A ratio is simply a number expressed in terms of another number and it expresses the quantitative relation between any two variables (Kothari, 1994:487).

Ratio analysis is a technique of analysis and interpretation of financial statements. To evaluate the performance of an organization by creating ratios from the figures of different accounts consisting in the balance sheet and income statement is known as ratio analysis (Dangol, 2054:369).

Ratios can be grouped under five main groups:

- a. Liquidity Ratios
- b. Activity Ratios
- c. Profitability Ratios
- d. Capital Structure/Leverage Ratios
- e. Other Ratios

#### **a. Liquidity Ratios:**

The firm's ability to meet its short-term obligations is known as liquidity. Liquidity reflects the short-term financial strength of the business firm. The insight can be obtained from present cash solvency of the bank and its ability to remain solvent in the event of advertised. Liquidity ratio is used to make comparison between short-term resources and short-term

obligations of the firm. Liquidity ratio may be further sub grouped into two major heads. In the context of burning competition in banking sector, insufficient liquidity will leave the concerned bank behind. On the other hand, high liquidity is also bad as it results in lower profitability because of underutilized assets. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquidity (Pandey, 1990:101).

### **1. Current Ratio**

Current ratio is the relationship between the current assets and current liabilities. This ratio shows the banks current solvency. The higher is the current ratio better is the liquidity position of the firm and vice-versa. Current assets mean those assets, which can be converted into cash within a year. Similarly, current liabilities are those obligations payable within a short period.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current assets include cash and bank balance, money at call or short notice, investment in government securities, loan and advances, bills purchased and discounted, interest receivables, prepaid expenses and miscellaneous current assets. Similarly, current liabilities include current and saving deposits, bills payable, borrowing bank overdrafts, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Current ratio is a measure of firm's solvency. It indicates the availability of the current assets in rupees for every one rupee of current liability. As a conventional rule a current ratio of 2:1 is considered satisfactory. However, this rule should not be blindly followed, as it is the test of quality. In spite of its short-coming, it is a crude and quick measure of the firm's liquidity (Pandey, 1990:115).

### **2. Cash and Bank Balance to Current and Saving Deposits Ratio**

Cash and bank balances are the most liquid current assets. This ratio is calculated to find out the percentage of most liquid fund with bank to make immediate payment.

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash and bank balance}}{\text{Current and saving deposit}}$$

Cash and bank balance comprises cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic bank and balance held in foreign banks. Current and saving deposit consists of all types of deposits excluding fixed deposits. The ratio measures the ability of bank to meet its immediate obligations. The bank should maintain adequate cash and bank balance to meet the unexpected as well as heavy withdrawal of deposits. High ratio indicates sound liquidity position of the bank. However, too high ratio is not good enough as it reveals the under utilization of fund.

### **3. Cash and Bank Balance to Total Deposits Ratio**

This ratio is calculated to find out the percentage of bank's idle money with total fund collected, which is not used to create money.

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash \& bank balance}}{\text{Total deposits}}$$

Total deposits consist of current deposit, saving deposit, fixed deposit, and money at call, short notice and other deposits. The ratio shows the proportion of total deposits held as most liquid assets. High ratio shows the strong liquidity position of the bank. But too high ratio is not favourable for the bank because it produces adverse effect on profitability due to idleness of high-interest bearing fund.

### **4. Fixed Deposit to Total Deposit Ratio**

Fixed deposit is the highest interest bearing long-term liabilities. This ratio is calculated to find out the percentage of fixed deposit with highest interest bearing. Higher the ratio of fixed deposit to total deposit ratio gives the higher liquidity ratio because higher portion of the long-term liabilities means lower the current liabilities, which gives the higher liquidity ratio.

$$\text{Fixed Deposit to Total Deposit Ratio} = \frac{\text{Fixed deposit}}{\text{Total deposit}}$$

High ratio indicates better opportunity available on the bank to invest in sufficient profit generating long-term loans. Low ratio means the bank should invest the fund of low cost in short-term loans.

### **5. Saving Deposit to Total Deposit Ratio**

Saving deposit is the short-term liabilities with fixed interest charges. This ratio calculated to find out the proportion of saving deposit with respect to total deposit. Higher the ratio of saving deposit with respect to total deposit causes lower liquidity position.

$$\text{Saving Deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

### **6. Loan and Advance to Current Assets Ratio**

Loan and advance is the current assets, which generates the income. Loans and advances include bills purchased and discounted, cash credit, overdrafts and other short-term loans etc.

$$\text{Loan and Advance to Current Assets Ratio} = \frac{\text{Saving Deposit}}{\text{Current Assets}}$$

### **b. Activity Ratios:**

The funds of creditors and owners are invested in various assets to generate income and profit. Activity ratios reflect how efficient the banks have been in managing its resources. Thus, these ratios measure the degree of effectiveness in uses of resources or funds. This activity ratio is also called as turnover ratio, or efficiency ratios or assets utilization ratios. High ratio depicts the managerial efficiency in utilizing the resources. They show the sound profitability position of the bank. Low ratio is the result of insufficient utilization of resources. However, too high ratio is also not good enough as it may be due to the insufficient liquidity.

### **1. Loans and Advances to Total Deposit Ratio**

This ratio is calculated in order to find out whether the banks are able to utilize their total deposits for profit generating purpose on loans and advances made by them. Generally, a

high loans and advances to total deposit ratio reflects higher efficiency to utilize its total deposits vice-versa.

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

Loans and advances consist of loans, advances, cash credit, overdrafts and foreign bills purchased and discounted. Total deposit includes all types of deposit. High ratio means the greater use of deposit for investing in loans and advances. But very high ratio shows poor liquidity position and risk in loans. On the contrary, too low ratio may be the cause of idle cash or use of fund in less productive sector.

## **2. Loans and Advances to Fixed Deposit Ratio**

Fixed deposit bears long-term interest associated with long-term obligations. Loans and advances is the major source of income that can be invested to generate further income by the banks loans and advances to fixed deposits ratio measure the extent to which the fixed deposits are utilized for generating income.

$$\text{Loan and Advances to Fixed Deposit Ratio} = \frac{\text{Loans and advances}}{\text{Fixed Deosit}}$$

Since, the fixed deposits carry high rate of interest, fund so collected need to be invested in such sectors, which yield at least sufficient return to meet the obligation. High ratio means utilization of the fixed deposit in from of loans.

## **3. Loans and Advances to Saving Deposit Ratio**

Saving deposit is that liabilities, which bears short-term interest loans and advances are the major sources of income that can be reinvested for generating incomes by the bank. Loans and advances to saving deposit ratio are calculated in order to measure how many times loans and advances have been made in comparison with saving deposits.

$$\text{Loan and Advances to Saving Deposit Ratio} = \frac{\text{Loans and advances}}{\text{Saving deposits}}$$

High ratio indicates greater utilization of the saving deposits in advancing loans.

#### **4. Investment to Total Deposit Ratio**

Investment is one of the major forms of credit created to earn return. Investment to total deposit ratio measures the mobilization percent of total deposit on investment. Investment includes both short-term and long-term investment i.e. investment on government securities and investment on shares, debentures, HMG Treasury bills, development bonds etc.

$$\text{Investment to Total Deposit Ratio} = \frac{\text{Investment}}{\text{Total deposits}}$$

High ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds.

#### **5. Performing Assets to Total Assets Ratio**

It is calculated by dividing performing assets by total assets.

$$\text{Performing Assets to Total Assets Ratio} = \frac{\text{Performing assets}}{\text{Total assets}}$$

Performing assets to total assets include those assets, which are invested for income generating purpose. These consist of loans, advances; bills purchased and discounted investment and money at call or short notice. The ratio measures what percentage of the assets has been funded for income generation. High ratio indicates greater utilization of assets and hence sound profitability position.

#### **6. Performing Assets to Total Debt Ratio**

It is calculated as follows:

$$\text{Performing Assets to Total Debt Ratio} = \frac{\text{Performing assets}}{\text{Total debt}}$$

It shows the pattern of use of the fund collected from the outsiders. High ratio represents the success of bank in utilization of creditors' fund in productive areas. Low ratio indicates idleness of the cost-bearing resources.

### **c. Profitability Ratios:**

Profitability shows the overall efficiency of the bank. Any firm should earn profit to survive and grow. Profit is considered as an essential element for growth but profit making cannot be sole purpose of the business firm. Sometimes there may be neglecting the welfare of the employees, customers and the society. Profitability ratio calculates the relationship between return of the firm with the shares, equity, and assets. Thus, profitability ratios are calculated to measure the operating efficiency of the company. Profitability ratios are designed to highlight the end-result of business activities, which in the imperfect world of ours, is the sole criterion of over all efficiency of business unit (Goyal, 1979:385).

#### **1. Interest Earned to Total Assets Ratio**

Interest earned to total assets ratio is calculated to find out the percentage of interest earned in comparison to total assets. Higher interest earned to total assets ratio indicates the efficiency of using the assets. Interest earned represents the total interest income shown in income side of profit and loss account. Similarly, total assets include all the assets shown on the right side of the balance sheet.

$$\text{Interest Earned to Total Asset Ratio} = \frac{\text{Interest earned}}{\text{Total assets}}$$

High ratio indicates the proper utilization of bank's assets for income generating purpose. Low ratio represents unsatisfactory performance.

#### **2. Interest Paid to Total Assets Ratio**

Interest paid to total assets ratio is calculated in order to find out the percentage of interest paid on liabilities with respect to total assets. Here, interest paid represents the total interest expenses side of profit and loss account.

$$\text{Interest Paid to Total Assets Ratio} = \frac{\text{Total interest paid}}{\text{Total assets}}$$

### **3. Return on Total Assets Ratio**

This ratio measures the overall profitability of total assets. This ratio is also shown as net profit or loss to total assets ratio. A firm needs to earn a satisfactory return on assets; otherwise the firm's survival itself becomes uncertain.

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

High ratio indicates the success of management in overall operation. Lower ratio means insufficient operation of the bank.

### **4. Return on Total Deposit Ratio**

Deposit is the main financial source of the bank. The deposits are mobilized for loans and advances, investments etc. with the object of making financial gain. Return in total deposit ratio shows the relationship between net profit and loss after tax and total deposit with the explanation of the ability of management in effective utilization of the deposit. This ratio is also called as a mirror of banks financial performance because it shows banks ability to generate profit. Higher ratio is the index of strong profitability position.

$$\text{Return on Total Deposit} = \frac{\text{Net profit after tax}}{\text{Total deposit}}$$

### **5. Return to Net Worth**

This ratio is also known as net profit or loss to net worth ratio. Net worth refers to the owner's claim to the bank. It can be computed by subtracting total liabilities from total assets. Net worth includes shareholder's reserve. Surplus, paid capital and also undistributed profits or accumulated loss if any. This ratio measures whether the banks are able to use the capital funds in the efficient manner and have invested it properly. Higher this ratio indicates the sound management and efficient for earn a satisfactory return.

$$\text{Return on Net Worth} = \frac{\text{Net profit after tax}}{\text{Net worth}}$$

## **6. Total Interest Expenses to Total Interest Income Ratio**

The ratio is obtained by dividing total interest expenses by total interest income.

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

Total interest expenses consist of interest expenses incurred for deposits, borrowing and loans taken by the bank. Total interest income includes interest income received from loans, advances, cash credit, overdrafts, and government securities, inter bank and other investments. The ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view.

## **7. Staff Expenses to Total Income Ratio**

The ratio is obtained by dividing the staff expenses by total income.

$$\text{Staff Expenses to Total Income Ratio} = \frac{\text{Staff expenses}}{\text{Total income}}$$

Staff expenses include the salary and allowances, contribution to the provident fund & gratuity fund, staff training expenses and other allowances and expenses made for staff.

The ratio measures the proportion of income spent for the staff, whose contribution is of great significance in the success of the bank. High ratio indicates that the major portion of income is used for staff. From the firm's point of view, low ratio is advantages. But the staffs prefer high ratio, as it is the result of higher level of facilities and benefits provided to them.

## **8. Office Operation Expenses to Total Income Ratio**

The ratio is obtained by dividing office operation expenses by total income.

$$\text{Office Operation Expenses to Total Income Ratio} = \frac{\text{Office operation expenses}}{\text{Total income}}$$

Office operation expenses comprise expenses incurred in house rent, water, electricity, repairs, maintenance, legal expenses, audit expenses and other miscellaneous expenses made in course of operation. It shows the percentage of income spent for day-to-day operation of the bank. High ratio shows that large amount of income is spent for the operating activities of the bank. Lower ratio is favorable to the bank, as it is the reflection of operational efficiency.

#### **d. Capital Structure/Leverage Ratios**

Since, different parties such as owners of the business, creditors etc. are interested in the financial statements of the firm. A business firm should maintain both short-term as well as long-term financial strengths. Short-term financial position refers to the ability to maintain adequate liquidity position by the firm. In other hand, long-term financial position refers to the capital structure ratio throws light on the long-term solvency of the firm as reflected in its ability to assure long-term creditors. The calculation of this ratio is done in order to measure the financial risk and the firm's ability to provide benefit to the shareholders.

##### **1. Total Debt to Total Assets Ratio**

Debt to assets ratio reflects the financial contribution of outsiders and owners on total assets of the firm. This ratio also measures the financial security of outsiders. Creditors prefer low debt ratio but owners prefer high debt ratio but owners prefer high debt ratio. Creditors prefer this ratio to be low because it makes them secured in order to extent credit. Owners prefer this ratio to be high because they can magnify their earnings as well as it helps them to maintain better control to the firm. Here total debt includes short-term loans, long-term loans, and all kinds of deposit.

$$\text{Total Debt to Total Asset Ratio} = \frac{\text{Total debt}}{\text{Total assets}}$$

High ratio indicates that the greater portion of the bank's assets has been financed through outsiders' fund. This ratio should neither be too high nor too low.

##### **2. Total Debt to Total Equity Ratio**

This ratio is calculated in order find out the proportion of outsider's funds and owner's fund in financing total assets. This ratio is also known as External-Internal equity ratio. This ratio is calculated to measure the firm's obligation towards its owners. Total debt includes all

deposits, bills payable, borrowing from other banks, and other liabilities. Total equity or shareholders' equity includes paid up capital, reserve and surplus, undistributed profit minus accumulated loss (if any).

$$\text{Total Deb to Total Equity Ratio} = \frac{\text{Total debt}}{\text{Shareholder's equity}}$$

A high ratio shows that the creditors' claims are greater than those of owners. Such a situation introduces inflexibility in the firm's operation due to the increasing interference and pressures from creditors. Low ratio implies a greater claim of owners than creditors. In such a situation shareholders are less benefited if economic activities are good enough. Therefore, the ratio should neither be too high nor too low.

### **3. Long-Term Debt to Total Assets Ratio**

This ratio shows the percentage of total assets that has been financed by the long-term debts. If the firm is using more long-term debt it means it has adopted conservative financing policy, which also means the firm has less risk of facing the problem arising from the shortage of funds. Similarly, when the firm uses less long-term debt and more of short-term debt, it means the firm has adopted aggressive financing policy. Aggressive financing policy makes firm's position more risky. Here, long-term debt includes fixed deposits and borrowings from other banks and institutions.

$$\text{Long Term Debt to Total Assets Ratio} = \frac{\text{Long term debt}}{\text{Total assets}}$$

### **4. Interest Coverage Ratio**

Interest ratio is calculated in order to determine bank's ability to meet interest obligations. Higher interest coverage ratio indicates the high capacity of the firm to meet fixed charges on its liabilities. It also provides an assurance to the creditors about interest paying capacities. Lower interest coverage ratio indicates the firm's inability to pay interest and cannot assure creditors about the timely payment of interest, which is also not favourable. Both high as well as low interest coverage ratio are not desirable. In this study, total interest denotes all kind of interest payable on both the deposits and borrowing.

$$\text{Interest Coverage Ratio} = \frac{\text{Net profit before interest and tax}}{\text{Interest charge}}$$

### **5. Long –Term Debt to Capital Employed Ratio**

This ratio reflects the proportionate relationship between the long-term debt and permanent capital. Higher this ratio indicates higher risk to creditor, while lower this ratio assures security to creditors in extending credit. Here, long-term debt and permanent capital. Higher this ratio indicates higher risk to creditor, while lower this ratio assures security to creditors in extending credit. Here, long-term debt includes the total of fixed deposits and borrowing from other banks. Similarly, capital employed includes the total of net worth and long-term debt.

$$\text{Long Term Debt to Capital Employed Ratio} = \frac{\text{Long term debt}}{\text{Capital Employed}}$$

### **6. Debt to Total Capital Ratio**

The ratio is obtained by dividing total debt by Total capital of the firm.

$$\text{Debt to Total Capital Ratio} = \frac{\text{Total debt}}{\text{Total capital}}$$

Total capital refers to the sum of interest-bearing debt and net worth/shareholder's equity.

It shows the proportion of debt in total capital employed by the bank. High ratio indicates greater claim of creditors. Contrary to it, low ratio is the indication of lesser claim of outsiders. For the sound solvency position, the ratio should not be too high or too low.

#### **3.6.1.2 Trend Analysis**

Ratio analysis enables the firm to take the time dimension into account i.e. whether the financial position of a firm is improving or deteriorating over the years. This is made possible by the use of trend analysis. The trend analysis helps the analyst in finding the direction of movement to which the firm's financial position is headed for. It helps in determining whether the movement of the firm is favourable or unfavourable. Trend analysis is of great significance to the financial institution.

### 3.6.1.3 Spread

For the purpose of the study the spread understands for the difference of interest income and the interest expenses.

### 3.6.1.4 Incomes and Expenses Analysis

Besides the above ratios income and expenses analysis is one of the main tools for making financial performance analysis of the bank. The profit and loss account of the bank is used to determine operating income, operating expenses and also a profit percentage.

## 3.6.2 Statistical Tools

Statistical tools are an indispensable tool in the hand of researcher. These tools are used in research in order to draw the reliable conclusion through the analysis of financial data. Statistics is a method of decision making in the fact of uncertainty on the basis of numerical data and calculated risk. It involves variety of methods and techniques to arrive at the conclusion by analyzing data collected for the purpose.

### 3.6.2.1 Correlation Analysis

“When the relationship is of a quantitative nature, the appropriate statistical tools for discovering and measuring the relationship and expressing it in a brief formula is known as correlation.” (Gupta, 200:258) Among different methods of calculating correlation, Karl Pearson’s Method also popularly known as Pearson’s Coefficient of Correlation is widely used statistical tool. This method measures the intensity or the magnitude of linear relationship between two variable series. The formula used for computation of Karl Pearson’s Correlation Coefficient (r) is as follows:

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

Where,

N = number of observation in series X and Y

X = Sum of observations in series X

$Y$  = Sum of observations in series Y  
 $X^2$  = Sum of squared observations in series X  
 $Y^2$  = Sum of squared observations in series Y  
 $XY$  = Sum of the product of observations in series X and Y

Value of  $r$  lies between -1 and +1.  $r = 1$  implies that there is a perfect positive correlation between the variables.  $r = -1$  implies that there is a perfect negative correlation between the variables  $r = 0$  means the variables are uncorrelated. But  $r = 0$  does not always mean that the variables are uncorrelated; they may be related in some other form such as logarithm, quadratic, exponential etc.

### 3.6.2.2 Probable Error

Probable error of coefficient correlation helps in interpreting errors value. With the help of probable error it becomes possible to determine the reliability of the coefficient. The value of coefficient so far lies on conditions on which the samples were drawn randomly. The probable error of the coefficient of correlation is calculated by using the following formula:

$$PE(r) = 0.6745 \frac{1Zr^2}{\sqrt{N}}$$

Where,

$$\frac{1Zr^2}{\sqrt{N}} = \text{Standard error.}$$

Reason for taking 0.6745 is that in a normal distribution 50 % of observations lie in the range  $\hat{\mu} \pm 0.6745\sigma$  where,  $\hat{\mu}$  and  $\sigma$  denote the population mean and standard deviation.

P.E(r) is used to test if an observed value of sample correlation coefficient is significant of any correlation in the population. If  $r < P.E.$ , correlation is not at all significant. If  $r > 6P.E.$ ,  $r$  is definitely significant.

### 3.6.2.3 Arithmetic Mean

An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. Out of various measures of the central tendency, arithmetic mean is one of the

useful tools applicable here. It is easy to calculate and understand and based on all observations.

Arithmetic mean of a given set of observations is their sum divided by the number of observation. In general, if  $X_1, X_2, X_3, \dots, X_n$  are the given observations, then arithmetic mean usually denoted by  $\bar{X}$  is given by; (Gupta, 2000:238)

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

Where, n = number of observation.

### 3.6.2.4 Coefficient of Variation

According to Prof. Karl Pearson, coefficient of variation is the percentage variation in mean, standard deviation being considered as the total variation in the mean. It is one of the relative measures of dispersion that is useful in comparing the amount of variation in data groups with different mean.

Coefficient of variation, denoted by C.V. is given by;

$$C.V. = \frac{\sigma}{\bar{X}} \times 100$$

Where,  $\sigma$  = Standard Deviation

$$\text{i.e. } \sigma = \sqrt{\frac{\sum X^2}{n} - \frac{(\sum X)^2}{n}}$$

For comparing the variability of two distributions, we compute the coefficient of variation for each distribution. A distribution with smaller CV is said to be more homogeneous or uniform or less variable than other. Conversely, a series with greater CV is said to be more variable or heterogeneous than the other (Gupta, 2000:415).

## **CHAPTER- FOUR**

### **PRESENTATION AND ANALYSIS OF DATA**

Data and information collected from different sources related to the banks under study showing the financial performance or its strength, weakness, opportunity, and threat which are presented in this chapter in the form to make research findings more meaningful. During presentation and analysis of data gathered from different sources are presented, analyzed, compared, and verified with the use of various financial tools and statistical tools. In fact, the presentation and analysis of data is the important chapter, which determines findings of the research and helps to fulfill research objectives. In this chapter data and information regarding overall financial performance of Nepal Credit & Commerce Bank Ltd. (NCCBL) is presented and analyzed. This analysis attempts to throw light on various aspects of the bank performance and position such as deposit trend, investment, loan and advances, liquidity, leverage, efficiency and earning power. During the first chapter, the statement of the problem, research objectives, limitations of the study and other parameters required to conduct the research has been analyzed and set. Similarly, during the second chapter the literature of the study has been reviewed and incorporated with other related literatures. The third chapter deals with the research techniques and methodologies having intricate effect on the research purpose and objective fulfillment.

#### **4.1 Analysis of Secondary Data**

##### **4.1.1 Financial Tools**

###### **4.1.1.1 Ratio Analysis**

Ratio analysis is one of the highly reliable and effective tools of financial performance measurement. The following ratios have been calculated for fulfillment of study purpose such as liquidity ratios, activity ratios, profitability ratios, capital structure and other ratios.

###### **4.1.1.1.1 Liquidity Ratio**

In order to measure the bank's current solvency position or its position to meet short-term obligations the liquidity ratios are calculated. In other words, it has been employed to test the

ability of the banks to pay immediate liabilities. A high degree of liquidity shows firm's inability to utilize the available funds and low liquidity shows poor credit worthiness, which results in loss of creditor's confidence or even in legal tendencies resulting the closure of the firm. Thus, it becomes necessary for any firm to maintain the proper balanced liquidity position at any point of time.

### 1. Current ratio

The following table shows the position of current ratio of NCCBL and it also shows financial position of the particular bank in order to meet its liquidity demands. The proportion of current ratio of 2:1 or more is considered to be a satisfactory level. This convention is based on the assumption that even if the current assets decrease by half, the firm would be able to meet its current obligations. This ratio calculated dividing current assets by current liabilities.

**Table No. 4.1**  
**Current Ratios of Bank (Times)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Current Assets</b>	<b>Current Liabilities</b>	<b>Ratios</b>
2003/04	4587.9	2130.79	2.153
2004/05	6440.19	3812.02	1.689
2005/06	6918.08	4619.81	1.497
2006/07	6427.7	5030.94	1.278
2007/08	6036.67	5500.34	1.098
Average			1.543

*Source: Annual Reports of Bank*

The above analysis helps to conclude that the current ratio position is not better in recent fiscal years. The figure shows the bank is holding more liquid cash balance in earlier fiscal year i.e. more liquid cash balance in FY 2003/04 than in FY 2005/06, FY 2007/08, and FY 2007/08 respectively. Having a glance at the nature of assets and liabilities of the commercial banks has the poor liquidity position. The bank may face the problem of working capital if they need to pay the current liabilities at demand. Delay in payment of the liabilities may lead the banks to lose their goodwill. They will have the problem in winning the confidence of current depositors and short-term lenders. Therefore too much liquidity as well as too low liquidity both is not desired and both have negative impacts. Thus maintaining a proper liquidity position is must.

The above Table No. 4.1 clearly shows that the current ratio of the bank has different ratios showing different liquidity positions. The current ratio of NCCBL, under the study period, it has ranged between 2.153 in the fiscal year 2003/04 to 1.098 in fiscal year 2007/08. The ratio of the bank showed in decreasing trend. The average current ratio of NCCBL is 1.543.

## 2. Cash and Bank Balance to Current Assets Ratio:

This ratio reflects the proportion of cash and bank balance in comparison with total current assets. Cash and bank balances are the most liquid current assets that are used in practice. This ratio is calculated by dividing cash and bank balances by current assets.

**Table No. 4.2**  
**Cash and Bank Balance to Current Assets Ratio (%)**  
*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Cash and Bank Balance</b>	<b>Current Assets</b>	<b>Ratios</b>
2003/04	809.7	4587.9	17.6
2004/05	793.3	6440.19	12.3
2005/06	1024.9	6918.08	14.8
2006/07	710.6	6427.7	11.1
2007/08	805.1	6036.67	13.3
Average			13.8

*Source: Annual Reports of Bank*

The table 4.2 shows that the cash and bank balance to current assets ratio of NCCBL has ranged between 11.10% in FY 2006/07 to 17.60% in FY 2003/04. The cash and bank balance to current ratio of the bank showed fluctuating trend. The average ratio of the bank is 13.80%.

On the basis of above analysis it can be concluded that the cash and bank balance to current assets ratio in FY 2004/05, FY 2006/07, and FY 2007/08 is lower when compared to FY 2003/04, and FY 2005/06. It seems that from the above fact that in FY 2003/04 and FY 2005/06 the bank has utilized its fund more efficiently in comparison to the FY 2004/05, FY 2006/07, and FY 2007/08. But it seems that the bank has kept more of money as non-earning cash and bank balance, in FY 2004/05, FY 2006/2007, and FY 2007/08, which otherwise could be invested in order to earn more profit.

### 3. Cash and Bank Balance to Total Deposit Ratio:

This ratio understands for idle money kept in order to meet the daily requirements of the bank. It indicates that portion of the idle money with the bank collected from different sources on different accounts, which are not used to generate credit. Higher cash and bank balances to total deposit ratio indicates higher idle in the hands of the banks, which otherwise could have been utilized elsewhere. Thus, higher cash and bank balances to total deposit ratio is not considered as a desirable ratio. This ratio is calculated dividing cash and bank balances by total deposit.

**Table No. 4.3**  
**Cash and Bank Balance to Total Deposit Ratio (%)**  
*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Cash and Bank Balance</b>	<b>Total Deposit</b>	<b>Ratios</b>
2003/04	809.7	4294.1	18.9
2004/05	793.3	5959.6	13.3
2005/06	1024.9	6630.1	15.5
2006/07	710.6	6619.5	10.7
2007/08	805.1	6500.3	12.4
Average			14.1

*Source: Annual Reports of Bank*

The Table No. 4.3 shows that the cash and bank balance to total deposit ratio of NCCBL has ranged between 10.70% (FY 2006/07) to 18.9% (FY 2003/04), the ratio has more or less showed fluctuating trend. On the basis of above analysis it can be concluded that the cash and bank balance to total deposit ratio of FY 2003/04 and FY 2005/06 is higher as compared to FY 2004/05, FY 2006/07 and FY 2007/08. In other word, it can be concluded from the credit point of view that in FY 2003/04 and FY 2005/06 has better credit position than that of in FY 2004/05, FY 2006/07 and FY 2007/08 because the above fact that in FY 2003/04 and FY 2005/06 has more idle money left as a cash and bank balances showed its lesser efficiency in utilizing money for investment purposes.

### 4. Fixed Deposit to Total Deposit Ratio:

Fixed deposit accounts are one of the major sources of long-term financial investment. Fixed deposit account has slightly higher interest than any other type of account in total deposit

composition fixed deposit to total deposit ratio is calculated by dividing fixed deposit by total deposit.

**Table No. 4.4**  
**Fixed Deposit to Total Deposit Ratio (%)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Fixed Deposit</b>	<b>Total Deposit</b>	<b>Ratios</b>
2003/04	2613	4294.1	60.9
2004/05	2659.5	5959.6	44.6
2005/06	2676.5	6630.1	40.4
2006/07	1922.9	6619.5	29.0
2007/08	1736.6	6500.3	26.7
Average			40.3

*Source: Annual Reports of Bank*

The Table No. 4.4 shows the amount of fixed deposits in comparison to total deposit. The fixed deposits to total deposit ratio of NCCBL has ranged between 26.7% (FY 2007/08) to 60.90% (FY 2003/04), the ratio has more or less showed fluctuating trend through the periods. The average ratio is 40.30%.

On the basis of above analysis it can be concluded that the fixed deposit to total deposit ratio in FY 2003/04, FY 2004/05, and FY 2005/06 is mostly greater when compared in FY 2006/07 and FY 2007/08. It seems from the above fact that the bank is maintaining more liquid fund than required. In context of joint ventures and other private banks they are not compelled to accept fixed deposits unless there exists enough investment opportunities.

#### **5. Saving Deposit to Total Deposit Ratio:**

Saving deposit is one of many sources of short-term financial requirement of the bank on which fixed rate of interest is charged. Saving deposit ratio is calculated by dividing saving deposit by total deposit.

**Table No. 4.5**  
**Saving Deposit to Total Deposit Ratio (%)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Saving Deposit</b>	<b>Total Deposit</b>	<b>Ratios</b>
2003/04	1024.6	4294.1	23.9
2004/05	1919.8	5959.6	32.2
2005/06	2626.1	6630.1	39.6
2006/07	3370.3	6619.5	50.9
2007/08	3317.3	6500.3	51.0
Average			39.5

*Source: Annual Reports*

The Table No. 4.5 shows the amount of saving deposits in comparison to total deposits and its respective ratios. The saving deposits to total deposit ratio of NCCBL has ranged between 23.9% (FY 2003/04) to 51.0% (FY 2007/08). The ratio has more or less increasing trend through the study periods. The average ratio is 39.5%. On the basis of above analysis it can be concluded that the saving to total deposit ratio of this is satisfactory on the FY 2006/07 and FY 2007/08 in comparison to the FY 2003/04, FY 2004/05 and FY 2005/06. Lower the current liabilities mean higher the liquidity position. Thus, the liquidity position on FY 2005/06, FY 2006/07, and FY 2007/2008 is better than FY 2003/04 and FY 2004/05 because in the ratio in FY 2005/06, FY 2006/07 and FY 2007/08 has higher ratio than the average ratio (39.5%).

#### **6. Loan and Advances to Current Assets Ratio:**

This ratio shows the relationship between loans and advances with current assets. This ratio is calculated by dividing loan and advances by current assets. The table shows the loans and advances to current assets ratio of NCCBL.

**Table No. 4.6**  
**Loan and Advances to Current Assets Ratio (%)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Loan and Advances</b>	<b>Current Assets</b>	<b>Ratios</b>
2003/04	3321.8	4587.9	72.4
2004/05	4417.6	6440.19	68.6
2005/06	5934.3	6918.08	85.8
2006/07	5836.6	6427.7	90.8
2007/08	5083.9	6036.67	84.2
Average			80.4

*Source: Annual Reports of Bank*

The Table No. 4.6 shows the amount of loan and advances to current assets and respective ratio of the bank. The loan and advances to current assets ratios of NCCBL has ranged between 68.6% (FY 2004/05) to 90.8% (FY 2006/07), the ratio has more or less fluctuating trend through the study periods. The average ratio of NCCBL is 80.4%.

On the basis of above analysis it can be concluded that the loan and advances to current assets ratio on FY 2005/06, FY 2006/07 and FY 2007/08 higher than FY 2003/04 and FY 2004/05. That means from the liquidity point of view that in FY 2005/06, FY 2006/07, and FY 2007/08 have been better liquidity positions than on FY 2003/04 and FY 2004/05. Loan and advances to current assets ratio indicate higher ability to spend on investment sectors. By the above calculation in FY 2003/04 and FY 2004/05 in terms of giving loans and advances for income generating investments is lower in comparison to other fiscal years.

#### **4.1.1.1.2 Activity Ratio**

Activity ratios are used in order to evaluate the efficiency of the firm in maintaining and utilizing its assets. Activity ratios are also known as turnover ratios or assets utilization ratios. The efficiency of the assets uses as well as speed and rapidity in which assets are converted into sales, would be reflected by this ratios. The greater rate of turnover or conversion denotes better efficiency in utilization of available assets. The efficiency of the firm depends on how the assets are managed and utilized greater the turnover, higher the efficient management of the company and vice-versa.

#### **1. Loan and Advance to Total Deposit Ratio:**

This ratio shows the relationship between loans and advances to total deposit. In other words loans and advances to total deposit ratio measures the bank's ability to utilize its total deposit. This ratio is calculated by dividing loans and advances with the total deposit.

**Table No. 4.7**  
**Loan and Advance to Total Deposit Ratio (Times)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Loan and Advances</b>	<b>Total Deposit</b>	<b>Ratio (Times)</b>
2003/04	3321.8	4294.1	0.774
2004/05	4417.6	5959.6	0.741
2005/06	5934.3	6630.1	0.895
2006/07	5836.6	6619.5	0.882
2007/08	5083.9	6500.3	0.782
Average			0.815

*Source: Annual Reports of Bank*

The Table No. 4.7 shows the amount of loan and advances to total deposits and respective ratios of the bank. The loan and advances to total deposit ratios of NCCBL has ranged between 0.774 times (FY 2003/04) to 0.895 times (FY 2005/06), the ratio has more or less showed fluctuating trend through the periods. The average ratio of NCCBL is 0.815 times.

On the basis of above analysis it can be concluded that the loan and advances to total deposit ratio in FY 2005/06 and FY 2006/07 is greater than the average ratio i.e. 0.815 times. Loan and advances is the current assets used in generating income. Thus, higher the loan and advance to total deposit ratios indicates higher ability to spend on investment sectors. Thus, in FY 2005/06 and FY 2006/07 is better than in FY 2003/04, FY 2004/05, FY 2007/08 in terms of giving loans and advances for income generating investments.

## **2. Loan and Advance to Fixed Deposit Ratio:**

Loans and advances to fixed deposit ratio measures the extent to which the fixed deposits are utilized for the income generating purpose. This ratio is calculated by dividing loans and advances with fixed deposit. Loan and advances is that part of bank's investment which generates income at a certain rate. Hence, it is the ratio which indicates the relationship between the investments of bank earning interest at a certain rate. In other words, it shows the ratios of fixed returns of fixed returns generating investment and fixed cost bearing liabilities.

**Table No. 4.8**  
**Loan and Advance to Fixed Deposit Ratio (Times)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Loan and Advances</b>	<b>Fixed Deposit</b>	<b>Ratio (Times)</b>
2003/04	3321.8	2613	1.271
2004/05	4417.6	2659.5	1.661
2005/06	5934.3	2676.5	2.217
2006/07	5836.6	1922.9	3.035
2007/08	5083.9	1736.6	2.928
Average			2.222

*Source: Annual Reports of Bank*

The Table No. 4.8 shows the amount of loan and advances to fixed deposits and respective loan and advances to fixed deposit ratio of the bank. The loan and advances to fixed deposit ratios of NCCBL has ranged between 1.271 times (FY 2003/04) to 3.035 in (FY 2006/07). The ratio has more or less fluctuating trend through the periods. The average ratio of NCCBL is 2.222 times. On the basis of above analysis it can be concluded that the loan and advances to fixed deposit ratios in FY 2006/07 and FY 2007/08 is better off in terms of performance regarding advancement of loans and utilizing its fixed deposit for income generating purpose than in FY 2003/04, FY 2004/05 and FY 2005/06.

### **3. Loan and Advance to Saving Deposit Ratio:**

Loans and advances to saving deposit ratio are calculated in order to know, how many times loans and advances have been made from saving deposit. This ratio is calculated by dividing loans and advances with saving deposit of NCCBL.

**Table No. 4.9**  
**Loan Advances to Saving Deposit Ratio (Times)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Loan and Advances</b>	<b>Saving Deposit</b>	<b>Ratio (Times)</b>
2003/04	3321.8	1024.6	3.242
2004/05	4417.6	1919.8	2.301
2005/06	5934.3	2626.1	2.260
2006/07	5836.6	3370.3	1.732
2007/08	5083.9	3317.3	1.533
Average			2.213

*Source: Annual Reports of Bank*

The Table No. 4.9 shows the amount of loan and advances to saving deposits and respective ratio of the bank. The loan and advances to saving deposits ratios of NCCBL has ranged between 1.533 times (FY 2007/08) to 3.242 times (FY 2003/04). The ratio has more or less showed fluctuating trend through the periods. The average ratio of this bank is 2.213 times.

On the basis of above analysis it can be concluded that the loan and advances to saving deposit ratio in FY 2003/04, FY 2004/05 and FY 2005/06 is greater when compared in FY 2006/07 and FY 2007/08. That means in earlier three fiscal years the bank is better off in terms of performance and bank's ability regarding utilization of collected funds in the saving account for the purpose of advancement of loans. Loan and advances is the current assets used in generating income. Thus, higher the loans and advances to saving deposit ratios indicate higher ability to spend on investment sectors. So in FY 2003/04, FY 2004/05 and FY 2005/06 is better off then in FY 2006/07 and FY 2007/08 in terms of giving loans and advances for income generating from investments.

#### **4. Investment to Total Deposit Ratio:**

Investment to total deposit ratio measures the mobilization percentage of total deposit on investment. This ratio is calculated by dividing investment with total deposit amount. The table below shows the ratio of investment to total deposit of NCCBL.

**Table No. 4.10**  
**Investment to Total Deposit Ratio (%)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Investment</b>	<b>Total Deposit</b>	<b>Ratio (Times)</b>
2003/04	315.2	4294.1	7.3
2004/05	511.9	5959.6	8.6
2005/06	324.7	6630.1	4.9
2006/07	521.6	6619.5	7.9
2007/08	1155.3	6500.3	17.8
Average			9.3

*Source: Annual Reports of Bank*

The Table No. 4.10 shows the amount of investment to total deposit ratios and respective ratios of the bank for different periods. The investment to total deposit ratios of NCCBL has ranged between 4.9% (FY 2005/06) to 17.8% (FY 2007/08), the ratios has more or less fluctuating trend through the periods. The average ratio on investment to total deposit is

9.3%. On the basis of above analysis it can be concluded that the investment to total deposit ratios in FY 2004/05 and FY 2007/08 is greater when compared in FY 2003/04, FY 2005/06 and FY 2006/07. That means in FY 2004/05 and FY 2007/08 has more secured credit position than in FY 2003/04, FY 2005/06 and FY 2006/07. If there are not any more secured and profitable investment opportunities than the investment on government securities and shares and debentures this bank can earn more return in FY 2004/05 and FY 2007/08 in comparison with FY 2003/04, FY 2005/06 and FY 2006/07.

### 5. Performing Assets to Total Assets Ratio:

Performing assets to total assets ratio measures what percentage of the assets has been funded for income generation. This ratio is calculated by dividing performing assets by total assets. High ratio indicates greater utilization of assets and hence sound profitability position.

**Table No. 4.11**  
**Performing Assets to Total Assets Ratio (%)**  
*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Performing Assets</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2003/04	3522.11	4832.6	72.9
2004/05	4900.06	6918.08	70.8
2005/06	5216.2	6660.79	78.3
2006/07	5613.3	6427.7	87.3
2007/08	5716.1	6036.67	94.7
Average			80.8

*Source: Annual Reports of Bank*

The Table No. 4.11 shows that the amount of performing assets to total assets ratio and respective ratio of this bank. The performing to total assets ratio of NCCBL has ranged between 70.8% (FY 2004/05) to 94.7% (FY 2007/08), the ratio has more or less fluctuations trend through the periods. The average ratio is 80.8%. On the basis of above analysis that it can be concluded that in FY 2005/06, FY 2006/07 and FY 2007/08 the ratio is greater than in FY 2003/04, and FY 2004/05, which means this has used more proportion of assets for income generating purpose. Through the study period, NCCBL had utilized its assets more in FY 2005/06, FY 2006/07 and FY 2007/08 in terms of loans and advances investment and bill discounting and purchasing more efficiently than in FY 2003/04, and FY 2004/05.

## 6. Non Performing Loan to Total Gross Loan Ratio:

Loans lended to the customers come under the assets heading of balance sheet; and those loans which are not paid in time are considered as Non Performing Loan or Non Performing Assets (NPL/NPA). This ratio is used to identify the share of bad debts or useless credits in the total credit & advances of banks. In other words, this is the share of credits, which are failed to generate regular earnings. It is always expressed in percentage. Lower ratio is desirable for banks. This ratio measures the ability of a bank in generating income from bank's deposit liability.

**Table No. 4.12**  
**Non Performing Loan to Total Gross Loan Ratio (%)**  
*(Rs. In Million)*

<b>Fiscal Year</b>	<b>NPL</b>	<b>Total Gross Loan</b>	<b>Ratio (%)</b>
2003/04	700.83	3396.41	20.63
2004/05	600.05	4717.3	12.72
2005/06	519.26	6011.9	8.64
2006/07	1289.9	5899.16	21.87
2007/08	1606.87	5122.2	31.37
Average			19.0

*Source: Annual Reports*

The Table No. 4.12 shows that the amount of non performing loan to total gross loan and the respective ratio of the bank. The non performing assets to total gross loan ratio of NCCBL has ranged between 8.64% (FY 2005/06) to 31.87% (FY 2007/08), the ratio has more or less fluctuating trend throught the periods. The average ratio is 19.0%. On the basis of above calculation it can be concluded that in FY 2004/05 and FY 2005/06 the ratio is lesser than in FY 2003/04, FY 2006/07 and FY 2007/08, which means this has remained more successful regarding the collection of the cost bearing non performing loan in profitable sectors. In other words, in FY 2004/05 and FY 2005/06 it seems at upper level with respect to the wise and beneficial collection of loan and advances in comparison with in the FY 2003/04, FY 2006/07 and FY 2007/08.

#### 4.1.1.1.3 Profitability Ratio:

Profit is the difference between the revenue earned and expenditure made over a specified period of time. A firm needs profit in order to grow and continue to survive. But profit shouldn't be a sole objective of the firm. The profitability of the firm could be measured by using profitability ratios. Profitability ratios indicate the degree of success in achieving desired profit level. The following ratios are calculated under profitability ratios:

##### 1. Interest Earned to Total Assets Ratio

Interest earned to total assets ratio shows how much interest has been generated by mobilizing the assets in the bank. Interest is the main source of income of a bank. Interest is earned on the loan, advances and investment made by the bank. The difference between the amount of interest earned and interest paid will be operating margin of the bank on the side, total assets refers to the total working fund or total utilization of fund by the bank, which is collected from various sources. The amount or ratio of interest earned shows how efficiency and effectively the bank have utilized its assets. This ratio is calculated by dividing the amount of interest earned with total assets. The table shows the ratio of interest earned to total assets ratio of NCCBL.

**Table No. 4.13**  
**Interest Earned to Total Assets Ratio (%)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Interest Earned</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2003/04	437.18	4832.6	9.0
2004/05	486.83	6918.08	7.0
2005/06	226.05	6660.79	3.4
2006/07	246.78	6427.7	3.8
2007/08	191.4	6036.67	3.2
Average			5.3

*Source: Annual Reports of Bank*

The Table No. 4.13 shows that the amount of interest earned to total assets and respective ratios of the bank in different periods. The interest earned to total assets ratio has ranged between 3.2% (FY 2007/08) to 9.0% (FY 2003/04), the ratio has more or less showed fluctuating trend through the periods. The average ratio is 5.3%.

On the basis of above analysis it can be concluded that the interest earned to total assets ratios of NCCBL in FY 2005/06, FY 2006/07, and FY 2007/08 is lower than average. That means in FY 2003/04 and FY 2004/05 has been better off in terms of interest collection from its total assets compared with FY 2005/06, FY 2006/07, and FY 2007/08. In average the NCCBL has not more efficiently utilized its total assets for interest earning purpose because in three periods the ratio is lower from the average ratio.

## 2. Interest Paid to Total Assets Ratio

If interest earned is the main sources of income of a banks interest paid is its main head of expenditures. Large amount of bank earning is utilized in paying interest to the deposits accepted by the bank under various accounts. Like interest earned, bank's profitability also depends on interest paid. This is that type of cost of a bank, which can never be avoided. After accepting deposits, the bank must pay interest on deposits according to the existing rules and bank's commitment made at the time of accepting deposits. This ratio shows how much interest has been paid on liabilities in respect to total assets. This ratio is calculated by dividing interest paid with total assets.

**Table No. 4.14**  
**Interest Paid to Total Assets Ratio (%)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Interest Paid</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2003/04	255.91	4832.6	5.3
2004/05	314.27	6918.08	4.5
2005/06	315.9	6660.79	4.7
2006/07	315.8	6427.7	4.9
2007/08	283	6036.67	4.7
Average			4.8

*Source: Annual Reports of Bank*

The Table No. 4.14 shows the amount of interest paid to total assets and respective ratios of the bank for different periods. The interest paid to total assets ratios of NCCBL has ranged between 4.5% (FY 2004/05) to 5.3% (FY 2003/04), the ratios has more or less showed fluctuating trend throught the periods. The average ratio of NCCBL is 4.8%.

On the basis of above analysis it can be concluded that the interest paid to total assets of NCCBL in FY 2004/05, FY 2005/06 and FY 2007/08 is lesser than in FY 2003/04 and FY 2006/07 in comparison with the average ratio for the last five years periods. Interest paid is always compared with interest earnings to arrive at the conclusion of the performance of the bank. Thus in case of in the FY 2004/05, FY 2005/06 and FY 2007/08 seems less efficient than in FY 2003/04 and FY 2006/07 because in the earlier three fiscal years the interest earning of NCCBL is lesser than in two fiscal years' even though interest paid is high.

### 3. Return on Total Assets Ratio

Return on total assets ratio measures how well the management was able to use the assets of the business in order to generate an operating surplus. Net profit is the after tax profit of a firm, which can be benefit of owners. The return on total assets ratio, therefore, points out how successfully a firm has utilized its total assets. A superior return on total assets ratio shows firm's better position and wise management of various assets and vice-versa. So, a firm should always try to maximize this ratio. This ratio is calculated by dividing net profit after tax (loss) with total assets.

**Table No. 4.15**  
**Return on Total Assets Ratio (%)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Net Profit (Loss)</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2003/04	81.8	4832.6	1.7
2004/05	3.41	6918.08	0.05
2005/06	-5.15	6660.79	-0.1
2006/07	-569.7	6427.7	-8.9
2007/08	-115.9	6036.67	-1.9
Average			-1.8

*Source: Annual Reports*

The Table No. 4.15 shows the amount of net profit (loss) to total assets and respective ratios of the bank for different periods. The net profit (loss) to total assets ratio of NCCBL has ranged between -8.9% (FY 2006/07) to 1.7% (FY 2003/04), the ratio more or less fluctuating trend through the periods. The average ratio is -1.8%.

On the basis of above analysis it can be concluded that the return to total assets ratio of NCCBL in FY 2003/04, and FY 2004/05 is better when compared in FY 2005/06, FY 2006/07, and FY 2007/08. The ratio is seems in negative ratio in FY 2005/06, FY 2006/07, and FY 2007/08 but in FY 2003/04, and FY 2004/05 the ratio is positive, which is the better fiscal year according to study periods. Thus in FY 1st and 2th is better than in FY 3rd, 4th and 5th according to the return to total assets ratio of the bank in last five years periods.

#### 4. Return on Total Deposit Ratio

Return to total deposit ratio shows the relationship between net profit (loss) after tax and total deposit of the bank. The sum of deposits accepted by the bank under various accounts is termed as total deposit. According to the terms and conditions of the deposit, the bank should pay interest on these deposits. The difference between the interest received and paid by the bank is its profit. Hence, if defined in other way, net profit is a reward to the bank for efficient mobilization of its total deposit. So, it would also be reasonable, meaningful and important from every angle to show the relationship between the net profit and total deposits.

**Table No. 4.16**  
**Return to Total Deposit Ratio (%)**

(Rs. In Million)

<b>Fiscal Year</b>	<b>Net Profit (Loss)</b>	<b>Total Deposits</b>	<b>Ratio (%)</b>
2003/04	81.8	4294.1	1.9
2004/05	3.41	5959.6	0.06
2005/06	-5.15	6630.1	-0.1
2006/07	-569.7	6619.5	-8.6
2007/08	-115.9	6500.3	-1.8
Average			-1.7

*Source: Annual Reports of Bank*

The Table No. 4.16 shows the amount of return on total deposit and respective ratios of total of the bank for different periods. The return on total deposit ratio of NCCBL has ranged between -8.6% (FY 2006/07) to 1.9% (FY 2003/04), the ratios has more or less showed fluctuating trend throught the periods. The average ratio of NCCBL is -1.7%.

On the basis of above analysis it can be concluded that the return on total deposit ratio of NCCBL in FY 2003/04 and FY 2004/05 is better when compared in FY 2005/06, FY 2006/07 and FY 2007/08. The ratio seems in negative ratio in FY 2005/06, FY 2006/07 and FY 2007/08 the ratio is increased by 1.90%, which is the better fiscal year according to our study periods in FY 2003/04. Thus, in FY 1st and 2nd is better than in FY 3rd, 4th and 5th according to the return to total deposit ratio of the bank in last five years periods.

## 5. Return on Net Worth Ratio

Return on net worth ratio shows the relationship between net profit (loss) after tax and net worth or total equity or capital fund. This ratio reveals how efficiency the bank has seen able to utilize its owner's fund. The table below shows the ratios of return on net worth of NCCBL for last five-year periods.

**Table No. 4.17**  
**Return on Net worth Ratio (%)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Net Profit (Loss)</b>	<b>Net Worth</b>	<b>Ratio (%)</b>
2003/04	81.8	78.82	103.8
2004/05	3.41	187.23	1.82
2005/06	-5.15	725.5	-0.7
2006/07	-569.7	260.7	-218.5
2007/08	-115.9	-308.3	37.6
Average			-15.20

*Source: Annual Reports*

The Table No. 4.17 shows the amount of net profit (loss), net worth return and its respective ratios of the bank for different periods. The return to net worth ratio of NCCBL has ranged between -218.5% (FY 2006/07) to 103.78% (FY 2003/04), the ratio has more or less fluctuating trend through the periods. The average ratio of NCCBL is -15.20%. On the basis of above analysis it can be concluded that the return on net worth ratio of NCCBL in FY 2003/04 is best in comparison with other different periods. Higher return on net worth ratio indicates the sound management and effective earning capacity ultimately results in a satisfactory return on its equity capital. Because of inconsistency of the return on net worth ratio in case of NCCBL is hypothetically too high. That means in FY 2003/04 is better than in other periods in mobilizing net worth and earn profit.

#### 4.1.1.1.4 Capital Structure Ratio:

Capital structure ratio is also known as financial leverage ratio. This ratio calculates to judge the long-term financial standing of the firm. In order to determine long-term solvency of the firm, various ratios are calculated under the heading. So, leverage or capital structure ratio may be defined as financial ratios which throw light on the long-term solvency of a firm as reflected its ability to assure long-term creditors with regard to periodic payment of interest during the period of the loan and repayment of principal on maturity or in pre-determined installments at due dates.

##### 1. Total Debt to Total Assets Ratio

Total debt to total assets ratio reflect the financial contribution made by the outsiders and owners on total assets of the firm. The table below shows the total debt to total assets ratio of NCCBL in different periods.

**Table No. 4.18**  
**Total Debt to Total Assets Ratio (%)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Total Debt</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2003/04	4313.84	4832.6	89.3
2004/05	6001.2	6918.08	86.75
2005/06	6036.6	6660.79	90.6
2006/07	6227.8	6427.7	96.9
2007/08	5956.5	6036.67	98.7
Average			92.4

*Source: Annual Reports of Bank*

The Table No. 4.18 shows the amount of total debt to total assets and respective ratios of the bank for different periods. The total debt to total assets ratio of NCCBL has ranged between 86.75% (FY 2004/05) to FY 98.7% (FY 2007/08), the ratios has more or less showed increasing trend except in the FY 2004/05 through the periods. The average ratio of this bank is 92.4%. On the basis of above analysis it can be concluded that the total debt to total assets ratio of NCCBL is greater in FY 2005/06, FY 2006/07 and FY 2007/08 in comparison with the FY 2003/04 and FY 2004/05. Higher the debt to total assets ratio indicates higher financial risk. In the same time it increases outsiders claim in total assets. Similarly, lower

ratio indicates lower financial risk as well as decreased claims of outsiders. Conventionally a ratio of 1:2 is considered to be satisfactory, although no hard and fast rules exist. Thus, in FY 2005/06, FY 2006/07 and FY 2007/08 the bank stands greater financial risk when compared with the FY 2003/04 and FY 2004/05.

## 2. Total Debt to Total Equity Ratio

Total debt to total equity ratio determines the measure of firm's obligation towards its creditors and owners in relation to the funds invested by them. The table below provides the picture of debt to equity ratio of NCCBL:

**Table No. 4.19**  
**Total Debt to Total Equity Ratio (%)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Total Debt</b>	<b>Total Equity</b>	<b>Ratio (%)</b>
2003/04	4313.84	78.82	5473.0
2004/05	6001.2	187.23	3205.26
2005/06	6036.6	693.5	870.5
2006/07	6227.8	698.4	891.7
2007/08	5956.5	699.1	852.0
Average			2258.0

*Source: Annual Reports*

The Table No. 4.19 shows that amount of total debt to total equity ratio of NCCBL in FY 2003/04 is better than other periods. The total debt to total equity ratio of NCCBL has ranged between 852% (FY 2007/08) to 5473% (FY 2003/04), the ratio has more or less fluctuating trend through the periods. The average ratio is 2258.0%. On the basis of above analysis it can be concluded that the total debt to total equity ratio of NCCBL in FY 2003/04 and FY 2004/05 is greater than FY 2005/06, FY 2006/07 and FY 2007/08. The bank has higher proportion of debt when compared to total equity except in FY 2003/04 and FY 2004/05. The higher debt represents higher financial risk. As observed from table above higher debt figure of NCCBL in FY 2003/04 and FY 2004/05 is more risky than other periods. The figure above clearly shows that the bank has suffered capital loss, which means it has negative value of total equity. The negative figure indicates the ineffective performance of the bank. Thus, the higher debt and the lower equity made the bank's capital structure much more vulnerable.

### 3. Long Term Debt to Total Assets Ratio

Long-term debt to total assets ratio reflects the percentage of total assets that has been financed by long-term debt. The following table shows the picture of long-term debt with total assets ratio of NCCBL.

**Table No. 4.20**  
**Long Term Debt to Total Assets Ratio (%)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Long-Term Debt</b>	<b>Total Assets</b>	<b>Ratio (%)</b>
2003/04	2642.73	4832.6	54.7
2004/05	2675.04	6918.08	38.67
2005/06	2513.5	6660.79	37.7
2006/07	2850.6	6427.7	44.3
2007/08	2975.8	6036.67	49.3
Average			44.9

*Source: Annual Reports of Bank*

The Table No. 4.20 shows the amount of long-term debt to total assets and respective ratio of the bank for different periods. The long-term debt to total assets return of NCCBL has ranged between 37.7% (FY 2005/06) to 54.7% (FY 2003/04), the ratio has more or less showed decreasing trend except FY 2006/07 and FY 2007/08 through the periods. The average ratio of NCCBL is 44.9%. On the basis of above analysis it can be concluded that the long-term debt to total assets ratio of NCCBL in FY 2003/04 and FY 2007/08 is greater than other periods. Higher the long-term debt to total assets ratio indicates lower financial risk. The bank has used minimum amount of long-term debt in FY 2004/05, FY 2005/06 and FY 2006/07 in comparison FY 2003/04 and FY 2007/08, which indicates the higher financial risk. The figure in FY 2003/04 and FY 2007/08 shows the bank has adopted aggressive financial policy, which makes its venture much more risky.

### 4. Interest Coverage Ratio

Interest coverage ratio or debt service ratio indicates the debt servicing capacity of the bank. This ratio shows the relationship between earning before interest and tax (EBIT) and total interest of the firm.

**Table No. 4.21**  
**Interest Coverage Ratio (Times)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>EBIT</b>	<b>Interest</b>	<b>Ratio (Times)</b>
2003/04	81.8	255.91	0.320
2004/05	3.41	314.27	0.010
2005/06	10.72	315.9	0.034
2006/07	-554.26	315.8	-1.755
2007/08	-75.8	283	-0.268
Average			-0.332

*Source: Annual Reports of Bank*

The Table No. 4.21 shows that the amount of earning before interest and tax (EBIT) to interest and their respective ratio of the bank for different periods. The interest coverage ratio of NCCBL has ranged between -1.755 Times (FY 2006/07) to 0.320 Times (FY 2003/04), the ratios show more or less fluctuating trend through the periods. There is a loss in NCCBL in the year 2006/07 and FY 2007/08 by -1.755 and -0.268 Times. The interest coverage average ratio is -0.332 Times. On the basis of above analysis it can be concluded that the interest coverage ratio of NCCBL in FY 2003/04 is greater than other periods. Since, NCCBL has negative value in FY 2006/07 and FY 2007/08 as an interest coverage ratio, which is not considered to be a good sign. The lower or negative interest coverage ratio indicates that the bank is using excessive debt and is unable to assure the creditors for paying back interest or even means inefficiency in its operation. Hence, the bank has to invest its resources into more productive sectors in order to earn more profit.

## **5. Long Term Debt to Capital Employed Ratio**

This ratio shows the relationship between long-term debts and the capital employed. The table shows clear picture of long-term debt to capital employed ratio of NCCBL;

**Table No. 4.22**  
**Long Term Debt to Capital Employed Ratio (%)**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Long Term Debt</b>	<b>Capital Employed*</b>	<b>Ratio (%)</b>
2003/04	2642.73	2721.55	97.1
2004/05	2675.04	2862.27	93.46
2005/06	2513.5	3239	77.6
2006/07	2850.6	3111.3	91.6
2007/08	2975.8	2667.5	111.6
Average			94.3

*Source: Annual Reports of Bank*

\*Capital Employed = Total Net Worth + Long Term Debt

The Table No. 4.22 shows the amount of long-term debt to capital employed and its respective ratio of the bank for different periods. The long-term debt to capital employed ratio of NCCBL has ranged between 77.6% (FY 2005/06) to 111.6% (FY 2007/08), the ratio has more or less showed fluctuating trend through the periods. The average ratio is 94.3%. On the basis of above analysis it can be concluded that the long-term debt to capital employed ratio of NCCBL in FY 2007/08 is greater than other periods. The bank does not seem to have a satisfactorily level of long-term debt to capital employed ratio. Higher the long-term debt to capital employed ratio indicates higher risk to the creditors as well as owners. Lower long-term debt to capital employed ratio is not favourable to any bank. The figure in FY 2007/08 shows the bank has excessive long-term debt and capital employed ratio than other periods, which ultimately indicates the bank's inefficiency in mobilizing the long-term debt effectively in productive sector. Thus, it should always be in optimum level.

#### 4.1.1.2 Spread

“Spread management emphasizes the difference between the return on assets and cost of liabilities over a period of time.” A high positive spread is generally considered as desirable and is readily adopted by the financial institutions. “The spread is defined as the ratios net interest revenue minus interest expenditure.” In other word, spread is considered as the difference between interest income and interest expenditure. The table given below shows the clear picture of spread of NCCBL (Sayer, 1967:25).

**Table No. 4.23**  
**Spread of NCCBL**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Interest Income</b>	<b>Interest Expenses</b>	<b>Spread</b>
2003/04	437.18	255.91	181.27
2004/05	486.83	314.27	172.56
2005/06	226.05	315.9	-89.85
2006/07	246.78	315.8	-69.02
2007/08	191.4	283	-91.6
Average			20.672

*Source: Annual Reports of Bank*

The Table No. 4.23 shows that the amount of interest income and interest expenses and spread of the bank for different periods. The spread of NCCBL has ranged between -91.6

(FY 2007/08) to 181.27 (FY 2003/04), the spread of the bank has showed more or less fluctuating trend through the periods. The average spread is 20.672.

On the basis of above analysis it can be concluded that the average spread of NCCBL is greater than for the FY 2003/04 and FY 2004/05 spread. There is a little bit satisfactory in FY 2003/04 and 2004/05 because in this year the spread is better than other periods. Thus, higher the spread shows higher or better performance of the bank. There is negative spread in FY 2005/06 to FY 2007/08.

#### **4.1.1.3 Operating Income Analysis**

Operating income analysis is one of the major financial tools widely used to perform financial performance analysis of the firm. This analysis shows the proportionate contribution of different sources of income for generating total income. The major sources of income of banks are: interest received from loans and advances, government securities, commission and discount earned and other miscellaneous incomes. The maximum operating income is indicative of better financial performance of the bank.

The following table shows the operating income generated from different sources and its respective percentage in total operating income of the bank.

**Table No. 4.24**  
**Operating Income (%)**

<b>Fiscal Year</b>	<b>Interest Earned</b>	<b>Commission &amp; Discount Earned</b>	<b>Other Income</b>	<b>Total</b>
2003/04	94.79	4.09	1.12	100
2004/05	91.75	6.84	1.41	100
2005/06	93.94	4.51	1.55	100
2006/07	94.38	3.67	1.97	100
2007/08	89.38	6.17	4.45	100
Average	92.87	5.06	2.08	100

*Source: Annual Reports of Bank*

**a. Interest Earned:**

Interest earned from different sources includes the interest income from loans and advances, overdraft facilities, investments on government securities i.e. treasury bills, and development bonds. Interest earned is the major sources of income of the bank, which occupies considerable share in total income. Higher interest earned ratio indicate better operational efficiency or higher level of risk in the business.

The Table No. 4.24 shows the respective percentage of different sources of operating income of the bank for different periods. Out of different sources of income the percentage of interest earned of NCCBL has ranged between 89.38% (FY 2007/08) to 94.79% (FY 2003/04), the ratios have showed more or less increasing trend throught the periods. The average ratio of this bank is 92.87%. On the basis of above analysis it can be concluded that the interest income of NCCBL in FY 2003/04 is higher than other periods, that means in FY 2003/04 the bank has better operational efficiency or high level of risk than other periods.

**b. Commission and Discount Earned:**

Another source of operating income of the bank remains the commission and discounts. This ratio also reflects the extent of services provided to the customers by the bank. Commission and discounts includes commission and discount received from letter of credit, letter of guarantee, collection fees, bank guarantee fees, remittance fees and other service fees and commissions.

The Table No. 4.24 shows the second major source of operating income i.e. commission and discount earned and its respective percentage of the bank for different periods. The percentage of commission and discount earned by NCCBL has ranged between 3.67% (FY 2006/07) to 6.87% (FY 2004/05), the ratio has showed more or less fluctuating trend throught the study periods. The average ratio is 5.06%. On the basis of above analysis, it can be concluded that the earning from commission and discount of NCCBL in FY 2004/05 is greater than other periods, which also means that the bank is providing more services to its customers and able to earn higher commission on various services provided in the fiscal year.

### c. Other Incomes:

Besides the above mentioned sources of income of the bank, banks still earn its income from other income generating sources falling under other income headings. Other income includes foreign exchange fluctuations, miscellaneous income and other general operating incomes.

The Table No. 4.24 shows the different sources of operating income i.e. other income and its respective percentage of other income earned by NCCBL has ranged between 1.12% (FY 2003/04) to 4.45% (FY 2007/08), the ratio has shown more or less increasing trend throughout the periods. The average ratio is 2.08%. On the basis of above analysis it can be concluded that the earnings from other income heads in case of FY 2007/08 is greater than other periods, which means the bank is able to earn more income from other sources of income in this fiscal year than other periods.

#### 4.1.1.4 Operating Expenses Analysis:

Operating expenses analysis is another major tool for making financial performance analysis. The operating expenses understand for interest expenses on deposits, borrowings, staff expenses, office operating expenses, provision for staff bonus and all other expenses directly related to the operation of the bank. Operating expenses are mainly grouped under interest paid, staff expenses, office operating expenses, provision for bonus and other general expenses heads. The following table shows the operating expenses on different headings and their respective percentages on total operating expenses of NCCBL.

**Table No. 4.25**  
**Operating Expenses (%)**

<b>Fiscal Year</b>	<b>Interest Paid</b>	<b>Staff Expenses</b>	<b>Office Operating Expenses</b>	<b>Provision for Bonus</b>	<b>Total</b>
2003/04	82.40	3.04	14.27	0.29	100
2004/05	78.95	3.72	16.01	1.32	100
2005/06	81.49	4.29	11.20	3.02	100
2006/07	75.04	6.77	15.41	2.78	100
2007/08	75.56	8.05	16.23	0.16	100
Average	78.89	5.37	14.83	0.91	100

*Source: Annual Reports of Bank*

**a. Interest paid:**

Interest paid includes the interest paid on deposits, borrowing fees, loans and advances etc. Interest paid is an expense, which covers the greater portion of total operating expenses. Highest interest paid ratio is indicative of using more of outsider's fund than any other source to finance banks various activities.

Table No. 4.25 shows the respective percentage of different sources of operating expenses of the bank for different periods. Out of the different sources of expenses the percentage of interest paid by NCCBL has ranged between 75.04% (FY 2006/07) to 82.49% (FY 2005/06) and the ratios has shown fluctuating trend throught the periods. The average ratio is 70.89%.

On the basis of above analysis it can be concluded that the interest expenses of NCCBL in FY 2005/06 is greater than other periods, which means the bank is spending the major portion of operating income for interest payment procedure on the fiscal year.

**b. Staff Expenses:**

Staff expenses understand for total expenses made on salaries and allowances, contribution to provident fund, staff trading expenses and other personnel expenses. This is one of the major headings under operating expenses of the bank. In any organization manpower plays vital role in the success or failure of that organization. Well-motivated staffs are the ornaments of the organization. In return of the service provided by them, they need to be paid remuneration, which is included under this heading.

Table No. 4.25 shows the percentage of staff expenses of the bank for different periods. The different percentage of staff expenses of NCCBL has ranged between 3.04% (FY 2003/04) to 8.05% (FY 2007/08), the ratio has shown increasing trend throught the periods. The average ratio is 5.37%.

On the basis of above analysis it can be concluded that the staff expenses of NCCBL in FY (2007/08) is higher than other periods, which means the bank is spending its major portion of operating income to in human resource in FY (2007/08) than other periods. On the one hand

motivating staff with higher pay increases staffs overall efficiency. On the other hand over staffing problem decreases the productivity of the bank increasing the total operating cost.

**c. Office Operating Expenses:**

Another important component of operating expenses of the bank is office operating expenses. Office operating expenses includes house rent, water and electricity charges, telephone, fax, telex, daily traveling allowances, repair and maintenance, printing and stationary, books and periodicals, fuel expenses, advertising and public relation expenses and all other expenses directly related to daily office operations. Generally, these expenses occupy second major portion in the composition of total expenses.

Table No. 4.25 shows the percentage of office operating expenses of the bank for different periods. The percentages of office operating expenses of NCCBL has ranged between 12.22% (FY 2005/06) to 16.23% (FY 2007/08), and the ratios has shown fluctuating trend throught the periods. The average ratio is 14.83%.

On the basis of above analysis it can be concluded that the office operating expenses of NCCBL in FY 2007/08 is higher than other periods, which also means that in the year the bank is spending higher portion of its operating income in office operating expenses than other periods.

**d. Provision for Bonus:**

The other important portion of operating expenses of the banks involves provision for bonus. Bonus refers to those extra incentives provided to the employees for providing their efficient services. When the bank earns enough profit, then bonus is distributed from the portion of those extra profit made. The purpose for distributing extra earned profit seems nothing but to provide incentive for making similar better performances in the future. Bonus motivates the employees to work harder and helps them to maintain their morale high.

The Table No. 4.25 shows the percentage of provision for bonus given on the bank for different periods. The percentage of provision for bonus of NCCBL has ranged between 0.16% (FY 2007/08) to 2.78% (FY 2006/07), the ratios has shown fluctuating trend throught

the periods. Because of the loss on the bank, it could not distribute the bonus to its staffs in FY 2005/06. The average ratio is 0.91%.

On the basis of above analysis it can be concluded that the provision for bonus of the bank in FY 2006/07 is highest than other periods. The bank has faced losses during the FY 2005/06. In conclusion the bank could not distribute bonus satisfactorily to its dedicated staffs.

#### 4.1.1.5 Trend Analysis

Trend analysis enables to compare two or more time series over different periods of time and draw important conclusions about them. If the values of a phenomenon are observed at different periods of time, the values so obtained will show considerable varieties or changes. Among various devices for measuring changes in financial statement of the firm, trend analysis is one of the effective tools, which minimizes the weaknesses of the ratio analysis to some extent. The changes in the financial statements may be measured in terms of absolute changes or in terms of relative changes or the percentage changes between the dates taken as a base year. To avoid misinterpretation of changes measurement of absolute as well as relative terms must be expressed. In this study, trend analysis shows the trend of deposit collection and loans and advances of NCCBL for the period of the years. The trend to total deposits; loans and advances and deposits utilization rate of NCCBL is presented below:

**Table No. 4.26**  
**Deposit Utilization of NCCBL**

*(Rs. In Million)*

<b>Fiscal Year</b>	<b>Loans and Advances</b>	<b>Total Deposits</b>	<b>Deposits Utilization Rate</b>
2003/04	3321.8	4294.1	77.40%
2004/05	4417.6	5959.6	74.10%
2005/06	5934.3	6630.1	89.50%
2006/07	5836.6	6619.5	88.20%
2007/08	5083.9	6500.3	78.20%
Average			81.50%

*Source: Annual Reports of Bank*

The Table No. 4.26 shows the amount of loans and advances, total deposits and the respective rate of deposit utilization. The rate of deposits utilization has shown fluctuating trend throught the periods. It seems that the banks loans and advances are less than total

deposits, which means NCCBL has lesser financial risk but lower the financial risk leads to lower financial gain as well.

On the basis of above table it is clear that the bank has more deposit utilization rate in FY 2005/06 and FY 2006/07 than other periods. NCCBL seems to have lesser loans and advances from its total deposits and also have suffered losses several times shows it requires to manage its fund more to arrive at the stage of positive profit. But just having negative return doesn't mean that NCCBL performance is not also very much satisfactory.

#### 4.1.2 Statistical Tools

Under the statistical tools heading mainly the Karl Pearson's Co-efficient of Correlation has been used for the purpose of study.

#### Karl Pearson's Co-efficient of Correlation between Debt and Profit:

For study purpose, correlation coefficient is calculated in order to measure the relationship between debt and profit of NCCBL. The main objective of calculating this coefficient of correlation is to test whether the debts are significant in generating more returns or not. This analysis should be helpful for NCCBL to take proper actions on the capital structure decision.

#### Coefficient of correlation of NCCBL

We have,

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

$$= \frac{5 * -2921437 - (20705.51) (-605.54)}{[\sqrt{5 * 91074614 - (20705.51)^2}] [\sqrt{5 * 344720.3 - (605.54)^2}]}$$

$$= -0.33$$

The above calculation shows that the coefficient of correlation between debt and profit of NCCBL is -0.33. It indicates low degree of negative correlation. This analysis clearly indicates that there is negative relationship between debt and profit of NCCBL.

### Computation of Probable Error:

The probable error of the coefficient of correlation helps in interpreting its value. The probable error may be used to test if an observed value of sample correlation coefficient is significant of any correlation in the population. The probable error of the coefficient is obtained as follows:

$$PE (r) = 0.6745 \frac{1 Z r^2}{\sqrt{N}}$$

Where,

r = Coefficient of correlation

N= Number of pairs of observation

The following guidelines may be used to interpret the probable error:

- a) If the observed value of r is less than its probable error, then the correlation i.e. the value of r is not at all significant.
- b) If the observed value of r is greater than six times of its probable error, then the correlation coefficient i.e. the value of r is definitely significant.
- c) In the other situation, nothing can be concluded with certainty. Coefficient of correlation is expected to i.e. within the range of  $\pm PE (r)$ .

By using the above formula, the probable error of NCCBL is calculated below:

$$\begin{aligned} PE (r) &= 0.6745 \frac{1 Z r^2}{\sqrt{N}} \\ &= 0.6745 \frac{1 Z (0.33)^2}{\sqrt{5}} \\ &= 0.6745 * \frac{0.8911}{2.24} \end{aligned}$$

$$PE (r) = 0.2683$$

Since the value of r is greater than its probable error (i.e.  $0.33 > 0.2683$ ). The observed value of r is lower than six times of its probable error, then nothing can be concluded with certainty whether the correlation coefficient is significant or not i.e. the value of r is not definitely significant.

## 4.2 Analysis of Primary Data

For the purpose of collecting primary data regarding the position and performance of the bank a questionnaire as attached to Appendix is prepared and distributed to twenty staffs having different designations in the bank. On the basis of the answers provided by the respondents an analysis has been made so as to evaluate the strength, weakness, opportunity and threat of the bank. Here, the researcher has classified the questionnaire model into eight different headings i.e. a) Management, b) Marketing Activity, c) Human and Other Resources, d) Financial Indicators, e) Social Changes, f) Political and Legal Changes, g) Economic Changes, h) Technological Changes. First four headings are related to strength and weakness position of the bank and the last four headings show the opportunity and threat of the bank. Each heading has been further classified into different sub headings and every sub heading is divided into three different ranking categories. The first two ranking categories (viz. good and average) show the strength and opportunity of the bank and last ranking category (viz. bad) show the weakness and threat of the bank. Mostly the respondents filled average ranking position in the questionnaire. On the basis of response obtained from the respondents it can be considered that the bank's strength in utilizing its internal resources effectively and efficiently is more or less satisfactory. Also the external environmental forces have provided enough opportunity to the bank to grow and prosper in the long run.

**Table No. 4.27**  
**Matrix Reflecting the Type of Respondents of the Bank**

Post	Experience in Yrs.		
	0-5	5-10	10 above
Manager	-	2	4
Officer	2	3	1
Assistant	5	1	2

*Source: Opinion Survey, 2008*

Table 4.27 shows that respondents are of three different levels i.e. Manager, Officer and Assistant. Similarly they are categories in different groups of experienced workers; they are categorized as 0-5 Years of experienced respondent in first group, 5-10 Years experienced respondent in second group and 10Years above experienced respondent in third group. Exact

numerical values of the different category of respondent can be identified from the above matrix table.

#### 4.2.1 Analysis of Major Areas of Listed Bank

##### 4.2.1.1 Analysis Related to Management of the Bank

**Table No. 4.28**  
**Remarks from Respondents on Management**

<b>Remarks from Respondents on Management</b>	<b>Marks</b>
Managed by professional persons	16
Reputed persons having good image in society	11
Well experienced managerial team	15
Good educational background of the persons involved in the managerial team	9
Familiar with practical working environment	9
Involvement of fresh inexperienced work force	2
No more idea to compete with other competitor banks	5
Lack of knowledge to build up the business or organization in the society	4
Standing position is not suitable to handle organization	3
Lack of strong management team	1

*Source: Opinion Survey, 2008*

According to the questionnaire related to the Management, the respondents indicated the bank is good or strong position. Among twenty respondents most of the respondents marked in favour of the management, which shows the bank is in good position in the field of management. The above Table No. 4.28 shows that the bank's management is good because it is managed by professional persons, well and experience team involved in management, reputed persons having good image in society. But some respondents took the management of the bank poor. They said that in management group there is an involvement of fresh inexperienced work force, lack of knowledge to compete with other commercial bank, standing position is not suitable to handle the business.

From the Table 4.28 it is clear that the overall management system of the bank is good. Most of the respondents are in favour of the management system of the bank. Out of twenty respondents sixteen respondents said that the management is run through the professional team. Eleven respondents marked that all the persons involved in the management are reputed and good image in society. Fifteen respondents marked that the management system

is running well experienced managerial team. Similarly, nine respondents said that the persons involved in management group are all good educational background and they all are familiar with practical working environment. Only two respondents marked that there is an involvement of fresh inexperience work force in the management group. Similarly few of the respondents marked in opposition of the management of the bank. Hence, the management system of the bank is good and it is the strong point of the bank.

#### 4.2.1.2 Analysis Related to Marketing Activity of the Bank

**Table No. 4.29**  
**Remarks from Respondents on Marketing Activity**

<b>Remarks from Respondents on Marketing Activity</b>	<b>Marks</b>
a. Rich in products i.e. NCC Savings Plus, Bal Surakshya Khata, Mahila Surakshya Khata, Jestha Nagarik Surakshya Khata, Floating Rate Fixed Deposit	4
b. Launching of the new products in suitable time	2
c. Relation with corporate Clients like RNA, NEA, NTC, and NOC etc.	5
d. Supported by Techno- base services i.e. ATM, Telex, SWIFT	6
e. Good market share in the banking industry attained by the Bank	10
f. Possible to grab the new products and technology in future	1
g. Extra Services like Late Deposit Counter, Telephone Bill payment facility	2
h. Lack of new product schemes to attract the potential customers	3
i. Lack of promotional activities for the product recognition	4
j. Not able to attract customers through existing product lines	8
k. Opening of branches of other Commercial Banks in near by location	7
l. Lack of ability of marketing department to create product image in the market	10
m. Lack of giving facility to the customers of Credit, Visa and Master card etc.	11

*Source: Opinion Survey, 2008*

According to the questionnaire marked by the respondents the bank is weak in the marketing field and that is weakness point of the bank. Out of 20 respondents few respondents marked in favour of the marketing activity. According to the respondents the bank is weak in the promotional area, lack of ability to create new and new product image in the market, less possibility to grab the new opportunities which will increase the profit of the bank, back to attract customers through the existing product lines. So the bank seems poor in the marketing

field despite it is rich in products (NCC Savings Plus, Bal Surakshya Khata, Mahila Surakshya Khata, Jestha Nagarik Surakshya Khata, Floating Rate Fixed Deposit), and it has a good relation to the corporate Clients like RNA, NEA, NTC, and NOC etc. In conclusion, it is clear that the bank is weak in its marketing activity.

From the Table 4.29 it is clear that most of respondents marked the weakness point of the bank. The bank is a little bit rich in its products and four respondents marked in favour of its products, two respondents marked that the bank launch its product in suitable time, five respondents marked that the bank has good relation to some corporate clients and most of the respondents marked in the opposition of the bank. The bank is able to capture a good market share (ie. Rs.1,000 Million) which is attained by the bank and ten respondents are in favour of this. The bank cannot able to launch new and innovative products in the market. The promotional as well as advertising expenses is seems low in comparison to other commercial banks. So in order to improve its profitability position the bank should more emphasis in its marketing activity. Hence, we can say that it is the weak point of the bank.

#### 4.2.1.3 Analysis Related to Human and Other Resources of the Bank

**Table No. 4.30**

**Remarks from Respondents on Human and Other Resources**

<b>Remarks from Respondents on Human and Other Resources</b>	<b>Marks</b>
Sufficient level of utilization on existing equipments and premises of the Bank	5
Strong management team	8
Dedicated Staffs	9
Adequacy of appropriate number of staffs in the Bank	15
Appropriateness of the qualified staffs on the appropriate department	8
Staffs working in the organization all are young, energetic and self motivated	10
No adequate trainings to staff members	15
Lack of qualified human resources in the Bank	5
Overstaffing ( in some branches)	4
No more resources for the betterment of the organization	7
Locality: The business of Kathmandu Main Branch is being affected by demonstrations and riots at roads	12

*Source: Opinion Survey, 2008*

From the table 4.30 most of the respondents marked as average position of the bank question related to the human and other resources area. In average the bank is utilizing its equipments and premises at optimum level. Similarly, the bank has appropriate manpower to give the better output for the organization and the existing technology cannot run smoothly. The bank has not sufficient trained and qualified staff as a result it cannot give more return and bank should always face losses every year. In conclusion, it can be concluded that the bank's overall human resources and other resources is satisfactory but it must improve.

From the above table it can be concluded that most of the respondents marked the strength position of the bank. Out of twenty respondents five respondents marked in the utilization of the human and other its premises, nine respondents marked that the organization is running with dedicated staffs. The bank is maintained adequate number of staffs for its organization because most of the respondents marked this. But there is lacking of good and qualified staffs because most of the staffs here with high level source so the bank can not generate more return. In overall the bank's human and other resources seems satisfactory but is not enough to run the organization smoothly in the long run.

#### **4.2.1.4 Analysis Related to Financial Performance of the Bank:**

**Table No. 4.31  
Remarks from Respondents on Financial Indicators**

<b>Remarks from Respondents on Financial Indicators</b>	<b>Marks</b>
a. Attractive rate of interest in deposits in comparison with other commercial banks	2
b. Sufficient cash position in comparison with other commercial banks	5
c. Good lending towards Hire Purchase Loan	6
d. Unfavorable Deposit Mix	11
e. Highly Concentrated Deposit Mix	10
f. Unfavorable C/D Ratio	15
g. Share of more Non Performing Assets of the Bank in its loan portfolio	11
h. No attractive schemes towards housing, educational, and other loans	17
i. Maintaining high level of loan loss provisioning	13
j. Unfavorable return from loans and advances	9

*Source: Opinion Survey, 2008*

From the table 4.31, most of the respondent marked bad position of the bank's financial performance. So the bank should improve its overall position by increasing its liquidity

position, deposit mobilization, lending portfolio, operating profit, and provisioning more loan loss provision for the doubtful customers etc. But the respondents marked satisfactory to the capital position of the bank in comparison to other commercial banks. The bank's current deposit ratio is not good and most of the respondents it as bad that means the bank is not investing and lending its fund to the proper areas. The bank's current NPA is high in comparison to other commercial banks and it is trying to reduce in satisfactory position and the operating profit is not satisfactory to its present capital structure. In conclusion, the bank's overall financial position is not satisfactory but it can improve better by its dedicated staffs.

From the above table it is cleared that the bank's overall financial performance is not so good. Most of the respondents marked negative aspect of the bank's financials. Out of twenty respondents only two respondents marked that the bank's interest rate is attractive in comparison with other commercial banks. Similarly, six respondents marked that the bank has good lending in hire purchase than other loans. Most of the respondents marked that the bank has no attractive schemes towards housing, education, personal and other loans. So it is in weak position than other commercial banks. So to improve its position it must improve its lending in more profitable and more safely sectors. There is unfavourable deposit mix and unfavourable C/D ratio, and bank is always in collection of deposit rather than lending. Until and unless if any bank cannot lend its fund in market only the deposit can not generate more return. Hence the bank is poor in its financial position and which should be improved.

#### 4.2.1.5 Analysis Related to Social Changes of the Bank

**Table No. 4.32**  
**Remarks from Respondents on Social Changes**

<b>Remarks from Respondents on Social Changes</b>	<b>Marks</b>
Sponsoring on different social programs like: demonstrating of the products with new varieties, football, volleyball, cricket etc.	2
Awareness in general public by making different parks	0
Bringing special programs for upliftment of living standard of deprived and poor people	3
High rate of interest in deposits. We can grab the opportunity to increase the deposits by offering our rate of interest in deposits	10
Motivation to general public for saving through attractive schemes to the customers like: making debit card free of cost, attractive gift for the regular customers, no charge for encashing through debit card, no charge taken for transferring fund from one branch to another branch of the same organization	4
No more awareness programs for savings	14

*Source: Opinion Survey, 2008*

According to the questionnaire related to social changes, the respondents indicate that the bank is not in satisfactory position means the bank cannot able to fulfill the requirements, which is needed by the society. Most of the respondents marked in opposition of the social changes. The bank is not in the involvement of the social works like making parks in public places, sponsoring of the new schemes or activities which the society needs. The bank seems weak to the awareness programs which affects the public interest. So if the bank is able to grab the opportunity definitely it can earn more return and the bank also identify in the society with good image.

From the table 4.32 it is clear that most of the respondents are in opposition of the social work which the bank is currently doing. The bank is very weak for the sponsoring of the different social activities like: sponsoring volleyball, football, cricket tournament, and other different demonstrating programs. The bank cannot able to attract more customers although the bank is currently provides more interest rates to its customers. To grab new customers the bank must bring different social awareness programs as well as different attractive schemes to its valuable customers otherwise the bank cannot generate more return. In conclusion, it

can be concluded that the bank seems weak in the field of social change which is threat of the bank so it must try to convert it an opportunity.

#### 4.2.1.6 Analysis Related to Political and Legal Changes of the Bank:

**Table No. 4.33**  
**Remarks from Respondents on Political and Legal Changes**

<b>Remarks from Respondents on Political and Legal Changes</b>	<b>Marks</b>
a. Positive effect of instability of the government on the Banking industry	2
b. Positive present policy of ruling political party towards the organization	5
c. Encouraging government for the betterment of the nation through savings	10
d. Discourage to open more branches in the valley without the approval from the present government	12
e. Effectiveness of existing banking laws and regulations and NRB directives to boost up the banking industry	8
f. Discourage for saving to the potential customers in Bank because of the unsecured present scenario	10

*Source: Opinion Survey, 2008*

According to the questionnaire related to affect on political and legal changes towards the bank most of the respondents marked it bad ranking. Question related to positive effect of instability of the government on the banking industry, two respondents marked in support of this that means the unstable government is very risky to the bank because every government changes the rules and regulations which ultimately affects the whole banking industry. Question related to positive effect of policies of ruling political party on banking sector, only five respondents marked in favour that means the ruling party makes the rules to their favour and that affects the organization's earnings. Similarly, question related to effectiveness of existing banking laws and regulation and NRB directives to boost up the banking business, eight respondents marked in support of this that indicates the existing NRB rules towards the commercial banks is not positive for the improvement. In some instances the central bank tightens the commercial for the betterment of the business as a result the bank cannot generate more return. So, there should be little bit liberal for the rules over the commercial banks.

From the table 4.33, it is clear that respondents are in favour as well as opposition of political and legal changes towards the organization. Question relating to the effect of instability of

the government on the Banking industry only two respondents are in favour which means that the government is not stable and the new government change the rules and regulation in favour of him as a result affect the whole banking industry. Question relating to discourage for saving to the potential customers in Bank because of the unsecured present scenario, most of the respondents marked on this because there is no security of the customer's saving amount deposited in bank. In conclusion the political and legal change affects the banking industry but bank should face the challenges then after the bank can develop it and which becomes an opportunity for the company.

#### 4.2.1.7 Analysis Related to Economic Changes of the Bank:

**Table No. 4.34**  
**Remarks from Respondents on Economic Changes**

<b>Remarks from Respondents on Economic Changes</b>	<b>Marks</b>
Positive effect of existing tax rate on the profitability of the banking industry	3
Monetary and fiscal policy is not suitable for this bank to generate more return	10
Negative effect on profit through the existing inflation level	14
Present rate of interest is higher than other commercial banks	11

*Source: Opinion Survey, 2008*

From the table 4.34 it shows that the economic change affects the bank's profitability position and most of the respondents marked it as bad ranking position. Question related to positive effect of tax rate on the profitability of the banking industry, only three respondents marked in favour of this that means the existing tax rate directly effects the bank's profit position. Similarly, question related to suitability of existing monetary and fiscal policies for the development of banking industry, ten respondents marked it, which means the existing monetary and fiscal policy is positive to the commercial banks and must of the respondents marked it good and that is the an opportunity of the bank. Question related to negative effect of existing inflation level on the interest rate of the banks, fourteen respondents marked it and that means the inflation level direct effects the banking industry as a result bank cannot run better and which is threat point of the bank.

The above table clears that the economic change directly affects the whole banking industry. The current monetary and fiscal policy is not more suitable to generate more return. Most of

the respondents marked that the policy of the government towards the banking industry is not favourable. In conclusion, the overall economic changes position towards the bank is not satisfactory and which should be improved gradually.

#### 4.2.1.8 Analysis Related to Technological Changes of the Bank:

**Table No. 4.35**  
**Remarks from Respondents on Technological Changes**

Remarks from Respondents on Technological Changes	Marks
a. Seems more effective of the existing banking software (Pumari Plus) to get more return	2
b. Tech-base services: Customers can be attracted by offering our Techno- base services like SWIFT, Telex, NCC Debit Card	5
c. System department seems poor for further maintenance and development of the existing software and networks	14
d. Poor in tech-base services in comparison with other Commercial Banks like SCB, HBL, NIB, NABIL	17
e. Less possibility to connect all the branches within the country through V-SAT technology (ABBS) and less probability of launching modern banking technologies i.e. Tele Banking, Internet Banking, Mobile Banking etc.	13

*Source: Opinion Survey, 2008*

From the table 4.35 it can be concluded that the bank is poor in technological area because most of the respondents marked in the bad ranking. Question related to more effective of existing banking software, only two respondents marked in the support of this bad that means the existing banking software cannot be more helpful to run the business properly. Similarly, question related to less possibility to connect all the branches within the country through V-SAT technology and probability of launching modern banking technologies, thirteen respondents marked in this support that means there is no opportunity to connect all the branches through ABBS. Also there is a possibility to launch Tele banking, Internet banking and Mobile banking. Similarly, question related to poor efficiency of system department of the bank for further maintenance and development of the existing software and networks, fourteen respondents marked its support that means the system department is weak for the development of the new technology.

From the above table it is clear that most of the respondents marked in opposition of the existing banking technology. The bank can improve its performance by generating or innovating new and new technology, in this competitive age the bank is also running its old software (Pumari Plus). The bank is poor in tech-base services in comparison with other Commercial Banks like SCB, HBL, NIB, NABIL and most of the respondent marked this so the bank should bring new tech-base services for the customer's attraction and service. Hence, it can be concluded that the technological changes effect the bank's profitability position. So, for the development of the bank there is always an opportunity areas but it should be captured to the mind of the organization.

In conclusion the bank is running average and there are many strengths and opportunities in comparison to weaknesses and threats so the bank should improve it better than this.

#### 4.2.2 Analysis of Closed-End Questionnaire

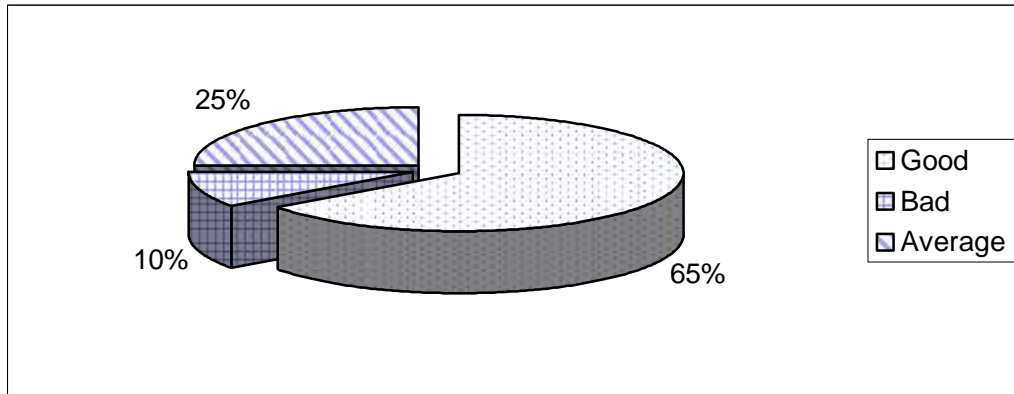
**Table No. 4.36**  
**Frequencies of Company's Reporting Major Areas**

Areas	No. of Respondents	Good		Average		Bad	
		No.	%	No.	%	No.	%
Management	20	13	65	5	25	2	10
Marketing Activity	20	1	5	7	35	12	60
Human and Other Resources	20	5	25	11	55	4	20
Financial Indicators	20	2	10	7	35	11	55
Social Changes	20	1	5	6	30	13	65
Political and Legal Changes	20	2	10	10	50	8	40
Economic Changes	20	3	15	9	45	8	40
Technological Changes	20	1	5	5	25	14	70

*Source: Opinion Survey, 2008*

Above table 4.36 shows that out of 20 respondents 13 respondents (i.e.65%) marked the banks good position, 5 respondents (i.e.25%) marked average position and 2 respondents (i.e.10%) marked bad position in management field. Hence, it can be concluded that the bank's management position is good and which is the strength point of this bank. The pie chart below shows the clear picture of the management of the bank.

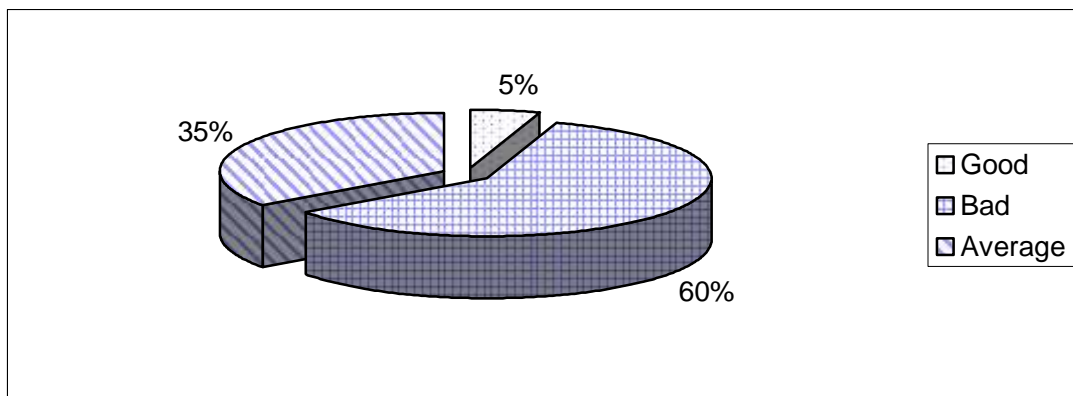
**Figure No. 4.1**  
**Percentage of Company's Position in Management**



Above figure 4.1 shows that 65% of the respondents marked the company's management good, 25% of the respondents marked as average and 10% of the respondents marked bad. Hence, it can be concluded that the company's overall management system is good and which is the strength point of this bank.

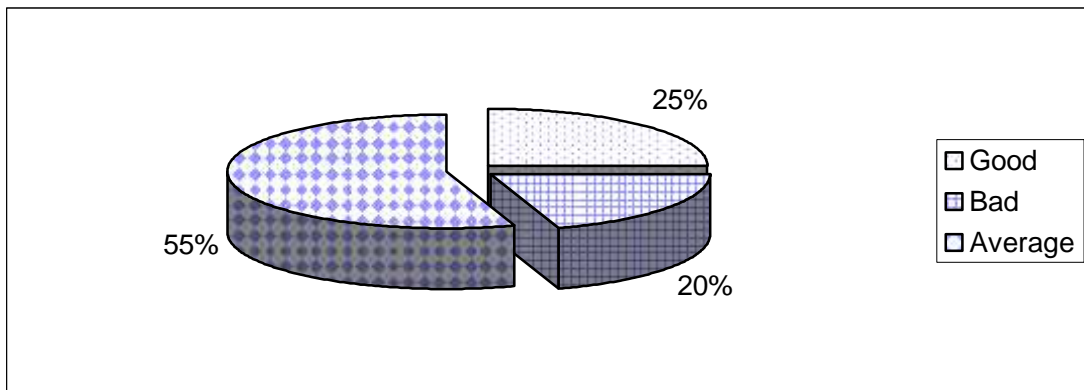
Similarly above table 4.36 shows that out of 20 respondents 1 respondent (i.e.5%) marked the banks good position, 7 respondents (i.e.35%) marked average position and 12 respondents (i.e.60%) marked bad position in marketing activity. From the above analysis, the bank should improve its marketing position because according to the respondents 60% marked it as bad. The bank is seemed very poor to identify its products and product lines throughout market. The pie chart below shows the clear picture of marketing activity of the bank.

**Figure No. 4.2**  
**Percentage of Company's Position in Marketing Activity**



Above figure 4.2 shows that only 5% of the respondents marked the company's marketing activity good, 35% of the respondents marked average and 60% of the respondents marked as bad. Hence, it can be concluded that the company's overall marketing activity is poor and the bank should improve it by producing new product lines, innovating new schemes and other promotional activities. So, it is the weakness point of this bank. Above table 4.36 shows that out of 20 respondents 5 respondents (i.e.25%) marked the banks good position, 11 respondents (i.e.55%) marked average position and 4 respondents (i.e.20%) marked bad position in human and other resources field. In conclusion the bank is little bit satisfactory from its human resources but the bank cannot mobilize its resources in proper field so that the output is not seen satisfactory. Hence, it can be concluded that the bank has a strength point to its human and other resources. The pie chart below also shows the clear picture of human and other resource of the bank.

**Figure No. 4.3**  
**Percentage of Company's Position in Human and Other Resources**

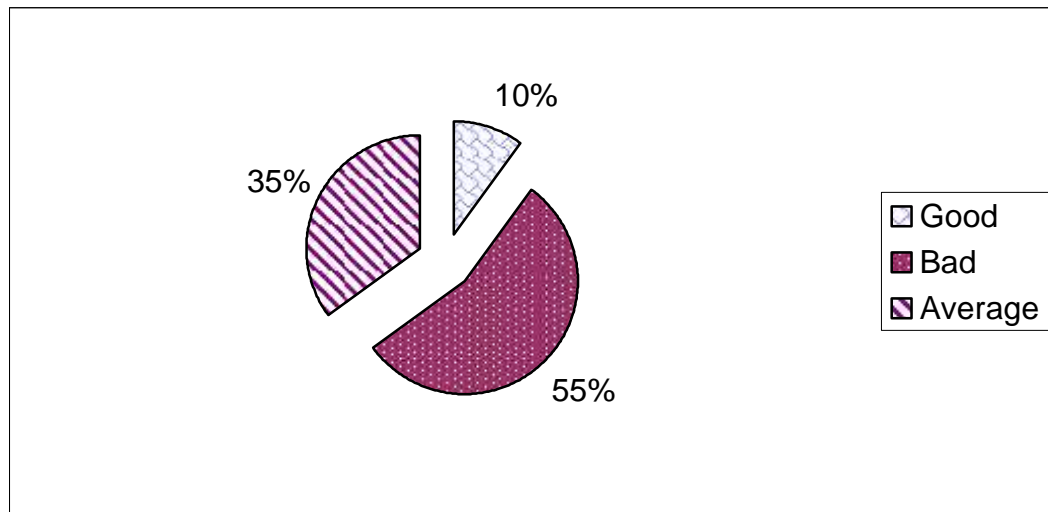


Above figure 4.3 shows that 25% of the respondents marked the company's human and other resources activity good, 55% of the respondents marked average and 20% of the respondents marked bad. Hence, it can be concluded that the company's overall human and other resources is satisfactory and that is strength point of the bank.

Above table 4.36 shows that out of 20 respondents 2 respondents (i.e.25%) marked the banks good position, 7 respondents (i.e.55%) marked average position and 11 respondents (i.e.20%) marked bad position in different financial indicators. It seems that the bank cannot maintain its liquidity position, net worth, capital adequacy position properly. So it must improve its

financial area, which is the weakness point of the bank. Whenever the bank is not fully financially strength cannot meet the requirement of the customers. So, the researcher can say that according to marking from different respondents it seems poor but that can be improved by the bank to maintain more liquidity, maintain appropriate CRR, CAR, SLR and others. Also pie chart below shows the clear picture of financial position of the bank.

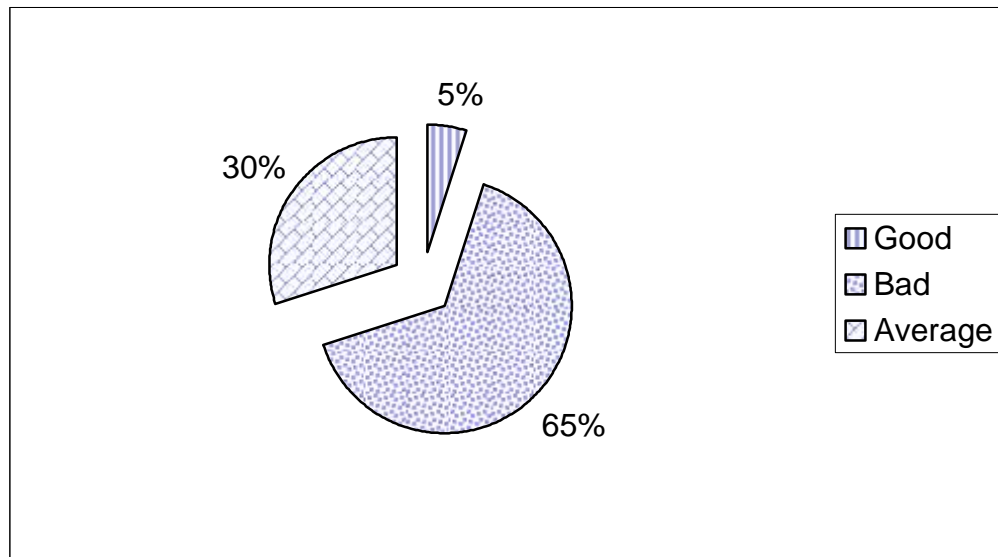
**Figure No. 4.4**  
**Percentage of Company's Position in Financial Indicator**



Above figure 4.4 shows that 10% of the respondents marked good, 35% of the respondents marked average and 55% of the respondents marked as bad. Hence, it can be concluded that the company's overall financial performance is little bit satisfactory but it should be improve its position better in comparison to other commercial banks. So, it is the weakness point of this company.

Similarly, above table 4.36 shows that out of 20 respondents 1 respondent (i.e.5%) marked the banks good position, 6 respondents (i.e.30%) marked average position and 13 respondents (i.e.65%) marked bad position in social and cultural field. Hence, it can be concluded that the bank is not very good position for the betterment of the overall society and it only seems for profit motive. So the bank should participate to different social oriented works not only the profit oriented. Hence, it can be concluded that the bank can get more opportunity to identify its product and services to the society. The pie chart below shows the clear picture of social changes of the bank.

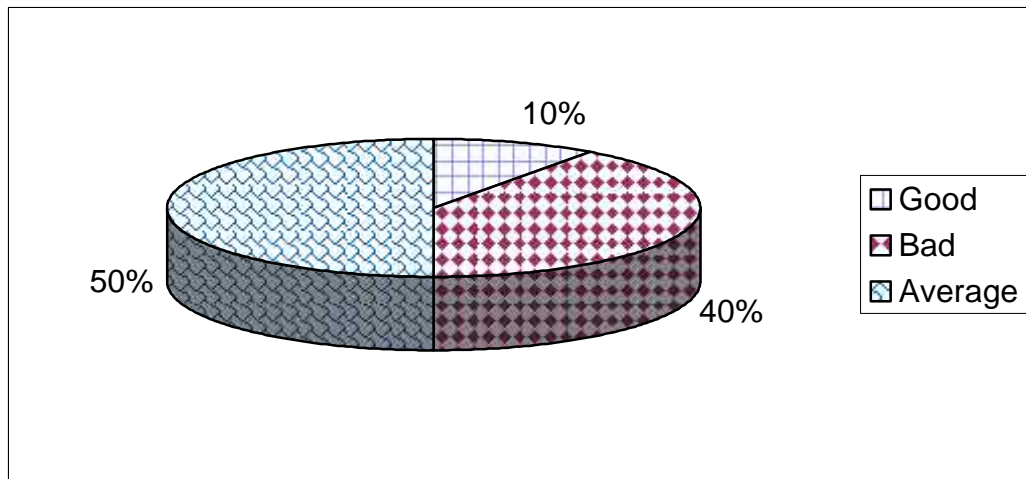
**Figure No. 4.5**  
**Percentage of Company's Position in Social Changes**



Above figure 4.5 shows that 5% of the respondents marked the company's social changes position good, 30% of the respondents marked average and 65% of the respondents marked as bad. Hence, it can be concluded that the company's social position towards the society is not satisfactory and which should improve through the awareness to the people of the society, sponsoring different games, exhibitions etc. So, it is threat of the environment and the bank must try to convert it in opportunity.

Similarly, above table 4.36 shows that out of 20 respondents 2 respondents (i.e.10%) marked the banks good position, 10 respondents (i.e.50%) marked average position and 8 respondents (i.e.40%) marked bad position in political and legal changes. The different political systems as well as different political parties affect the whole banking industry directly or indirectly by changing the different rules and regulations to the banking industry. So to improve the whole industry the government should be liberal to the bank otherwise it cannot run smoothly and so it could be threat as well as opportunity for the banking industry. The pie chart below shows the clear picture of political and legal changes of the bank.

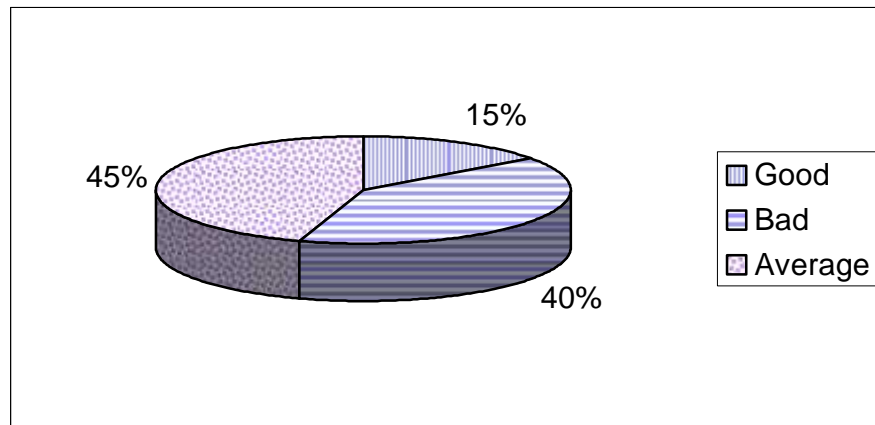
**Figure No. 4.6**  
**Percentage of Company's Position in Political and Legal Changes**



Above figure 4.6 shows that 10% of the respondents marked the company's social changes position good, 50% of the respondents marked average and 40% of the respondents marked as bad. Hence, it can be concluded that the company is directly or indirectly affected by the present political scenario. If the present ruling political party brings liberal policy towards the bank earnings that is an opportunity. So, the political and legal changes gives to the organization threat as well as opportunity from environment and the bank must try to convert threat into an opportunity.

Above table 4.36 shows that out of 20 respondents 3 respondents (i.e.15%) marked the banks good position, 9 respondents (i.e.45%) marked average position and 8 respondents (i.e.40%) marked bad position in economic changes field. From the above table, the bank is not seemed so poor in the economic field. The bank is still struggling to the present inflation level and the present tax policy, which affects the profit level of the organization. So the bank has taken it as a threat position but it can improve by the liberalization through the government. The pie chart below shows the clear picture of economic changes of the bank.

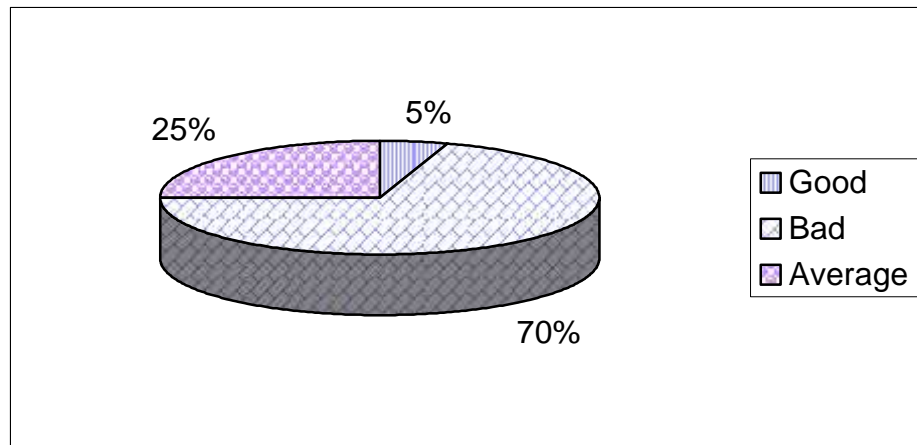
**Figure No. 4.7**  
**Percentage of Company's Position in Economic Changes**



Above figure 4.7 shows that 15% of the respondents marked the company's economic changes position good, 45% of the respondents marked average and 40% of the respondents marked as bad. Hence, it can be concluded that the company's economic position is not satisfactory and which should improve must. So, it is threat of the environment and the bank must try to convert it into an opportunity.

Similarly, above table 4.36 shows that out of 20 respondents 1 respondent (i.e. 5%) marked the banks good position, 5 respondents (i.e.25%) marked average position and 14 respondents (i.e.70%) marked bad position in technological changes. From the above analysis, the bank seems poor in field of technology and invention of new and new technology where as it cannot run its existing software smoothly. To improve the performance of the organization it must be needed to use latest technology in this competitive age. So, there is necessity to improve in technological areas by the bank. Hence, it can be concluded that it seems that it is threaten by another competitor commercial banks. If it cannot run with other competitors' technology definitely it must get losses its profit. The pie chart below shows the clear picture of technological changes of the bank.

**Figure No. 4.8**  
**Percentage of Company's Position in Technological Changes**



Above figure 4.8 shows that 5% of the respondents marked the company's technological changes position good, 25% of the respondents marked average and 70% of the respondents marked as bad. Hence, it can be concluded that the company's technological position is not satisfactory and bank should improve it must. If bank cannot compete the modern banking technology obviously, it cannot generate more return. So, it the threat of the bank and it should try to convert it into an opportunity.

## **CHAPTER – FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

Based on the analysis of data available and the interpretation made there of, the summary of the study has been given in this chapter. The first chapter of the research paper highlighted the background of banking and introduced the banks with different instances, stated the statement of the problem and set the objective for the study purpose. The second chapter reviewed the literature of the related studies i.e. the study done by various other researchers on the performances of the bank, review of related books, journals and magazines that adds to the efficiency of the present study. Third chapter basically set the research methodology i.e. various sequential steps, methods and tools that have been chosen for the research purpose.

Likewise fourth chapter is the presentation and analysis of the primary as well as secondary data collected for conducting the study. This chapter is the main pivot on which findings of the study would be based. Fifth chapter is the findings of the study on the basis of above interpretations and analysis of findings. On the basis of these findings required recommendations made to the concerned banks and financial intermediaries to make their functioning better.

In the context of Nepal there are 25 different banks already in operation and few more are in the process of obtaining their operational license. Despite choosing so many other private and joint venture banks, the researcher choosing the NCCBL for research purpose is to perform the SWOT (Strength, Weakness, Opportunity and Threat) analysis. The private and joint venture banks have played significant role in the economic development of the country. They have introduced new technology in the banking system mobilized the saving of community. They have focused their services on commerce, trade and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the banks. Therefore, the study has been conducted to evaluate the performance of the private bank in order to find out their strengths and weaknesses. The role of commercial

banks becomes crucial in the task of capital formation, which is no doubt, a key variable in the economic development of a country. Scattered resources have no meaning and importance until and unless they are mobilized and utilized efficiently in some productive sectors of nation's economy. The bank can contribute in the process of capital investment in industry, trade, commerce and agriculture sector which would help to uplift the entire economic development of the nation. The goal of economic development can not be achieved without strong capital base and the commercial banks play the pivotal role in formation of such base.

## **5.2 Conclusions**

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

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

In the financial analysis, the net worth and net profit, investment and total deposit and non-performing assets & total loan of Nepal Credit and Commerce Bank Limited is not satisfactory. The liquidity ratio is much higher than that required of the bank or as prescribed by the Nepal Rastra Bank. But all the other activity, leverage and profitability ratios are very

low and negative position. Basically, the return on equity and earning per share are in nominal level.

This study is related to the study of the private bank serving the aspects of operation of the commercial in nature. In the modern competitive banking, the banks also give its service through the modern banking but the bank whether operating by a commercial viewpoint or any other viewpoint have to earn reasonable profit or earning very little profit. In the research paper various financial tools have been incorporated in order to show its financial performance. Its respective growth, strengths and weaknesses, opportunities and threats areas, management and human resources strengths, marketing and socio-political weaknesses, organizational difficulties and its progress have been incorporated in the research paper in the subsequent chapters. The literature has been reviewed and the opinions of different fellow researchers have been incorporated to give emphasis to the subject matter and arrive at more meaningful conclusion. The analysis of the key financial indicators enabled to draw meaningful conclusion from the research and helped to arrive at the findings of the study.

According to the questionnaire related to the Management, the respondents indicated the bank is good or strong position. Among twenty respondents most of the respondents marked in favour of the management, which shows the bank is in good position in the field of management. According to the questionnaire marked by the respondents the bank is weak in the marketing field and that is weakness point of the bank. Out of 20 respondents few respondents marked in favour of the marketing activity. Most of the respondents marked as average position of the bank question related to the human and other resources area. In average the bank is utilizing its equipments and premises at optimum level. Similarly, the bank has appropriate manpower to give the better output for the organization and the existing technology cannot run smoothly. Most of the respondent marked bad position of the bank's financial performance. So the bank should improve its overall position by increasing its liquidity position, deposit mobilization, lending portfolio, operating profit, and provisioning more loan loss provision for the doubtful customers etc. But the respondents marked satisfactory to the capital position of the bank in comparison to other commercial banks. The bank's current deposit ratio is not good and most of the respondents it as bad that means the

bank is not investing and lending its fund to the proper areas. According to the questionnaire related to social changes, the respondents indicate that the bank is not in satisfactory position means the bank cannot able to fulfill the requirements, which is needed by the society. According to the questionnaire related to affect on political and legal changes towards the bank most of the respondents marked it bad ranking. Question related to positive effect of instability of the government on the banking industry, two respondents marked in support of this that means the unstable government is very risky to the bank because every government changes the rules and regulations which ultimately affects the whole banking industry. Economic change affects the bank's profitability position and most of the respondents marked it as bad ranking position. Bank is poor in technological area because most of the respondents marked in the bad ranking.

### **5.3 Recommendations**

The role of commercial banks is vital for the economic development of any country. This is possible only when they are able to make handsome profits out of their successful operation and better financial performance. The operationally weak position of commercial banks not only impedes the attainment of higher profitability but also degrades the services rendered to the people as they can not provide better facilities to their staffs. Therefore, in order to be the instrument of development, commercial banks are required to make better profit and that is possible only through better performance. On the basis of major findings of this study the following recommendations are given to the NCCBL to improve its financial strengths, weaknesses, opportunities and threats.

- a) The bank under study, liquidity position can not be regard as satisfactory. NCCBL has maintained high liquidity ratio than actual normal standard required. Therefore, the bank is suggested to maintain the liquidity ratio to the actual normal standard required in order to maintain its short –term solvency position.
- b) In FY 2003/04 the bank has kept more cash and bank balance as idle money in comparison to other years/periods, which could be invested in income generating sectors. Since idle money can not earn them more profit so it should not kept liquid money as idle and should invest it in more income generating sectors.

- c) It is recommended that the bank should hold the fund in form of cash equivalent items only to the extent of requirement. Though it is difficult to know the exactly suitable liquidity ratio, estimation can be done on the basis of past experience, nature of depositors and nature of competition.
- d) The bank has failed to utilize its assets for making proper investments. Thus, it becomes necessary for the bank to search for better investment opportunity sectors and invest in it. It is necessary for the bank to increase the extent of its promotion and marketing function in order to increase its business transaction than it is today.
- e) The profitability position of the bank is far from the satisfactory level. Profit is essential for the very survival, growth and to compete in this growing banking business. The bank has just been able to maintain its profit in positive values except after FY 2006/07 during this study periods. The bank has negative profit (loss) after FY 2005/06. The bank having networks of the branches in different region in the country are not being able to arrange its management well. The operating expenses of the bank mostly exceed the operating income, results in lower or no profitability. The bank need to regrouped or adopt new management techniques and try to adopt the philosophy of other joint venture and private banks operating in profit.
- f) The problem behind the bank is the debt collection process. Most of the loans in case of the private banks are assigned by the nepotism and favoritism or without verifying the authenticity or surety of the timely repayment. Even if the loan making process is rightful the collateral or security pledged for the amount of the loans sanctioned becomes non sufficient or unjust. Thus, it is necessary for all the private banks remain from pressure of outsider parties and the authorized persons to make loan disbursement effective and timely collection of credit.
- g) Since the operating expenses of the bank is high and earns little income. The bank should reduce its operating expenses and earn high incomes to generate desired operating profit.
- h) The leverage ratio of the bank is not satisfactory. The long-term debt to total assets ratio means percentage of total assets that has been financed by long-term debt for generating more profit. For this the bank should provide higher long-term debts to the more profitable sectors, which gives more return of the overall firm.

- i) Although, profit needs to be earned for survival and growth of any institution, it should not be the one and only goal. The country has expected services from the financial sectors in such a way that it encompasses the balanced development. Economic level of the country can be raised only when the level of the people depending upon commerce and industry. So, the bank is suggested to diversify its loans in priority and deprived sectors as per the directive of NRB.
- j) When so many new entrants (banks) to the banking sectors are already making sound financial standing in the banking sector and have good reputation among the other banks but still the bank is struggling to maintain its goodwill and still have not succeeded as well. Just having more branches doesn't mean bank is performing well. So, it has to earn more profit and make proper disbursement without any outsiders' pressures and learn to have commercial natures as it is done by other newly set up competing private and other joint venture banks do it.

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